<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AG</td>
<td>Accountant General</td>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>AI</td>
<td>Achievement Index</td>
<td>NPRE</td>
<td>Non-Plan Revenue Expenditure</td>
</tr>
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<td>AR</td>
<td>Achievement Ratio</td>
<td>O&amp;M</td>
<td>Operation and Maintenance</td>
</tr>
<tr>
<td>BCO</td>
<td>Budget Controlling Officer</td>
<td>OMB</td>
<td>Open Market Borrowings</td>
</tr>
<tr>
<td>BCR</td>
<td>Balance from Current Revenue</td>
<td>PI</td>
<td>Performance Indicator</td>
</tr>
<tr>
<td>CAG</td>
<td>Comptroller and Auditor General</td>
<td>POL</td>
<td>Petrol and Oil Lubricants</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound Annual Growth Rate</td>
<td>PRE</td>
<td>Plan Revenue Expenditure</td>
</tr>
<tr>
<td>CGA</td>
<td>Controller General of Accounts</td>
<td>PSC</td>
<td>Project Screening Committee</td>
</tr>
<tr>
<td>CS</td>
<td>Central Sector Scheme</td>
<td>PSE</td>
<td>Public Sector Enterprise</td>
</tr>
<tr>
<td>CS-DRMS</td>
<td>Commonwealth Secretariat Debt</td>
<td>RBI</td>
<td>Reserve Bank of India</td>
</tr>
<tr>
<td>CSS</td>
<td>Centrally Sponsored Schemes</td>
<td>RD</td>
<td>Revenue Deficit</td>
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<td>DA</td>
<td>Daily Allowance</td>
<td>RE</td>
<td>Revised Estimate</td>
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<tr>
<td>DDO</td>
<td>Drawing and Disbursing Officer</td>
<td>SC</td>
<td>Scheduled Caste</td>
</tr>
<tr>
<td>EFC</td>
<td>Expenditure Finance Committee</td>
<td>SCA</td>
<td>Special Central Assistance</td>
</tr>
<tr>
<td>FA</td>
<td>Financial Advisor</td>
<td>SCSP</td>
<td>Scheduled Caste Sub Plan</td>
</tr>
<tr>
<td>FRBM</td>
<td>Fiscal Responsibility and Budget</td>
<td>SEB</td>
<td>State Electricity Board</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
<td>SFC</td>
<td>Standing Finance Committee</td>
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<td>GIC</td>
<td>General Insurance Corporation</td>
<td>SG</td>
<td>State Government</td>
</tr>
<tr>
<td>GoI</td>
<td>Government of India</td>
<td>SONTR</td>
<td>State's Own Non Tax Revenue</td>
</tr>
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<td>GPF</td>
<td>General Provident Fund</td>
<td>SOTR</td>
<td>State's Own Tax Revenue</td>
</tr>
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<td>GSDP</td>
<td>Gross State Domestic Product</td>
<td>SPC</td>
<td>State Planning Commission</td>
</tr>
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<td>HoD</td>
<td>Head of Department</td>
<td>SRTC</td>
<td>State Roads Transport Corporation</td>
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<td>ITDP</td>
<td>Integrated Tribal Development Project</td>
<td>ST</td>
<td>Scheduled Tribe</td>
</tr>
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<td>LA</td>
<td>Legislative Assembly</td>
<td>TA</td>
<td>Travel Allowance</td>
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<td>LIC</td>
<td>Life Insurance Corporation</td>
<td>TGR</td>
<td>Trend Growth Rate</td>
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<td>MADA</td>
<td>Modified Area Development Approach</td>
<td>TSP</td>
<td>Tribal Sub Plan</td>
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<td>MCR</td>
<td>Miscellaneous Capital Receipts</td>
<td>VoA</td>
<td>Vote on Account</td>
</tr>
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<td>MSO</td>
<td>Major Scheme Outputs</td>
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</table>
PREFACE

This document has been organized in two parts for ease in reference and understanding:

**Part I: Quick Guide for Drawing and Disbursing Officers and Budget Controlling Officers** – Lists the main steps and procedures to be followed by DDOs and BCOs for budget preparation and execution.

**Part II: Budget Manual** – Contains the guiding principles and processes involved in different phases of the budget cycle as a reference for the main stakeholders involved in the budget process.
PART I: QUICK GUIDE FOR DDOs & BCOs
A.1. Drawing and Disbursing Officer (DDO) is a government servant who draws bills, incurs expenditure to the extent specified and makes payments on behalf of the Government. It excludes a Government servant who is not the head of an office and draws only his/her own pay and allowances. In addition to above, there are self drawing officers who draw money from treasuries of the state government.

A.2. All officials appointed as DDOs are also the Estimating Officers for that department.

A.3. As Estimating Officers, they function as the primary agents responsible for the bottom up estimation of resources required, while as DDOs they are responsible for execution and implementation of plan and non-plan schemes currently underway in the state. Given their dual role, DDOs serve as the crucial link between the government and beneficiaries by ensuring that fund requirements are appropriately reflected in estimates prepared and funds eventually sanctioned are used for the intended purpose as well as are properly accounted for.

A.4. The various activities that DDOs are required to undertake during the annual budget cycle have been diagrammatically presented in Figure 1.

**Figure 1: Activities carried out by DDOs during budget cycle**

![Diagram of budget cycle activities]

**Budget Preparation**

A.5. In the beginning of the budget calendar, DDOs receive electronic formats through BCOs in which estimates of expenditure and receipts for the ensuing financial year are to be filled.

A.6. **Estimates of expenditure** should be prepared by DDOs separately for plan and non-plan expenditure and should be submitted to the concerned BCOs within communicated deadlines. All estimates of expenditure should be entered under the primary units of accounts provided by the BCOs. Booking of expenditure under any new primary unit...
should be done only with prior approval from the administrative and finance department.

A.7. The various components of expenditure required to be estimated by DDOs has been shown in Figure 2.

Figure 2: Components of Expenditure Estimates

A.8. **Plan Expenditure**: For preparation of expenditure estimates for continuing or spillover plan schemes from previous years, DDOs should:

- Prepare estimates within the scheme-wise allocations provided by BCOs
- Ensure estimates for state plan schemes, Centrally Sponsored Schemes, Central Sector Schemes and district sector schemes are prepared separately. Estimates for district sector schemes should be submitted to the District Planning Committee for approval while estimates for all other schemes should be submitted to the concerned controlling officer.
- Ensure that estimates for district sector schemes are within ceilings provided by the respective district collectors
- Consider actual expenditure incurred in the last three years, as also revised estimates for the current year
- Use established unit costs, where ever possible and collate data on number of beneficiaries for different schemes, if required
• Classify estimates for schemes that are specifically for the benefit of Schedules Castes or Scheduled Tribes under the Scheduled Caste Sub Plan (SCSP) or Tribal Sub Plan (TSP) of the department; and include estimates for remaining schemes under the Normal Plan for the department. (Detailed steps to be followed for preparation of TSP and SCSP are given in Chapter 15).

A.9. **Non-Plan Expenditure:** DDOs have to prepare estimates under all heads including salaries. For the same DDOs should:
• Keep in view changed requirements and not simply extrapolate historical expenditure for estimating expenditure under standard objects such as wages, office expenses, purchase of vehicles, contractual services etc. Appropriate increases in expenses on electricity, telephone, Petrol and Oil Lubricants (POL) may be incorporated in the estimates.
• Take sufficient care to ensure that expenditure is classified under proper standard objects – classification under the category of ‘other expenditure’ should be avoided as far as possible.
• Prepare estimates for fluctuating allowances based on current year’s allotment viewed in light of the average of the past three years’ actuals.
• Support all increases proposed with full and convincing justifications.
• Scrutinize each item of expenditure and check for necessity before inclusion. Any expenditure that has become redundant or can be cut down should be removed or reduced.
• Incorporate all outstanding liabilities of past years required to be paid out in the ensuing financial year. These liabilities should be clearly specified and justified in the note accompanying these estimates on submission to the concerned controlling officer.

A.10. **Estimation of Salary Expenditure:** In estimates for expenditure under the salary head estimating officers should:
• Clearly indicate number of posts budgeted for in the current year and those for which provision has been proposed for budget year, both for permanent and temporary posts
• Mention scales of pay under each standard object
• Make a separate provision in case pay is progressive or time based increments are due during the budget year
• In the case of temporary posts, provide for continuance of only those posts that are actually required. Number and date of orders by which each post was created or last retained should invariably be quoted for reference.
• Provide for any additional temporary/contractual posts required under a sanctioned scheme or project. Necessity for such posts should, however, be clearly explained and it should be reported whether cost involved is included in sanctioned cost of the scheme or project.
• Provide for likely increase in dearness allowance. If no guidance is available on the same from Finance Department, estimates should be prepared using the same dearness allowance percentage as adopted last year for estimation.
Formats in which estimates for salary expenditure have to be prepared for submission to the Finance Department have been given in Annexure 16.

A.11. **New Expenditure**: DDOs should ensure that estimates prepared provide only for existing expenditure. Expenditure arising from a new policy decision, a new activity, a new form of investment or from a large scale expansion of an existing activity should find a place in the schedule for ‘new expenditure/ new instrument of service’ and must be submitted separately from the other estimates. The detailed steps required to be undertaken for preparing estimates of new expenditure have been given in Chapter 14.

A.12. **Gender Budget**: A gender sensitivity analysis should be carried out during preparation of estimates, findings of which should feed into the departmental gender budget. Detailed steps for preparation of the Gender Budget have been given in Chapter 19.

A.13. **Outcome Budget**: While preparing estimates of plan expenditure, estimating officers should attempt to link financial outlays proposed under each scheme to quantifiable deliverables that would help in achieving the stated objective of the scheme in question. These inputs should feed into the outcome budget procedural details of which have been given in Chapter 18.

A.14. **Agriculture Budget**: This is a compilation of all schemes heads which are related to agriculture & allied activities and directly or indirectly support such activities. BCOs are required to identify and send details of such activities to Finance Department at the time of preparation of budget.

A.15. **Estimation of receipts** usually required to be carried out by estimating officers of revenue earning departments, should entail:

- Projection of demand for departmental services, where applicable, and the associated revenue likely to be generated
- Estimation of the quantum of arrears likely to be realized during the ensuing financial year
- Use of actuals of past three years and sanctioned estimates for the current year for estimation of fluctuating revenue receipts
- Incorporation of any policy related or economic factor likely to impact revenue collections in the ensuing financial year

A.16. Gross receipts should be entered in receipt estimates and refunds, if any, should be shown separately.

A.17. Any significant variation in the estimates when compared to the actual of the previous financial year or the revised estimates of the current financial year should be accompanied with detailed explanations.
How to Read Budget

Budget literature presented to the Legislature consists of:

- **Finance Secretary’s Memorandum** which presents a gist of the state budget and includes an overall picture of fiscal position of the state
- **Volume I** which provides information on State’s receipts and expenditure
- **Volume II** which consists of detailed receipts anticipated under the Consolidated Fund and detailed receipts and expenditure under the Public Account
- **Volume III** which consists of demand number wise provisions
- **Volume IV** which consists of major head wise expenditure under different demand numbers and a summarized list of new services/items included in the budget
- **Volume V** which includes information on committed future liabilities (mainly annuity payments), guarantees given by the State Government
- **Volume VI** which is the Gender Budget for the state
- **Volume VII** which includes transfers to Local Bodies from State Government
- **Volume VIII** which is the statement on Central Assistance Received Directly by Institutions of State Government (Off Budget)
- **Volume IX** which is the compilation of all schemes related agriculture & allied activities and scheme directly/indirectly supporting such activities

Budget Execution

A.18. As shown in Figure 1, in the budget execution stage of the budget cycle, DDOs are responsible for:
- Controlling expenditure by ensuring that all funds disbursed are properly recorded and accounted for,
- Ensuring drawings are as per procedure and that proprietary norms are followed
- Preparing revised estimates of the current financial year; and
- Reporting any probable savings under the head of expenditure assigned to them.

A.19. **Control of Expenditure:** On enactment of the Appropriations Act, DDOs receive their allocations classified up to the level of detailed heads from their respective BCOs for execution and implementation of plan and non-plan schemes. At this point DDOs should ensure that conditions prior to incurring of expenditure are satisfied. These include ensuring that:
- Sanction of the competent authority exists;
- Funds to cover the required expenditure are available in full at their disposal; and
- Probability of any excess expenditure over amounts allotted is foreseen and intimation of the likely excess, along with reasonable explanations for the same is sent to the controlling officer concerned in sufficient advance.

A.20. **Disbursement of Funds:** At the time distribution of grants by the BCOs, details of DDO wise allocations are also loaded in the Treasury System in the state. The disbursement of
Budget Manual Volume I  Part I A

plan and non-plan budget by DDOs is done through the Treasury or Sub-Treasury offices located in the District or sub-District.

A.21. For incurring any expenditure or for making use of the e-payment system, DDOs should present bills to the concerned Treasury (or Sub-Treasury) for required amounts. They should make use of Form I of the Bill Transit Book issued by the Treasury for presenting these bills. DDOs are also required to ensure that bills submitted have been prepared as per provisions of the Madhya Pradesh Treasury Code and adhere to the instructions, if any, issued by the Finance Department regarding bill submissions.

A.22. For e-payments, DDOs are responsible for providing necessary details to the Treasury of the bank and accounts held therein by beneficiaries to which funds are to be transferred. Thereafter, once bills presented by the DDOs have been approved by the Treasury, the sanctioned amounts are transferred directly to these bank accounts.

A.23. For each e-payment made by Treasury, the concerned DDO will be sent a confirmation email which would include transaction details such as time, date and amount of transfer. In case of e-payments to third party, apart from the email notification to DDO, a text message confirming the transaction details may be sent to the third party concerned.

A.24. In case of payments that are not routed through the e-payment mode, if the bills submitted are within the allocation limit as sanctioned by the concerned controlling officer, the concerned DDO will receive a physical cheque from the Treasury against the bills. The DDO can then choose to endorse the cheques for various payments. The DDO can also raise a bill in the name of a third party to which the payment is due. In this case, the Treasury issues an account payee cheque in the name of the third party. This budget flow has been diagrammatically shown in Figure 3.

Figure 3: Budget flow for incurring of expenditure by DDOs

Detailed head wise allocation received from BCO

For disbursement of funds through physical cheques and e-payment system

Bill raised by DDO

Check by Treasury with details in Master Database

Bill Passed by Treasury

Cheque Issued to DDO

E-payment of approved allocations directly to bank accounts of concerned beneficiaries

Endorsed / Cash Withdrawal by DDO/ authorized representative from bank

Government of Madhya Pradesh
A.25. Bills presented to the Treasury by disbursing officers should mention complete details of proposed expenditure including its proper accounting classification up to the level of detailed heads and should also specify if the expenditure is ‘charged’ or ‘voted’. Separate bills should be drawn for plan and non-plan expenditure.

A.26. DDOs should obtain a list of monthly drawal from and receipts to treasuries by 5th of each succeeding month, reconcile every voucher received from the treasury with their records and submit a signed reconciliation statement by 15th of each succeeding month to BCOs.

A.27. DDOs should submit a list of monthly deposits to treasuries by 5th of each succeeding month and should also receive monthly reconciliation statements duly signed by the concerned treasury officer.

A.28. **Separate Procedure for Works and Forest Department:** Disbursement of funds for the Works and Forest Department is done through the Works Department Drawal Facility and Forest Department Drawal Facility respectively. Procedural details of operating these facilities have been provided in paragraph 24.10.

A.29. **Maintenance of Registers:** DDOs should maintain the following registers along with other essential records for controlling expenditure:

- **Budget Control Register** for all budgetary allocations received: Allotments communicated by the controlling officer at the beginning of the year should be noted in this register under each detailed head. Should the allotment against any standard object be increased or reduced by the controlling officer subsequently, required corrections should be made in the register.

- **Acquittance Register** for disbursal of money: Details of each bill cashed at the Treasury under the appropriate standard object should also be entered in the register along with the number and date of each voucher on which money has been drawn.

A.30. It should be noted that both these registers should be prepared and maintained separately for plan and non-plan expenditure.

A.31. **Submission of Statements:** In the first week of each month, disbursing officers are required to submit statements of expenditure of the previous months to the controlling officer concerned. These statements should contain numbers and dates of treasury vouchers against entries in respect of which reconciliation statements issued by the Treasury have been received. If there are no transactions to report for any month, a nil statement should be submitted. Additionally, these statements should specify the opening balance of the budget for the month, the expenditure incurred during the month and the balance budget remaining thereafter.

A.32. Submission of these monthly statements to BCOs should not in any case be delayed on account of delay in receiving reconciliation statements from the Treasury. In cases of such delay, the statement with voucher numbers and dates of encashment of the bills relating to the reconciliation in question should be sent to the Treasury Officer for verification from office records after which it should be duly submitted.

A.33. **Revised Estimates:** DDOs are required to prepare revised estimates of receipts and expenditure for the current financial year along with the budget estimates for the ensuing financial year.

A.34. To ensure that revised estimates are realistic, DDOs should keep a close watch on progress of revenue and expenditure under different budget heads, as compared with
revenue and expenditure for the corresponding period of the past year, or previous years.

A.35. Revised Estimates should be calculated by assuming that Revised Estimates for the current year will bear the same proportion to the actuals of the first four months as the actuals of the previous year bore to those of the first four months of that year. These calculations should be made on basis of figures for the past three years rather than those of any one year.

An example illustrating the method of preparing revised estimates has been shown in Figure 4.

*Figure 4: Illustrative Example for preparing Revised Estimates*

### Illustrative Example

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenditure Incurred during</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April - July</td>
</tr>
<tr>
<td>Current Year (Y)</td>
<td>A</td>
</tr>
<tr>
<td>Y-1</td>
<td>X₁</td>
</tr>
<tr>
<td>Y-2</td>
<td>X₂</td>
</tr>
<tr>
<td>Y-3</td>
<td>X₃</td>
</tr>
</tbody>
</table>

**Revised Estimates for Current Year Y = A + B**

\[ Y = \frac{1}{3}[(Y₁/ X₁) + (Y₂/ X₂) + (Y₃/ X₃)] * A + A \]

A.36. **Supplementary Estimates:** In case revised estimates of expenditure exceed the budget estimates for the current financial year, DDOs should forward requests to the BCOs for sanction of additional funds through re-appropriations or supplementary grants, as may be found feasible (refer Chapter 26 and Chapter 28).

A.37. **Advance Expenditure from Contingency Fund:** In case expenditure is to be met from an advance from the Contingency Fund, as communicated by the controlling officer, the accounting procedure to be followed by the DDOs is as follows:

- Separate bills should be prepared for such expenditure. Detailed classification of the expenditure in the bill should be given according to the usual budget heads.
- Account of such expenditure should be maintained separately and should be reported on a monthly basis to the BCOs in a statement headed “Expenditure met from the Contingency Fund”.

A.38. As soon as supplementary grants for meeting the additional expenditure have been approved by the Vidhan Sabha, the procedure of drawing on separate bills should be discontinued and the separate account should be closed by transferring the expenditure to the regular departmental account.

A.39. **Anticipated Savings:** During the course of the year, DDOs may find that expenditure under some detailed heads, sub-heads or primary units is likely to be less than the provisions made in the budget. Possible reasons for such savings could be:
• Actual postponement of expenditure
• Real savings due to economy in expenditure
• Normal savings attributed either due to overestimation or to the usual administrative causes

On ascertaining the quantum of such savings, DDOs should report the same to the BCOs without delay.

A.40. For carrying out above stated duties and responsibilities during the budget cycle, DDOs should refer to the following documents:
• The Madhya Pradesh Treasury Code, Volume I and II
• The Madhya Pradesh Financial Code, Volume I and II
• The Madhya Pradesh Fundamental Rules, Volume I and II
• The Madhya Pradesh Financial Powers, Volume I and II
• Government Accounting Rules, 1990

A list of key sections/chapters to be referred¹ to in these documents for the main activities to be undertaken by DDOs has been given in Table 1.

### Table 1: Documents to be referred to by DDOs

<table>
<thead>
<tr>
<th>Activity</th>
<th>Document(s) to be Referred to</th>
<th>Specific Section(s)/Chapter(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of expenditure estimates under appropriate heads of account</td>
<td>Government Accounting Rules, 1990</td>
<td>Chapters 3-8</td>
</tr>
<tr>
<td>Preparation of estimates for salaries and other establishment expenses</td>
<td>• MP Financial Powers&lt;br&gt;• MP Fundamental Rules</td>
<td>Financial Powers:&lt;br&gt;<strong>Fundamental Rules:</strong> Chapter 4 – Pay; Chapter 5 – Additions to Pay</td>
</tr>
<tr>
<td>Withdrawal of money from Treasury</td>
<td>MP Treasury Code</td>
<td>Volume I, Part II, Chapter IV - Withdrawal From The Consolidated Fund And The Public Account Of The State</td>
</tr>
<tr>
<td>Disbursement of salaries and other establishment expenses</td>
<td>• MP Financial Code&lt;br&gt;• MP Treasury Code&lt;br&gt;• MP Financial Powers&lt;br&gt;• MP Fundamental Rules</td>
<td>MP Financial Code: Volume I, Chapter 5 – Establishment&lt;br&gt;MP Treasury Code: Part II, Chapter IV - Withdrawal From The Consolidated Fund And The Public Account Of The State&lt;br&gt;MP Financial Powers: Section IV, Item No. 56&lt;br&gt;MP Fundamental Rules: Chapter 4 – Pay</td>
</tr>
</tbody>
</table>

¹ The Madhya Pradesh Financial Code, Treasury Code, Financial Rules and Fundamental Rules are under revision due to which these references are subject to change
<table>
<thead>
<tr>
<th>Activity</th>
<th>Document(s) to be Referred to</th>
<th>Specific Section(s)/Chapter(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incurring contingent expenditure</td>
<td>MP Financial Code</td>
<td>Chapter 5 – Additions to Pay</td>
</tr>
<tr>
<td>Procurement of goods and assets on behalf of the department</td>
<td>MP Financial Code</td>
<td>Volume I, Chapter 6 - Contingencies</td>
</tr>
<tr>
<td>Control of Expenditure i.e. ensuring expenditure is within available appropriations and that value of money is achieved</td>
<td>MP Financial Code</td>
<td>Volume I, Chapter 2 - General System of Financial Management and Control</td>
</tr>
<tr>
<td>Classification of expenditure under appropriate heads of accounts (Revenue/Capital/Charged/Voted)</td>
<td>MP Financial Code</td>
<td>Volume I, Chapter 15 - Government Accounts Sections: General principles of classification, General Principal of accounts, Allocation of Expenditure Between Capital and Revenue</td>
</tr>
<tr>
<td>Reconciliation of vouchers from Treasury</td>
<td>• MP Financial Code • MP Treasury Code</td>
<td>MP Financial Code: Volume I, Chapter 3 - Revenue and receipts Section : Audit of Receipts</td>
</tr>
<tr>
<td>Maintenance of records for all funds received and expenditure incurred</td>
<td>MP Financial Code</td>
<td>Different record keeping procedures and records specified for type of activity and expenditure across chapters</td>
</tr>
<tr>
<td>Obtaining advances with approval from competent authority in case expenditure exceeds estimates</td>
<td>MP Financial Code</td>
<td>Volume I, Chapter 4 - Power of Sanction</td>
</tr>
</tbody>
</table>
Part I B: Quick Guide for Budget Controlling Officers

B.1. Budget Controlling Officers (BCOs) are officials authorized by the Administrative Department and Finance Department to release budget allocations under heads of accounts assigned to them.

B.2. For discharge of the duties of BCOs with respect to administering budget allocations and control of expenditure, Administrative Departments are authorized to appoint Drawing and Disbursing Officers (DDOs). BCOs may also choose to exercise their control through intermediate controlling officers, if required.

B.3. BCOs are also assisted by Finance Advisors, posted in charge of budget sections in departments, who are responsible for advising them on all budgetary matters toward ensuring better financial management.

B.4. Every controlling officer, with respect to expenditure incurred by him/her self, is a disbursing officer.

B.5. BCOs serve as the crucial link between the Administrative Department, Finance Department, Accountant General and disbursing officers in all stages of the budget cycle from preparation of estimates to reconciliation of accounts with the Accountant General.

B.6. The various activities that BCOs are involved in during the annual budget cycle have been diagrammatically presented in Figure 5

*Figure 5: Activities carried out by BCOs during budget cycle*
Budget Preparation

B.7. During the budget preparation stage of the budget cycle, all BCOs are responsible for collating estimates of expenditure and receipts prepared by the DDOs under them as well as for preparing estimates of off budget funds likely to be received for department schemes during the ensuing financial year.

B.8. **Collation of Estimates:** For finalization of estimates of expenditure and receipts, BCOs should collate all estimates prepared by DDOs and review the same to ensure that:

- Estimates have been prepared only for existing expenditure and any new expenditure/new instrument of expenditure proposed has been estimated and submitted separately;
- Estimates for plan expenditure consisting of estimates for state sector schemes as well as district sector schemes are within ceilings specified by the State Planning Commission;
- Estimates have been classified under appropriate account heads;
- Estimates for charged expenditure have been prepared and presented separately; and
- An outcome orientation and gender sensitivity analysis has been carried in the required formats.

B.9. Once the checks listed above have been completed, BCOs should submit estimates of plan expenditure to the State Planning Commission and estimates of non-plan expenditure to the Finance Department as per dates specified in the budget calendar.

B.10. BCOs should submit expenditure plans divided into periods prescribed by the Finance Department. They will be allotted budget as per these plans. Unspent amounts at the end of the period will be deemed as savings and would not be available to the concerned department. However, the Finance Department, on request from Administrative Departments, may restore these allotments, subject to availability of funds.

B.11. **Off Budget Estimates:** BCOs should prepare estimates of off budget funds likely to be provided by GoI for department schemes and submit the same along with the other expenditure estimates to the Finance Department. Off budget estimates should be framed on the basis on respective scheme guidelines issued by GoI as well as past trends in receipt of funds under these schemes.

Budget Execution

B.12. Once the budgetary allocations passed by the Vidhan Sabha are communicated to the BCOs, they become responsible for the timely disbursement of funds to the DDOs under them.

B.13. During the course of the financial year, BCOs are also responsible for:

- Control of Expenditure;
- Collation of revised estimates of expenditure and receipts;
- Obtaining necessary sanctions for re-appropriations and supplementary grants;
- Surrender of savings, if any, to the Finance Department; and
- Preparation of monthly statements of anticipated revenue and expenditure for submission to the Finance Department.
The various activities that BCOs are involved in this stage of the budget cycle have been diagrammatically represented in Figure 6. Reporting and submission of required documents to Finance Department and Accountant General by the BCOs should be routed through the concerned administrative departments.

Figure 6: Activities of BCOs during budget execution stage of budget cycle

B.14. **Distribution of Grants:** On receiving the required authorization by the Finance Department after enactment of the Appropriations Act, BCOs should distribute the plan grants placed at their disposal among the disbursing officers as per the periodic action plans. Reasons for withholding any plan/ non-plan funds should be duly recorded. They should invariably get opinion of Financial Advisors on the file for deciding on the quantum and pattern of distribution.

B.15. Once allocations have been decided, BCOs should:

- Send a soft copy of the DDO wise allotments to the Directorate of Treasuries and Accounts. This communication may be done online in case such a facility is available.
- Maintain a Register of Grants and Appropriations in the prescribed format in physical form. Every budget allotment should be entered in this register and allotment orders should bear the page number and serial number of the register.
B.16. Budget Controlling Officers should also:

- Ensure that allotments intimated to the DDOs have complete accounts classification of each sum allotted, *i.e.* the major head to the standard object of expenditure.
- Avoid disposal of grants in multiple installments. If, however, multiple installments are found necessary, reasons for the same should be recorded on the allotment file/register.

B.17. Budget Controlling Officers should also send soft copies of their periodic action plans for execution of plan allocations to the DTA. These action plans will be the basis of allotment of plan funds for disbursement in each period. For any subsequent change in the action plan linked disbursements, consent of the Finance Department will be required.

B.18. **Control of Expenditure:** It is the duty of BCOs to ensure that:

- Total expenditure is kept within the limits of the authorized appropriation; and
- Funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

B.19. Towards this aim, BCOs should:

- Ensure standards of financial propriety are maintained and all financial rules and regulations are observed during incurring of expenditure
- Move the competent authority, at a right time, to provide additional funds either by re-appropriation or through supplementary provision, when an excess over total grants placed at their disposal is unavoidable or some new expenditure has to be incurred;
- Ascertain if amount has actually been credited to the account of the state government before incurring expenditure on items to be financed by financial institutions or Government of India partly or fully.

B.20. **Maintenance of Registers:** With progress of expenditure under different units of appropriation of the grants under their disposal, BCOs should maintain registers in physical form with records of all commitments made and liabilities incurred, including those of the previous years. Similar details should also be recorded with respect to works taken up on behalf of the central government, other state governments and local or other bodies, etc.

B.21. Additionally, BCOs are required to maintain registers in which statements of monthly expenditure and liabilities received from disbursing officers are consolidated with their own monthly records of expenditure and liabilities. Entries in these registers should be made when all disbursing officers’ returns for a particular month have been received and have been carefully examined to ensure that:

- Accounts have been correctly and appropriately classified;
- Progressive expenditure has been properly noted and available balances correctly calculated;
- New liabilities, if any, have been incurred under proper authority;
- Expenditure plus liabilities incurred so far are within the appropriation sanctioned;
- Statements have been signed and verified by disbursing officers themselves.
B.22. In order to monitor receipt of monthly statements from disbursing officers, BCOs should maintain records in which serial numbers should be allotted to each individual disbursing officer. BCOs should ensure that records are updated on a monthly basis and reminders should be sent to disbursing officers who do not submit their statement by the 7th of the next month.

B.23. **Submission of Half Yearly Progress Report to State Planning Commission:** BCOs are required to prepare and submit periodic progress reports on the execution of plan schemes to the State Planning Commission. For the same, BCOs should collate data on expenditure and achievement of physical targets of plan schemes implemented by the department from the concerned DDOs. The SPC may hold discussions with the concerned BCOs on these progress reports as may be found necessary.

B.24. **Collation of Revised Estimates:** Within time lines specified in the budget calendar, BCOs should compile revised estimates prepared by the disbursing officers under them and submit the consolidated figures to the Finance Department. BCOs should also attach detailed notes with these estimates which explain fully and clearly how the revised figures have been arrived at. Precise and informative explanations on every important variation in Revised Estimates as compared with Budget Estimates should also invariably be given.

B.25. **Re-appropriations:** In case unavoidable and unforeseen circumstances make it necessary to incur expenditure under a unit of appropriation in excess of the amounts originally estimated under it, BCOs should obtain necessary sanctions to re-appropriate savings available under other heads to meet requirements for such additional funds.

B.26. The various constraints that re-appropriations are subject to have been detailed in paragraph 26.5. Authorities entrusted with powers to sanction re-appropriations have been given in paragraph 26.6.

B.27. BCOs should ensure that requests for re-appropriations sent to the Finance Department in the prescribed format are accompanied by an explanatory note describing the necessity for transfer and reasons for anticipating savings under the primary unit of appropriation from which the re-appropriation of funds is proposed.

B.28. **Surrender of Savings:** In case of anticipated savings reported by disbursing officers, the concerned controlling officer should:

i. Examine allotments given to other disbursing officers under the same detailed head and transfer to the disbursing officer who requires an additional allotment of such sums as can be permanently or temporarily spared.

ii. In case such redistribution is not possible; examine allotments against other detailed heads within the same standard object, with the objective of discovering probable savings and affecting a transfer. Where such redistribution is possible, the controlling officer should carry it out provided s/he has been vested with the necessary powers. Otherwise, s/he should obtain the sanction of the competent authority.

iii. If provision of funds from within the same standard object is not possible, Administrative Department/BCO shall undertake an examination of the whole grant or portion of the grant to see whether there are likely to be savings under any of the
other units of appropriation, which could be utilized. If so, s/he should proceed as indicated in point (ii) above.

B.29. If the Administrative Department anticipates savings even after examination of excesses in the manner described above, s/he should surrender the same to the Finance Department. Such an exercise should be undertaken by 15th of January for each financial year so that resources can be allocated by Finance Department to other demand of grants.

B.30. **Statement of Anticipated Revenue and Expenditure:** To assist Finance Department in preparation of forecasts for the likely cash balance position of the State (refer Chapter 27), all BCOs are required to furnish a statement showing anticipated flow of revenue and expenditure in each month. These statements should be submitted along with the budget estimates for the ensuing financial year. For preparation of these statements, BCOs should:

i. Undertake a study of past trends in actual receipts for forecasting receipts of revenue earning departments. Estimates should be suitably modified by taking into consideration any event that is expected to occur during course of the year which may cause unusual variation in the forecasts.

ii. Ensure that figures furnished represent totals of only cash transactions under a major head. Mere transfers from one major head to another by way of adjustment should be excluded as such transfers have no bearing on the ways and means position.

iii. Inform Finance Department immediately in case large payments or significant shortfall in receipts likely to have a substantial impact on the State’s ways and means position is anticipated. Examples of events that may cause a sudden rise in expenditure are elections, famine, floods etc.

B.31. **Centrally Sponsored Schemes, Central Sector Schemes and Additional Central Assistance Schemes:** With respect to such schemes, concerned Budget Controlling Officers should:

- Submit a statement on month wise anticipated flow of funds from Government of India in the beginning of the financial year. Any variation expected in these figures during the course of the year should be intimated to Finance Department.

- Ensure that utilization certificates, prescribed expenditure statements and progress reports are sent in time to concerned Government of India authorities so that financial sanctions for release of funds are not delayed and flow of funds is maintained as projected.

- Ensure that expenditure under such schemes does not exceed ceilings sanctioned by Government of India.

- Ensure funds received from Government of India under these schemes do not remain unutilized

B.32. For Externally Aided Projects, BCOs should:

- Send information to Finance Department by 15th of every month, incorporating therein expected receipts in the following month against reimbursement claimed so far.
Enter amounts received directly by executing agencies under the Receipts Heads of State Accounts. Only after necessary budgetary provisions have been obtained should such funds be utilized to incur expenditure as per rules.

B.33. **Supplementary Grants:** As per Article 205 (1) (a) of the Constitution, when the amount authorized by the Appropriation Act to be expended for a particular service for the current purposes of that year is not sufficient or when a need has arisen during the current financial year for additional expenditure upon some new service not contemplated in the annual financial statement for that year, requests for supplementary grants may be presented by BCOs to the Finance Department. For details of the various categories of supplementary grants refer to Chapter 28.

B.34. The primary responsibility of preparing and Justifying proposals for supplementary grants put forward by disbursing officers rests on the respective BCOs. If supplementary estimate is for increased provision against a previously sanctioned object of expenditure, BCOs should show:

a) That need for increased provision could not be foreseen at the time when the original departmental estimate was framed; and

b) That in absence of such provision, injustice would be caused to some person not at fault or serious inconvenience or serious loss or damage would be caused to public service.

Before forwarding requests for supplementary grants, BCOs should attempt to meet the demand for additional funds through re-appropriations if permissible under rules, and/or through savings anticipated under other heads of the grant.

B.35. If supplementary grants are required for some new expenditure not previously contemplated in the budget, the controlling officer must show either:

a) That the expenditure has been newly imposed by statute, or by order of court of law or other competent authority; or

b) That urgent necessity has arisen for the proposed expenditure, the postponement of which would (i) involve extra expenditure ultimately, or (ii) be administratively impossible.

In case of applicability of clause (b), BCOs should also explain the necessity and the urgency of the proposed expenditure.

B.36. BCOs should submit proposals for supplementary grants or appropriations to the concerned administrative department and not to the Finance Department directly. It is the responsibility of the administrative department to examine the proposals very carefully and recommend to the Finance Department only those that are considered to be fully justified.

B.37. For carrying out above stated duties and responsibilities during the budget execution stage of the budget cycle, BCOs should refer to the following documents:

- The Madhya Pradesh Treasury Code, Volume I and II
- The Madhya Pradesh Financial Code, Volume I and II
- The Madhya Pradesh Fundamental Rules, Volume I and II
- The Madhya Pradesh Financial Power, Volume I and II
A list of the key sections/chapters\(^2\) to be referred to in these documents for the main activities to be undertaken by BCOs has been given in Table 2.

**Table 2: Documents to be referred to by BCOs**

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<tr>
<th>Activity</th>
<th>Document(s) to be Referred to</th>
<th>Specific Section/Chapter</th>
</tr>
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<tbody>
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<td>Control of Expenditure i.e. ensuring expenditure is within available</td>
<td>• MP Financial Code</td>
<td><em>Financial Code:</em> Volume I, Chapter 2 - General System of Financial Management and Control</td>
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<tr>
<td>appropriations and that expenditure incurred by DDOs is as per sanctions</td>
<td>• MP Financial Powers</td>
<td>Chapter 4 - Power of Sanction</td>
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<tr>
<td>Reconciliation of expenditure/payments with the Accountant General</td>
<td>MP Financial Code</td>
<td><em>Financial Powers:</em> Section I, Item No. 20</td>
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<tr>
<td></td>
<td></td>
<td>Section II, Item No. 7</td>
</tr>
<tr>
<td>Carry out internal checks against irregularities Waste, Loss and Fraud</td>
<td>MP Financial Code</td>
<td>*Volume I, Chapter 2 - General System of Financial Management and Control</td>
</tr>
<tr>
<td>Re-appropriations of grants to increase expenditure exceeds estimates</td>
<td>MP Financial Code</td>
<td>*Volume I, Chapter 10 - Budget(^3)</td>
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<td>under a given account head</td>
<td></td>
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<tr>
<td>Estimation of supplementary grants required to meet additional</td>
<td>MP Financial Code</td>
<td>*Volume I, Chapter 10 - Budget(^4)</td>
</tr>
<tr>
<td>expenditure</td>
<td></td>
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<tr>
<td>Seek advice of Financial Advisor posted in the department</td>
<td>MP Financial Code</td>
<td>*Volume I, Definitions Rule 10A, 52A</td>
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\(^2\) The listed documents are under revision due to which these references are subject to change

\(^3\) Proposed as a change in the revised MP Financial Code

\(^4\) Proposed as a change in the revised MP Financial Code
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SECTION 1: INTRODUCTION

Chapter 1  Overview

1.1  Purpose of the Budget Manual: This Manual contains guiding principles and detailed steps involved in the different phases of the budget cycle for the guidance of estimating officers and departments of the Secretariat with respect to the budget procedure in general and in particular to the preparation and examination of the annual budget estimates and the subsequent control over expenditure to ensure that it is kept within the authorized grants or appropriations.

1.2  Structure of Manual: Sections in this Manual have been organized to reflect the sequential flow of steps adopted in the budget cycle.

Section I provides a brief introduction to the State budgeting system and classification of government accounts adopted in the budget. It includes a description of the roles and responsibilities of the main stakeholders in the budget process, namely the Finance Department, Financial Advisors, Budget Controlling Officers, Drawing and Disbursing Officers and the Accountant General.

Section II has been further divided into four sub sections to comprehensively cover the budget preparation process. Detailing of the process of preliminary estimation of revenue and receipts for the State and issue of Budget Circular is followed by Section IIA which covers assessment of the State’s financial resources. Section IIB discusses the process of drawing-up of budget proposals and formulating Medium Term Expenditure Frameworks. Section IIC deals with FRBM Act compliance requirements and gender and outcome orientation in the budget. Section IID covers the finalization of budget and its presentation to the Vidhan Sabha.

Section III deals with release and execution of the budget and necessary interim revisions. It covers the steps required to be undertaken by different stakeholders for control of expenditure within a financial year.

Section IV covers reporting, mid-year review and monitoring as the basis for accountability. It details indicators to be used by the Administrative Department for monitoring performance of departments against targets agreed upon in the beginning of the budget cycle.

1.3  Annual Financial Statement: In each financial year, the Finance Department is required to prepare a statement of all receipts and expenditure expected to be realized or incurred during the year. This Statement is referred to as the Annual Financial Statement (popularly known as the Budget) as specified in Article 202 of the Indian Constitution. As per the requirements of Article 202, expenditure estimates embodied in this statement should show separately:

- Expenditure on items charged on the consolidated fund not required to be voted by the Assembly
- Expenditure voted on by the Assembly further delineated into expenditure on Capital and Revenue Account
1.4 **Structure of Accounts and Estimates:** Under Article 150 of the Constitution of India, the accounts of States are to be kept in formats prescribed by the Comptroller and Auditor General of India. The general structure of the budget closely follows the structure of these accounts. Both the accounts and the estimates are divided into three parts which have been briefly explained in Figure 7.

**Figure 7: Structure of Budget and Accounts**

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<th>Contingency Fund (Article 267)</th>
<th>Public Account (Article 266)</th>
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<td>Receipts</td>
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<td>Expenditure</td>
<td>Expenditure</td>
<td>Receipts</td>
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<td>Capital Section</td>
<td>Public Debt (Loans and Advance)</td>
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1.5 **Budget Cycle:** The overall budget cycle of the State has been shown in Figure 8.

**Figure 8: Budget Cycle**
1.6 The budget cycle can be divided into three broad phases:

- *Budget Preparation*: This phase involves approximation of affordable level of expenditure and determines how funds are to be expended and outputs delivered in an effort to achieve the outcomes sought;

- *Budget Execution*: This phase involves purchase of goods and services required to produce outputs, and reporting and review of achievements in terms of delivery of goods, services and benefits to the community

- *Budget Monitoring*: This phase involves ensuring compliance of actual budget transactions with planned transactions

The budget process/documents are subjected to an external audit conducted by CAG. The audit process ensures that delivery of services by the government has been carried out with honesty and integrity and that the due process is followed during the whole of the budget cycle

1.7 Major activities to be undertaken in different phases of the budget cycle\(^5\) have been mapped in Figure 9.

\(^5\) Other stakeholders involved in the Budget Preparation Stage such as the State Planning Commission and Tribal Development Department have not been shown in the figure for the sake of ease in representation of all stages
1.8 As can be observed from the above flow chart, the main stakeholders in the budget process are:

- **Finance Department (FD):** Finance Department is the nodal agency for preparation of State Budget and is involved in all the phases of the budget cycle. Table 3 shows the various activities that are to be undertaken by Finance Department.

<table>
<thead>
<tr>
<th>Table 3: Activities to be undertaken by Finance Department</th>
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<tbody>
<tr>
<td><strong>Budget Cycle</strong></td>
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</table>

- **Budget Controlling Officers (BCOs):** BCOs are officers entrusted with the responsibility of controlling expenditure against the budget allocation granted to the concerned department and/or the collection of revenue by authorities subordinate to the department. BCOs work in coordination with the Administrative Department and Finance Department throughout all stages of budget right from preparation of estimate to reconciliation of accounts with Accountant General.

- **Drawing and Disbursing Officers (DDOs):** DDOs are officials authorized to draw money from the consolidated fund and make payments on behalf of the State Government.
They are also responsible for preparing detailed estimates of revenue and expenditure for the heads of account assigned to them.
Chapter 2  Definitions and General Explanations

2.1  In this Manual, unless the context otherwise requires, following words and expressions have the meanings hereby assigned to them.

2.2  **Accounts or actual of a year:** are the amounts of receipts and disbursements for the financial year beginning on April 1 and ending on March 31, as finally recorded in the Accountant General books.

2.3  **Administrative approval of a scheme, proposal or work:** is the formal acceptance thereof by the competent authority for the purpose of incurring expenditure subject to availability of funds.

2.4  **Administrative Department:** is the Department, as notified by the General Administration Department in the Allocation of Business, to which the subject under consideration is assigned for disposal.

2.5  **Annual Financial Statement or Budget:** In each financial year, the Finance Department is required to prepare a statement of all receipts and expenditure expected to be realized or incurred during the year. This Statement is referred to as the Annual Financial Statement (popularly known as the Budget) as specified in Article 202 of the Indian Constitution. As per the requirements of Article 202, expenditure estimates embodied in this statement should show separately:

- Expenditure on items *charged* on the consolidated fund not required to be voted by the Assembly
- Expenditure *voted* on by the Assembly further delineated into expenditure on Capital and Revenue Account.

2.6  **Appropriation:** means the amount authorized for expenditure under a major or minor head or sub - head or other unit of appropriation or part of that amount placed at the disposal of a disbursing officer.

2.7  **Appropriation Accounts:** are the accounts prepared by the Comptroller and Auditor-General for each grant or appropriation which includes:

- Amount of the grant sanctioned
- Amount spent under each level of, head of account given in budget literature
- Brief explanation on the important variations in the expenditure and allotments, whether voted or charged
- Expenditure incurred under the revenue and capital account

2.8  **Appropriation Act:** provides for the allocation out of the Consolidated Fund of the State of all money required to meet:

- Grants so made by Assembly for various services under different heads; and
- Expenditure ‘charged’ on the Consolidated Fund of the state

2.9  **Assembly** - means the Legislative Assembly of Madhya Pradesh.

2.10  **Bank:** means any branch of the State Bank of India acting as the agent of the Reserve Bank of India in accordance with the provisions of the Reserve Bank of India Act, 1934 (2
of 1934), any branch of a subsidiary bank as defined in section 2 of the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959) which is authorized to transact Government business as agent of the State Bank of India, or any branch of a bank as may be appointed by the Reserve Bank of India as its agent under the provisions of subsection (I) of section 45 of the Reserve Bank of India Act, 1934 (2 of 1934).

2.11 **Budget Controlling Officer (BCO) or Controlling Officer:** refers to the authority responsible for control of expenditure and receipt for any head of account and empowered by Administrative Department & Finance Department to release budgetary grants to subordinate officers.

2.12 **Budget Controlling Officer (BCO) Code:** is a four digit code assigned to each BCO in the state. These codes are fed into the State Financial Management System enabling monitoring of disbursement of budget allocations by BCOs throughout the financial year.

2.13 **Budget Estimates:** are the detailed estimates of receipts and expenditure for the ensuing financial year prepared in the current financial year.

2.14 **Budget Literature:** refers to documents circulated to members of the Vidhan Sabha at the time of presentation of budget for vote and approval (vide paragraph 21.1).

2.15 **Capital Expenditure or Expenditure on Capital Account:** is broadly defined as expenditure incurred with the objective of either acquiring or creating assets of permanent nature.

2.16 **Central Assistance for State Plan:** refers to plan grants received from the union government which can be broadly classified into:

- **Normal Central Assistance:** comprises of grants allocated to the state by Planning Commission of India, quantum of which is decided as per the Gadgil Mukherjee formula
- **Additional Central Assistance (ACA):** ACA linked schemes provide central assistance to the states for the state plan schemes. This assistance is meant for special programs as per the needs of the state, sectoral priorities and cover subjects not on the Union List. The ACA linked schemes are funded by the Ministry of Finance and administered by the sectoral Ministry concerned
- **Special Central Assistance:** consists of grants earmarked for welfare of the weaker sections of the society such as scheduled tribes and schedules castes.

2.17 **Central Finance Commission or Finance Commission of India:** is constituted by the President of India every fifth year as per provisions of Article 280 of the Constitution of India. Qualifications, powers and procedures of the Commission are regulated by the Finance Commission (Miscellaneous Provisions) Act 1951. Such Commissions are deemed to be civil courts for the purposes of the Code of Criminal Procedure 1898. The Finance Commission is required to make recommendations to President in respect of:

- Distribution of net proceeds of taxes to be shared between the Centre and the States, and the allocation between the States, the respective share of such proceeds
- The principles which should govern the grants-in-aid by the Centre to States out of the Consolidated Fund of India
• Measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and the Municipalities in the state on the basis of the recommendations made by the State Finance Commission
• Any other matter referred to it by the President in the interests of sound finance.

2.18 **Central Plan Schemes**: used as a collective term for both Centrally Sponsored and Central Sector Schemes.

2.19 **Centrally Sponsored Schemes (CSS)**: refer to schemes jointly funded by the union and state government as per funding patterns agreed upon by the two parties. CSS are usually designed and monitored by ministries of the union government with corresponding state departments responsible for implementation at the field level. The share contributed by GoI in any given CSS may be off-budget; however, funds contributed by the state government for expenditure under the scheme have to be included in the state annual budget. In case funds received from GoI are off-budget, scheme/department wise estimates of expenditure from such funds are provided in Volume VIII of the budget documents (*vide paragraph 21.3.9*).

2.20 **Central Sector Schemes**: refer to schemes on subjects within the Union List which are completely financed by GoI. Funds received under such schemes may be off or on budget depending on scheme design and designated implementing agency in the state.

2.21 **Charged expenditure**: refers to expenditure that is charged on revenues of the state and is not subject to the vote of the Vidhan Sabha. Article 202 (3) of the Constitution specifies categories of expenditure that can be charged to the Consolidated Fund of the state. They are as follows:
   a. Emoluments and allowances of the Governor and other expenditure relating to his office
   b. Salaries and allowances of the Speaker and Deputy Speaker of the Legislative Assembly
   c. Debt charges for which the State is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt.
   d. Expenditure in respect of the salaries and allowances of the Judges of the High Court
   e. Any sums required to satisfy any judgment, decree or award of any court or arbitral tribunal
   f. Any expenditure declared by the Constitution or by the Vidhan Sabha of the State by law to be so charged.
   g. Administrative expenses of the High Court including all Salaries, allowances and pensions payable to or in respect of the officers and servants of the Court
   h. Adjustments in respect of expenses of Courts or Commissions and pensions under Article 290 of the Constitution
   i. Expenses of State Public Service Commission including any salaries, allowances and pensions payable to or in respect of the members and the staff of the Commission

For ease in identification, sums relating to charged expenditure are usually printed in italics in Demands for Grants.
2.22 **Consolidated Fund of the State:** As per Article 266(1) of the Constitution of India, Consolidated Fund comprises of all revenue received, all loans raised by states, loans or ways and means advances and all moneys received in repayment of loans by the Government of Madhya Pradesh. No amount can be appropriated out of this Fund except in accordance with law and for the purpose and in the manner specified in the Constitution of India.

2.23 **Constitution:** means the Constitution of India.

2.24 **Contingency Fund:** created in accordance with provisions of Article 267(2) of the Constitution, it is intended to enable the state government to meet any unforeseen expenditure pending authorization by the Vidhan Sabha (vide Chapter 5).

2.25 **Departmental Estimates:** are estimates of revenue and/or ordinary expenditure of a department for a given financial year prepared by estimating officers for submission to Finance Department. Such estimates are the building stones of the state budget.

2.26 **Detailed Heads:** constitute the smallest unit of appropriation in the accounting classification adopted in government accounts. Detailed Heads disaggregate expenditure under standard objects of expenditure to ensure that financial transactions are recorded to the minutest detail. They are shown in the budget to facilitate the convenience of estimating and Budget Controlling Officers (vide paragraph 3.7).

2.27 **Development Heads:** are five digit codes allotted to plan expenditure to represent the specific area of development under the sector and sub sector indicated by major and sub major heads respectively. They serve the purpose of summarizing expenditure on schemes (projects) under one activity. E.g. schemes such as PM Roads, Highways, and Link Roads will be clubbed under the Development head of ‘Roads’.

2.28 **Drawing and Disbursing Officer (DDO) or Disbursing Officer:** is a government servant who draws bills, incurs expenditure to the extent specified and makes payments on behalf of the Government. It excludes a Government servant who is not the head of an office and draws only his/her own pay and allowances.

2.29 **Drawing and Disbursing Officer (DDO) Code:** is a ten digit code assigned to each DDO in the state. These codes are fed into the State Financial Management System enabling monitoring of disbursement of budget allocations by DDOs throughout the financial year. These codes are also used for authorization and verification by treasury officers for making payments against bills raised by DDOs.

2.30 **Estimating Officer:** refers to a departmental official responsible for preparing departmental estimates appointed by the Head of Department/Finance Department/Administrative Department.

2.31 **Excess Grant:** In certain cases, after close of a financial year, appropriation accounts may reveal that expenditure under a grant was incurred in excess of the sanctioned appropriation under that specific grant. In such cases, based on recommendations of the Public Accounts Committee, this excess expenditure should be regularized by presenting it to the Legislative Assembly as required under Articles 205 (1) (b) of the Constitution in the form of Excess Grants.
2.32 **Financial Advisor (FA):** is an officer of Madhya Pradesh Financial Service who has been declared by the Finance Department as a Financial Advisor to the Head of Department (vide Chapter 7).

2.33 **Finance Department:** refers to the Finance Department, Government of Madhya Pradesh.

2.34 **Financial Sanction:** is the approval to the detailed scheme of financing and expenditure, required to be given by the competent authority to any scheme/project before its commencement.

2.35 **Fiscal Deficit:** refers to the difference between the government’s total receipts (excluding borrowing) and total expenditure.

2.36 **Investment:** Surplus balances of the state government with Reserve Bank of India over and above mandatory requirements are invested in:
- Short term investment instruments such as Treasury Bills
- Long term investment instruments such as shares/debentures/securities. Investments in shares/debentures are usually made with co-operative institutions/banks as per terms and conditions of reciprocal agreements made between the two parties.

2.37 **Vidhan Sabha:** refers to the Legislative Assembly of Madhya Pradesh.

2.38 **Major Heads:** In the accounting classification of government accounts, Major Heads denote major functional departments like, ‘Agriculture’, ‘Forest’ etc

2.39 **Minor Heads:** In the accounting classification of government accounts, Minor Heads identify programs undertaken to achieve objectives of the functions represented by the major head

2.40 **New Expenditure:** refers to expenditure arising from a new policy decision, not brought to the notice of the Vidhan Sabha earlier, including a new activity or a new investment (vide Chapter 13).

2.41 **Non-Plan Expenditure:** is a generic term, used to cover all expenditure of the state government not included in its Annual Plan. It includes both developmental and non-developmental expenditure. Following categories of expenditure are also non-plan in nature:
- Expenditure that is obligatory in nature e.g. interest payments, pensionary charges and internal security.
- Expenditure on maintaining assets created in previous plans
- Expenditure on continuing services and activities at levels already reached in a plan period e.g. continuing research projects and operating expenses of power stations

2.42 **Objects:** is an accounting head used to represent objects for which expenditure is incurred. These are primarily meant for itemized control over expenditure and indicate the object or nature of expenditure on a scheme or activity or organization in terms of inputs such as ‘Salaries’, ‘Office Expenses’, ‘Grants-in-aid’, ‘Loans’, ‘Investments’ etc. With effect from 1st April, 2002, presently the State Government has identified 48 standard objects.
2.43 **Off Budget Expenditure:** refers to expenditure related to activities undertaken by the state government that is:
- Not routed through consolidated fund of the state
- Outside the budgetary processes
- Not accounted for in the budget document

Various forms of expenditure that may be off budget include:
- Central assistance routed directly to government agencies under various schemes
- Expenditure by state department/agencies from user charges collected
- Cost of assets provided by the state government to private contractors under Public Private Partnership (PPP) agreements
- Imputed subsidy cost of government loans
- Imputed subsidy cost of government guarantees
- Imputed value of tax reliefs and exemptions

2.44 **Plan Expenditure:** is expenditure on programs/projects enlisted in the Annual Plan. Classification of expenditure as plan expenditure is based on the principles/guidelines issued by the Planning Commission of India/State Finance Commission at the commencement of every Five Year Plan period.

2.45 **Primary Deficit:** is the deficit obtained by subtracting interest payments from the fiscal deficit of the state in a given financial year. Primary deficit corresponds to the net borrowing required to meet expenditure excluding the interest payments.

2.46 **Primary units of appropriation:** are the lowest accounting units used for classifying appropriations under major heads.

2.47 **Public Account:** All public money received by or on behalf of the State Government other than those which are for credit to the Consolidated Fund of the State is accounted for under Public Account of that State constituted under Article 266 (2) of the Constitution.

2.48 **Public Accounts Committee or Committee on Public Accounts:** is a Committee constituted by the Legislative Assembly for examination of reports of the Comptroller and Auditor General of India relating to the appropriation accounts, annual financial accounts of the state and/or other financial matters laid before it or as deemed necessary by the Committee.

2.49 **Public Undertakings Committee or Committee on Public Undertakings:** is a Committee constituted by the Legislative Assembly to

(a) Examine reports, if any, of the Comptroller and Auditor General of India on Public Undertakings in the State

(b) Examine, in the context of the autonomy and efficiency of Public Undertakings whether the affairs of the Public Undertakings are being managed in accordance with sound business principles and prudent commercial practices

(c) Exercise such other functions vested in the Public Accounts Committee in relation to the Public Undertakings as are not covered by clauses (a) and (b) above and as may be allotted to the Committee by the Speaker from time to time
2.50 **Re- appropriation:** means the transfer of savings, by a competent authority, from one unit of appropriation to meet additional expenditure under another unit within the same grant or charged appropriation (*vide Chapter 26*).

2.51 **Recurring Charges:** are charges which involve periodic liabilities beyond the financial year in which they are originally sanctioned.

2.52 **Reserve Funds:** are resourced by contributions from special levies imposed by the state government or from revenue receipts earmarked for specific objectives such as famine and calamity relief, electricity and agriculture development etc. Reserve Funds are created under Acts enacted by the Legislative Assembly to achieve these specific objectives and expenditure from these funds has to adhere to the concerned Act’s provisions (*vide Chapter 4*).

2.53 **Revenue Deficit:** is the difference between revenue expenditure and revenue receipts of the state in a given financial year. A negative figure for revenue deficit would represent revenue surplus.

2.54 **Revenue Expenditure or Expenditure on Revenue Account:** is expenditure on current consumption of goods and services of a department for activities of non-capital character. Revenue expenditure of a department also reflects all charges for maintenance and working expenses of a project such as renewals and replacements.

2.55 **Revised Estimates:** are estimates of probable receipts or expenditure for a financial year, framed in the course of that year. These estimates are in reference to transactions already recorded and those anticipated for remainder of the year. They are based on orders already issued or contemplated to be issued or any other relevant facts that become known during the course of the financial year (*vide Chapter 25*).

2.56 **Segment Code:** allotted only to plan expenditure, segment code indicates whether a scheme is funded by the State or any other source. It also represents whether the scheme falls under Normal Plan, Tribal Sub-Plan or Special Component Plan.

2.57 **State Finance Commission:** refers to the Madhya Pradesh State Finance Commission. Under Article 243(j) and 243 (y) of the Constitution, the Governor constitutes a Finance Commission after the expiry of every five years to:
- Review the financial position of rural and urban local bodies in the state and
- Make recommendations to the Governor regarding devolution of financial resources from the state government to local bodies
- Suggest inter-se distribution of shares of Panchayati Raj Institutions and Municipalities on an efficient and equitable basis.

2.58 **Sub-Heads/ Scheme Code:** In the accounting classification of government accounts, Sub-Heads represent schemes or activities undertaken under a given program.

2.59 **Sub-Major Heads:** In the accounting classification of government accounts, Sub-Major Heads break down the functions of the department into smaller units.

2.60 **Supplementary Grants:** are funds required in addition to the total grants included in the annual financial statement for that financial year. Approval for such grants has to be obtained in the manner prescribed in Article 205 (1) (a) of the Constitution, passing through the same stages of legislative procedure as the original budget (*vide Chapter 28*).
2.61 **Technical Sanction**: is the approval to the detailed designs, plans, specifications and quantities by the competent engineer authority, required to be given to any work (other than petty works, petty repairs, and other repairs for which a lump sum provision has been sanctioned by the competent authority) before its commencement.

2.62 **Treasury**: refers to the state treasury and sub-treasuries of the Government of Madhya Pradesh.

2.63 **Token Demand**: is a demand presented to the Vidhan Sabha for a nominal sum either to:
   - Obtain approval in advance for incurring expenditure on a scheme, details of which are yet to be finalized, or
   - Bring new expenditure to the notice of the Vidhan Sabha when funds for it are available through re-appropriations within a grant.

2.64 **Vote on Account**: Under Article 206 of the Constitution, the Legislative Assembly of a State is vested with power to sanction withdrawal of certain amounts of funds from the Consolidated Fund even before voting on demands of grants and passing of the Appropriation Act takes place (i.e. procedures prescribed under Article 203 and 204 of the Constitution). Such grants made in advance by the Legislative Assembly are referred to as Vote on Account (*vide Chapter 22*).

2.65 **Voted expenditure**: refers to expenditure subject to the approval and vote of the Vidhan Sabha.
Chapter 3  Classification of Government Accounts

3.1  As stated in Chapter 1, pursuant to requirements of Articles 150, 266 and 267 of the Constitution, the basic structure of Government budget and accounts classification has been designed as follows:

**Figure 10: Classification of Government Accounts**

- **CONSOLIDATED FUND**
  - Consists of:
    - All revenues received by State Government
    - All loans raised by issue of treasury bills, loans or ways and means advances
    - All money received in repayment of loans
  - No money can be appropriated out of this fund except in accordance with law and for purpose and in manner provided in Constitution

- **CONTINGENCY FUND**
  - Is of nature of an imprest and enables the Executive Government to meet unforeseen expenditure pending its authorization by Legislature by law

- **PUBLIC ACCOUNT**
  - Receipts and disbursements, such as deposits, reserve funds, remittances which do not form part of Consolidated Fund are included in Public Account
  - Disbursements from this Account not subject to vote by Legislature

3.2  The above structure of maintaining Government accounts is based on a functional classification of Government activities having a program and performance orientation. Such classification also facilitates easy grouping of expenditures by their respective economic categories.

3.3  Receipts and Expenditure Heads within Revenue and Capital Accounts of the Consolidated Fund and Public Account are further grouped into sectors and sub sectors. An illustrative example is given below.

**Table 4: Grouping of Receipt Heads within Revenue Account**

<table>
<thead>
<tr>
<th>Receipts Heads (Revenue Account)</th>
<th>A. Tax Revenue</th>
<th>B. Non Tax Revenue</th>
<th>C. Grant-in-aid and Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Taxes in Income and expenditure</td>
<td>a. Fiscal Services</td>
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<tr>
<td>b. Taxes on Property and Capital Transaction</td>
<td>b. Interest Receipt</td>
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<tr>
<td>c. Taxes on Commodities</td>
<td>c. Other Non tax Revenue</td>
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</table>
Receipts Heads (Revenue Account)

<table>
<thead>
<tr>
<th>A. Tax Revenue</th>
<th>B. Non Tax Revenue</th>
<th>C. Grant-in-aid and Contribution</th>
</tr>
</thead>
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<tr>
<td>and Services</td>
<td>i. General Services</td>
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<td></td>
<td>ii. Social Services</td>
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<tr>
<td></td>
<td>iii. Economic Services</td>
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</tr>
</tbody>
</table>

Table 5: Grouping of Expenditure Heads within Revenue Account

<table>
<thead>
<tr>
<th>A. General Services</th>
<th>B. Social Services</th>
<th>C. Economic Services</th>
<th>D. Grant-in-aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Organs of State</td>
<td>a. Education, Sports, Arts and Culture</td>
<td>a. Agriculture and Allied Activities</td>
<td></td>
</tr>
<tr>
<td>c. Interest Payment and Servicing of Debt</td>
<td>c. Water Supply, Sanitation, Housing and Urban Development</td>
<td>c. Special Areas Program</td>
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<td></td>
<td>d. Information and Broadcasting</td>
<td>d. Irrigation and Flood Control</td>
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<td></td>
<td>e. Welfare of SC/ST and Other Backward Classes</td>
<td>e. Energy</td>
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<td></td>
<td>f. Labour and Employment</td>
<td>f. Industry and Minerals</td>
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<td></td>
<td>g. Social Welfare and Nutrition</td>
<td>g. Transport</td>
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<td>h. Others</td>
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<td>h. Communication</td>
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<td></td>
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<td></td>
<td>i. Science and Environment</td>
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<td></td>
<td></td>
<td></td>
<td>j. General Economic Services</td>
</tr>
</tbody>
</table>

3.4 Sectors and sub sectors shown above are further divided into major heads, sub major heads and minor heads. These five levels (sectors, sub sectors, major head, sub major heads and minor heads) comprise the five tier system of classification as prescribed by the Comptroller and Auditor-General of India and is required to be uniformly adopted by the Union Government and all the State Governments.

3.5 A list of authorized major and minor heads of account is given in a separate publication named "List of Major and Minor Heads of Accounts of Central and State Receipts and Disbursements" issued by Controller General of Accounts (CGA). The introduction of any new major or minor head as well as the abolition or changes of nomenclature or any of the existing heads requires the approval of the Controller General of Accounts.
3.6 Under the minor heads are segment codes followed by subheads. Sub-heads are divided into standard objects of expenditure, which are further classified into different units of appropriations i.e., detailed heads. Detailed heads constitute the lowest units of classification of accounts.

3.7 Each level of classification can be interpreted as follows:

- **Major Heads**: denote major functional departments like, ‘Agriculture’, ‘Forest’ etc
- **Sub Major Heads**: break down the functions of the department into smaller units
- **Minor Heads**: identify programs undertaken to achieve objectives of the functions represented by the major head
- **Sub Heads/Scheme Code**: represent schemes or activities undertaken under a given program
- **Objects**: represent objects for which expenditure is incurred. These are primarily meant for itemized control over expenditure and indicate the object or nature of expenditure on a scheme or activity or organisation in terms of inputs such as ‘Salaries’, ‘Office Expenses’, ‘Grants-in-aid’, ‘Loans’, ‘Investments’ etc. With effect from 1st April, 2002, the State Government has identified 48 standard objects
- **Detailed Heads**: disaggregate expenditure under standard objects to ensure that financial transactions are recorded to the minutest detail. They are shown in the budget to facilitate the convenience of estimating and Budget Controlling Officers.

3.8 Apart from above mentioned levels of classification of accounts, expenditure is also categorized under the following heads in budget documents of Madhya Pradesh:

- **Charged and Voted Expenditure**: Charged expenditure is expenditure charged on the revenues of the State not subject to vote of Vidhan Sabha under the Constitution. Expenditure classified as charged has been listed in detail in paragraph 2.15. Voted expenditure is expenditure subject to vote of Vidhan Sabha.
- **Segment Code**: allotted only to plan expenditure, segment code indicates whether a scheme is funded by the State or any other source. It also represents whether the scheme falls under Normal Plan, Tribal Sub-Plan or Special Component Plan.
- **Development Heads**: Five digit coded Development Heads are allotted to plan expenditure to represent the specific area of development under the sector and sub sector indicated by major and sub major heads respectively. They serve the purpose of summarizing expenditure on schemes (projects) under one activity. E.g. schemes such as PM Roads, Highways, and Link Roads will be clubbed under the Development head of ‘Roads and Bridges’.
- **Demand for Grants Number**: Demand for annual budgetary allocations by individual departments is assigned a two digit code known as the Demand for Grants Number. Usually one demand number is assigned to each department, but Finance Department may combine grants required by two or more departments under one number, or create a separate demand number in respect of expenditure, which cannot readily be classified under particular departments.
3.9 Heads of account at the level of sub heads and below can be opened by Finance Department at their own discretion and on need basis in consultation with the Accountant General.

3.10 **Coding Pattern:** Under the current budget classification of the State, a 22 and 15 digit coding pattern is adopted for expenditure and receipts respectively. This has been shown in detail below:

*Figure 11: Coding Pattern for expenditure and receipts*

<table>
<thead>
<tr>
<th>Expenditure Coding Pattern</th>
<th>Receipt Coding Pattern</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major-Head</td>
<td>Four Digit</td>
</tr>
<tr>
<td>Sub-Major Head</td>
<td>Two Digit</td>
</tr>
<tr>
<td>Minor Head</td>
<td>Three Digit</td>
</tr>
<tr>
<td>Segment Code</td>
<td>Four Digit</td>
</tr>
<tr>
<td>Sub Head</td>
<td>Four Digit</td>
</tr>
<tr>
<td>Standard Object</td>
<td>Two Digit</td>
</tr>
<tr>
<td>Detailed Head</td>
<td>Three Digit</td>
</tr>
</tbody>
</table>

3.10.1 **Major Heads:** The first digit of the four-digit code allotted to Major Heads denotes the following:
### Sub Major Heads:

A two digit code has been allotted, the code starting from ‘01’ under each Major Head. Where no sub-Major Head exists it is allotted a code ‘00’. Nomenclature ‘General’ has been allotted code ‘80’ so that even after further sub-Major Heads are introduced the code for ‘General’ will continue to remain the last one.

### Minor Heads:

These have been allotted a three digit code, the codes starting from ‘001’ under each sub-Major/Major Head (where there is no sub-Major Head). Codes from ‘001’ to ‘100’ and few codes ‘750’ to ‘900’ have been reserved for certain standard Minor Heads. For example, Code ‘001’ always represents Direction and Administration. Non Standard Minor Heads have been allotted codes from ‘101’ in the Revenue Expenditure series and ‘201’ in the Capital and Loan series. Where the description under Capital/Loan is the same as in the Revenue Expenditure section, the code number for the Minor Head is the same as the one allotted in the Revenue Expenditure section. Code numbers from ‘900’ are always reserved for Deduct Receipt or Deduct Expenditure Heads.

The code for ‘Other Expenditure’ is ‘800’ while the codes for Other Grants/Other Schemes etc. where minor head ‘Other Expenditure’ also exists is kept as ‘600’. This has been done to ensure that the order in which the Minor Heads are codified is not disturbed when new Minor Heads are introduced.

### Objects:

The two digit codes allotted to objects have been grouped into seven categories namely:

1. Personnel Services and Benefits
2. Administrative Expenses
3. Contractual Services and Supplies
4. Grants, etc
5. Other Expenditure
6. Acquisition of Capital Assets and Other Capital Expenditure
7. Accounting Adjustments

The first digit of the code represents the category to which the object belongs to. E.g. the object ‘11 – Salaries and Allowance’ falls under category 1- Personnel Services and Benefits, while the object ‘64- Major Works’ falls under category 6 – Acquisition of Capital Assets and other Capital Expenditure.

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6 There is only one major head depicting capital receipts i.e. Major Head 4000 - Miscellaneous Capital Receipts

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3.11 As an illustrative example, expenditure incurred for purchase of study material in State Secondary Schools can be shown in budget books as depicted in Figure 12.

Figure 12: Expenditure incurred for purchase of study material in State Secondary Schools

<table>
<thead>
<tr>
<th>Major Head</th>
<th>Sub-major Head</th>
<th>Minor Head</th>
<th>Segment Code</th>
<th>Sub Head</th>
<th>Standard Object</th>
<th>Detailed Head</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>General Education</td>
<td>Secondary Education</td>
<td>0101</td>
<td>State Plan</td>
<td>Provision of Free Study Material</td>
<td>Material and Supplies</td>
</tr>
<tr>
<td></td>
<td>State Secondary Schools</td>
<td></td>
<td>(2267)</td>
<td></td>
<td></td>
<td>#34</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>001</td>
</tr>
</tbody>
</table>

3.12 The list of approved major heads by CGA, and the standard objects of expenditure have been given in Annexure 1 and Annexure 2. Segment Codes and Development Heads have been listed in Annexure 3.
Chapter 4 Public Accounts

4.1 All public money received by or on behalf of the State Government other than those which are for credit to the Consolidated Fund of the State is accounted for under Public Account of that State constituted under Article 266 (2) of the Constitution.

4.2 The main divisions of Public Accounts are:
   1. Small Savings, Provident Fund etc. (Major Heads 8001 to 8012)
   2. Reserve funds (Major Heads 8115 to 8235)
   3. Deposits and Advances (Major Heads 8336 to 8554)
   4. Suspense & Miscellaneous (Major Heads 8656 to 8680)
   5. Remittances (Major Heads 8781 to 8797)

4.3 Small Saving, Provident Fund etc.: Transactions under this head occur under State Provident Funds and Insurance and Pension Funds. In respect of receipts under this head, the Government acts as a Banker or Trustee and refunds the money after completion of the contract/event.

4.4 Reserve Funds: are fed by contributions from special levies imposed by the state government or from revenue receipts earmarked for specific objectives such as famine and calamity relief, electricity and agriculture development etc. Reserve Funds are created under Acts enacted by the Legislative Assembly to achieve these specific objectives and expenditure from these funds has to adhere to the concerned Act's provisions.

4.4.1 Receipts earmarked for reserve funds are recorded under appropriate revenue heads in the Consolidated Fund of the state in a given financial year. Such receipts accumulated in the previous financial year are transferred to the corresponding Reserve Fund heads in the Public Accounts of the state. Amounts so transferred are recorded under appropriate expenditure heads of accounts in the Consolidated Fund of the state.

4.4.2 Money can be drawn from Reserve Funds only for implementation of schemes that are formulated to achieve the stated objectives of the respective Acts under which Reserve Funds have been created. Such money drawn from Reserved Funds and brought to the disposal of implementing departments is recorded as negative entries under appropriate expenditure heads of accounts in the Consolidated Fund of the state.

4.4.3 Reserve Funds are further divided into reserve funds bearing interest and reserve funds not bearing interest.
4.5 **Deposits and Advances**: This head consists of:
- Current accounts of Local Funds and other local authorities who are permitted to bank with Government treasuries
- Transactions relating mainly to sums deposited with the Government in the daily course of public business by or on behalf of the members of the public, such as security deposits of contractors, personal deposits, deposits made in Revenue Courts on or in connection with the revenue administration, sums received in advance from Municipal Boards and other bodies financially independent of Government, for payment of compensation for land acquired for such bodies
- Transactions, connected with funds accumulated from contributions made by government, semi government and autonomous bodies

4.5.1 This head is also classified into deposits bearing interest and deposits not bearing interest.

4.6 **Suspense and Miscellaneous**: This head clubs those items of payments or receipts which for insufficient information or other reasons cannot be accounted for directly under proper heads of account. Thus this head is intended for temporary accommodation of transactions affecting the balances of the State, pending final adjustments on receipt of debits and credits. Transactions on behalf of Central Government are also accounted in this head under "8658- Suspense Account - 112- Tax Deduction at Source."
4.7 **Remittances**: Cash remittances between treasuries themselves, departmental accounts and transactions of Public Works Officers with treasuries and other officers of the Civil Department including cheques issued, are recorded under this head.

4.8 The first four divisions of Public Accounts, namely Small Saving, Provident Fund etc, Reserve Funds, Deposits and Advances and Suspense and Miscellaneous comprise of receipts and payments in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid.

4.9 Remittances embrace all adjusting heads, under which appear remittances of cash between treasuries and transfers between different accounting circles. The initial debits or credits to the heads in these divisions are cleared eventually by corresponding receipts or payments either within the same circle of account or in another account circle.

4.10 Receipts under Public Account do not constitute normal receipts of Government as they have to be paid back some time or the other to the public as in the case of the State Provident Fund, deposits of local bodies, or have to be utilized by the Government in an agreed manner as in the case of Reserve Funds set up for special purposes. Thus Parliamentary authorization for payments from the Public Account is not required.
Chapter 5  Contingency Fund

5.1 Contingency Fund of the State has been defined in Article 267(2) of the Constitution. Accordingly, the State Government had adopted an Act called “The Madhya Pradesh Contingency Fund Act, 1957 (Act No. VII of 1957)” and “Madhya Pradesh Contingency Fund Rules, 1957” in order to provide for the establishment and maintenance of Contingency Fund. Extracts of the said Act and the Rules are given in Annexure 4.

5.2 The objective of this fund is to sanction advances in order to meet unforeseen and emergency expenditure in absence of a provision in the Budget for expenditure that cannot be postponed till approval of the Vidhan Sabha. This Fund is managed by the Finance Department with a corpus of ₹200.0 crore.

5.3 For seeking an advance from this Fund, the Administrative Department makes a request to Finance Department in a prescribed proforma narrating circumstances under which the advance is needed urgently. Based on the merit of this request, Finance Department sanctions the advance from this Fund under the condition that it should be recouped from the forthcoming Supplementary Estimates (vide Chapter 28). Till the time of recoupment the amount of advance given would stand under the account of "8000-Contingency Fund."

Recoupment of advances made from the Contingency Fund is to be exhibited as receipt under "8000-Contingency Fund", whereas enhancement of the corpus amount of the Contingency Fund should be exhibited as disbursement under "7999 - Appropriation to the Contingency Fund".
Chapter 6   Role of Finance Department

6.1 Finance Department is the nodal agency for monitoring of all financial transactions of the State. It is concerned with all economic and financial matters affecting the State including mobilization and allocation of resources.

6.2 In exercise of powers conferred on the Governor under Article 166 (2) and (3) of the Constitution, Finance Department is responsible for the following:
- Preparation of budget
- Control of expenditure and ways & means position
- Internal audit
- Treasury administration
- Resource mobilization through loans, Institutional Finance, Small Savings, Credit and Investment and public debt
- Compilation of Codes, Rules and procedures concerning financial transactions having bearing on State finance and their implementation
- Safety and investment of funds from consolidated funds, contingency fund and public account

6.3 Headed by the Finance Minister of the State, Finance Department consists of five directorates:
- Directorate of Treasuries & Accounts
- Directorate of Institutional Finance
- Directorate of Madhya Pradesh Pension, Provident Fund and Insurance
- Directorate of Local Fund Audit
- Directorate of Financial Management Information System

6.4 Apart from these directorates, responsibilities of Finance Department have been divided across different sections of the department. Table 6 presents the key sections along with the subjects under their jurisdiction.

<table>
<thead>
<tr>
<th>Section</th>
<th>Subjects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Sections (B -1 to B-6, B-8, B-9)</td>
<td>General / Supplementary Budget, coordination with all departments accounting classification, Public Account, resources &amp; financial management with RBI, dividend calculation and payment, economy measures, loans from GOI, share in central taxes, grant-in-aid from GOI, EAP, advances, work related to state re-organization (Chhattisgarh),K-Deposits, Contingency Fund, Outcome Budget</td>
</tr>
<tr>
<td>Rule Section</td>
<td>Interpretation of all Rules, (Pension Rules, Treasury Code, Financial Code, Book of Financial Powers, Fundamental Rule, Leave Rule, GPF Rule, TA and other allowances)</td>
</tr>
<tr>
<td>Debt Management Cell (B-7)</td>
<td>Govt. Securities, Coordination of government loans and distribution, Compilation of details of, Loans/Grant/Liabilities/Annuities/Guarantees/Dividend/Receipts</td>
</tr>
</tbody>
</table>
6.5 For all government agencies and departments in the state, Finance Department is the first point of contact for all budget related queries, approvals and sanctions. From budget preparation for presentation to the Vidhan Sabha to ensuring that expenditure is carried out effectively and efficiently and is properly accounted for, Finance Department’s involvement is not only mandatory but also crucial.

6.5.1 The Finance Department plays the lead role in preparation of all documents included in the budget literature to be presented to the Vidhan Sabha for vote. Other departments involved in finalization of these documents are the State Planning Commission, Planning, Economics and Statistics Department and the Schedule Caste and Scheduled Tribe Welfare Departments.

6.6 Paragraphs below detail key functions carried out by Finance Department during different stages of the budget cycle.

6.6.1 **Budget Preparation:** In the beginning of the financial year, Finance Department undertakes a preliminary assessment of the financial resources likely to be available to the State in the ensuing financial year. This assessment is done on the basis of past trends with due consideration of policy announcements by the union and state governments and any recent developments that may significantly impact resource availability. Based on the quantum of resources estimated, Finance Department determines the affordable level of government expenditure for the financial year and communicates the same to the State Planning Commission.

6.6.2 Key findings from the above exercise feed into the Budget Circular issued by Finance Department to all state departments along with other instructions for preparation of receipts and expenditure estimates for the ensuing financial year. The Budget Circular includes the calendar of dates for submission and review of estimates to be prepared by departments. It is also accompanied with procedural details for preparation of the Gender and Outcome Budgets.

6.6.3 Thereafter, Finance Department carries out a detailed evaluation of the state’s financial resources based on guidelines issued by the Planning Commission of India. Inputs from revenue earning departments are also incorporated in these estimates. An estimation of resources of local bodies and state PSUs is also made.

6.6.4 On receiving budget estimates of expenditure from departments, Finance Department scrutinizes and finalizes these estimates for which it holds discussions at various levels.
with department officials. Special attention is given to items of new expenditure proposed by departments and clarifications and justifications are sought where required. Once decided, estimates are compiled by Finance Department in formats in which they are to be presented to the Vidhan Sabha for vote and approval.

6.6.5 Finance Department also prepares statements required under the Madhya Pradesh FRBM Act. These consist of the Macroeconomic Framework, Medium Term Fiscal Policy Statement and Fiscal Policy Strategy Statement.

6.7 **Budget Execution:** Once the Appropriations Bill has been passed by the Vidhan Sabha, Finance Department communicates to all departments their approved demands and allocations thereof.

6.7.1 The Directorate of Treasury and Accounts (DTA) is entrusted with the responsibility to review monthly statements of expenditure and receipts from State Financial Management System (SFMS). Administrative Department/BCOs are also expected to follow monthly expenditure and receipts statements and match them up to level of detail head with the statements submitted by the Accountant General. In case of variance Administrative Department/BCOs are required to reconcile it with the Accountant General and also inform to the Finance Department.

6.7.2 As per dates specified in the budget circular, Finance Department scrutinizes and compiles revised estimates of expenditure submitted by departments. It also reviews requests for supplementary grants and re-appropriations made by departments during the course of the year.

6.8 **Budget Monitoring:** Finance Department monitors progress of expenditure and collection of receipts so as to ensure that:

- *State budget presented and approved by the Vidhan Sabha remains a reliable guide to the actual expenditure incurred* during the financial year, and
- More informed in-year resource allocation decisions can be made
- Proper cash management takes places
- Ways and means advances are within sanctioned limits

6.8.1 Monitoring of expenditure involves evaluation of the performance of departments against indicators such as:

- Aggregate expenditure outturn compared to original approved budget in the past three years
- Composition of expenditure out-turn compared to original approved budget for each quarter of the current financial year

6.8.2 Along with expenditure and receipts, Administrative Departments monitor performance of departments against indicators and quantifiable deliverables identified in their Outcome Budgets. This involves an assessment and comparison of physical and financial achievement of targets demonstrated by departments.

6.9 Observations and learning from the review process are used by Administrative Departments and Finance Department during the budget preparation process for the ensuing financial year. Assessments on operational efficiency and institutional capacity
that emerge are to be incorporated when deciding on the distribution of available grants across and within departments.
Chapter 7  Role of Financial Advisors

7.1  Financial Advisors (FAs) refers to officers of Madhya Pradesh Financial Service who have been declared by the Finance Department as a Financial Advisors to Heads of Departments. Duties and responsibilities of FAs in different stages of the budget cycle have been presented below.

7.1.1  Budget Preparation and Execution:
To assist BCOs/ Administrative Departments in matters connected with:

(i) Scrutiny and compilation of budget estimates, estimates of receipts and payments (Non-Plan, Plan and Centrally Sponsored Schemes (CSS)/ Central Sector Schemes (CS));
(ii) Preparation of off budget statement, Outcome Budget and Gender Budget for the concerned department;
(iii) Preparation of periodic action plans for implementation of the department’s plan expenditure based on which budget allotments are released and received on the treasury server;
(iv) Allotment of Funds;
(v) Finalization of Budget Estimates;
(vi) Re-appropriation;
(vii) Re-distribution;
(viii) Control of expenditure;
(ix) Monitoring of receipts;
(x) Scrutiny of proposals for new service/item expenditure;
(xi) Scrutiny of proposals for supplementary estimates;
(xii) Any other duty assigned by the Finance Department

7.1.2  Budget Monitoring:
1. To ensure that no government money is kept out of the Consolidated Fund and that expenditure is incurred only by withdrawing funds from this Fund through appropriate budgetary processes
2. To ensure financial sanctions for projects/ schemes are issued as per delegation of financial powers/ relevant rules/ instructions
3. To ensure that actual departmental expenditure does not exceed revised estimates and to apprise the HoD about excess expenditure or shortfall in receipts
4. To reconcile provisional accounts with figures in Accountant General’s books
5. To assist in preparation of replies for the Appropriation Accounts and Audit Report
6. To ensure submission of returns/statement to concerned authorities and organizations for timely reimbursement or release of funds under C.S.S./C.S./ Externally Aided Projects/Other agencies etc. and monitor receipt of such funds
7. To ensure that accounts are properly maintained and instructions for utilization of aid funds or free material received from Government of India or any other agency are adhered to
8. To inform the concerned Administrative Department and Finance Department of any financial discrepancy detected in expenditure incurred.

7.1.3 **Others:**

1. To identify possible ways of financing plan activities of the department from sources other than budgetary support such as privatization and Public-Private Partnerships
2. To assist in negotiations of loans with External Agencies
Chapter 8  Role of Budget Controlling Officers and Drawing and Disbursing Officers

8.1  **Budget Controlling Officers (BCOs)** are officials authorized by the Administrative Department and Finance Department to release budget allocations under heads of accounts assigned to them.

8.2  For discharge of his/her duties of administering budget allocations and control of expenditure, a BCO appoints Drawing and Disbursing Officers (DDOs). He/ She may also choose to exercise his/her control through other controlling officers, if required.

8.3  The main duties and responsibilities of BCOs with respect to funds placed at their disposal are:

1.  **Collation of estimates of receipts and expenditure:** BCOs are responsible for collating and reviewing estimates of receipts and expenditure prepared by estimating officers under them. Once reviewed, BCOs should submit estimates of plan expenditure to the State Planning Commission and estimates of non-plan expenditure as well as periodic action plans for plan schemes to the DTA/Administrative Department.

2.  **Off Budget Estimates:** BCOs are required to prepare estimates of off budget funds likely to be provided by GoI for department schemes and submit the same along with the other expenditure estimates to the Finance Department.

3.  **Gender Budget and Outcome Budget:** BCOs are required to compile and collate the gender and outcome budgets prepared by the estimating officers under them for the department as a whole.

4.  **Communication and Distribution of Grants:** On receiving the required authorization by the Finance Department after enactment of the Appropriations Act, BCOs should distribute the plan grants placed at their disposal among the disbursing officers as per the periodic action plans. Reasons for withholding any plan/ non-plan funds should be duly recorded.

5.  **Budget Control:** This would require BCOs to ensure that:
   
   (i) Expenditure does not exceed the budget allocation
   
   (ii) Expenditure is incurred for the purpose for which funds have been provided
   
   (iii) Expenditure is incurred in public interest
   
   (iv) Adequate control mechanisms are in place for prevention, detection of errors and irregularities in the financial proceedings of their subordinates offices and to guard against waste and loss of public money
   
   (v) Mechanism or checks contemplated at (iv) above are effectively applied
   
   (vi) Operation of Omnibus minor head ‘(800)-Other Receipts/ Expenditure’: Since most of the government activities are well defined in the List of Major and Minor Heads of Accounts of Union and States, issued by the Controller General of Accounts, operation of the minor head ‘(800)-Other Receipts/ Expenditure’ should be minimized. In case, classification of expenditure under this minor head is necessitated by special circumstances, estimates should be accompanied with a detailed explanation and would require vetting by the Accountant General.
6. BCOs are responsible for review, cross verification, consolidation and submission of the revenue and expenditure estimates prepared by DDOs. They are expected to coordinate with the Treasury and Accountant General to keep a constant track of the expenditure incurred and liabilities created under account heads assigned to them.

7. BCOs are required to prepare half yearly progress reports on expenditure and achievement of physical targets of plan schemes executed by the department to the State Planning Commission.

8. Supplementary Estimates and Re-appropriations: It is the responsibility of BCOs to move the competent authority, in proper time, to provide additional funds, either by re-appropriation or through supplementary estimates, whenever an excess over the total grant placed at their disposal is expected by as unavoidable or when they desire to incur some new expenditure.

9. Revised Estimates: BCOs should use their discretion for deciding on the appropriate methodology for preparation of revised estimates of expenditure and receipts.

10. BCOs are also required to surrender appropriations or portions of grants placed at their disposal which are not likely to be required during the year as soon as lapses on savings are foreseen.

8.4 Thus, BCOs serve as the crucial link between the Administrative Department, State Planning Commission, Finance Department, Accountant General and disbursing officers of individual departments through all stages of the budget cycle from preparation of estimates to reconciliation of accounts with Accountant General. For further details of the various activities to be undertaken by BCOs refer to Part I of the Budget Manual.

8.5 Drawing and Disbursing Officers (DDOs) are authorized to draw money from the Treasury on behalf of the BCOs/ Administrative Department for disbursement. As such, responsibilities mentioned above for BCOs, in principle, attach equally to DDOs. In addition, DDOs must ensure that:

1. Conditions preliminary to incurring of expenditure are satisfied, namely, that sanction of the competent authority exist and funds to cover the charge fully have been placed at their disposal

2. Probability of any excess expenditure over amounts allotted are foreseen and intimation of the likely excess, along with reason for this, is sent to the BCO concerned in sufficient time to enable the latter to arrange additional provision of funds

3. Registers of allotment and expenditure are maintained under each detailed head of account separately for plan and non-plan expenditure and monthly statements of expenditure are sent to the concerned BCOs

8.6 Every controlling officer, in respect of expenditure incurred by himself/ herself, is in the same position as a disbursing officer.

8.7 Officials appointed as DDOs by the Head of Department/Finance Department/ Administrative Department also function as the Estimating Officers for that department. As Estimating Officers, they are responsible for preparing detailed estimates of expenditure and revenue under the concerned account head. Formats for preparing and filling in these estimates are provided by the Finance Department and are compatible.
with requirements of the Financial Management Software used by the Finance Department for consolidation of budgetary data.

8.8 As Estimating Officers, DDOs are also required to prepare outcome and gender budgets for the schemes under which they incur expenditure. These budgets are to be prepared as per guidelines issued by the Finance Department and the concerned BCOs/Administrative Departments.

8.9 During the course of a financial year, DDOs are required to prepare revised estimates of expenditure and receipts including estimates of supplementary grants as well as estimates of probable savings that are to be submitted to their respective BCOs as per timelines specified.

8.10 For further details of the various activities to be undertaken by DDOs refer to Part I of the Budget Manual.

Chapter 9  Role of Accountant General in the Budget Process

9.1  The Office of the Accountant General is part of the Indian Audit & Accounts Department under the Comptroller and Auditor General of India (CAG). The CAG is a constitutional authority appointed by the President of India that derives its functions from the provisions of Articles 149 to 151 of the Constitution of India and “The Comptroller and Auditor-General’s (Duties, Powers and Conditions of Service) Act, 1971”.

9.2  As one of its primary functions, the Accountant General prepares Monthly Civil Accounts, Appropriation Accounts and Finance Accounts of the State Government.

9.2.1  Finance Accounts are the statements of receipts and payments of the State Government for the year.

9.2.2  Appropriation Accounts show grant-wise expenditure against provisions approved by Vidhan Sabha and offer explanations for variations between the approved and actual expenditure.

9.3  During budget preparation, while the responsibility of preparation of Budget Estimates of voted and charged expenditure lies with the Finance and other State Departments, the Accountant General ensures that the classification indicated in these estimates conforms to the provision of the Constitution.

9.4  Accountant General compiles monthly accounts of the Government from vouchers furnished to it every month by all the state treasuries, compiled accounts submitted to it by all Departments, book adjustments made and by incorporating all inter government transactions. These monthly accounts are also submitted to the Finance Department.

9.5  Presently, inter-state transactions, liabilities and transfers are being maintained by AG, therefore, finance department of the state government prepares estimates of repayment of loans, pension, inter-state transfers interest and for transactions in the public Account with the help of AG.

9.6  The accounts for the whole year are reconciled with the departments and aggregated to prepare the Finance and Appropriation Accounts which are presented to the Governor of Madhya Pradesh who causes them to be tabled in the Vidhan Sabha.
Chapter 10 Preliminary Estimates of Receipts and Expenditure

10.1 In the beginning of the budget cycle, before issue of the Budget Circular (vide Chapter 11), Finance Department may prepare preliminary estimates of receipts and expenditure so as to provide guidance to departments on the quantum of resources likely to be available in the ensuing financial year. Such preliminary estimates prepared will thus aid departments in preparing expenditure estimates that are in line with the expected overall fiscal position of the State.

10.2 Preliminary estimation of receipts and expenditure should be an in-house exercise, where estimates are prepared primarily on the basis of past trends observed. However, it should be ensured that any known policy changes likely to have a significant impact on receipts and/or expenditure of the state are also incorporated in such estimates.

10.3 A more detailed and robust estimation of state’s financial resources should be prepared once estimates of receipts have been received from revenue earning departments. Steps involved in such estimation have been detailed in Chapter 12.

10.4 Paragraphs below list the steps required to be undertaken by Finance Department for preliminary estimation of revenue and expenditure for the state.

10.5 **Revenue estimates:** Finance department should be conservative in estimation of revenue on the principle of fiscal prudence. Revenue estimates comprise of State’s Own Tax Revenue (SOTR) and State’s share in central taxes and Plan and Non-Plan Grants received from the centre.

10.5.1 **State’s Own Tax Revenues:** SOTR estimates should be estimated on the basis of either trend analysis or buoyancy analysis. The analysis may be done on an aggregate or may be broken up for major variables such as:

- Stamps and Registration
- Taxes on Sales, Trade etc
- State Excise
- Taxes on Vehicles
- Land Revenue
- Taxes on Goods & Passengers
- Taxes and Duties on Electricity
- Other taxes
- Any new taxes imposed by state government

Buoyancy should be calculated as: Growth in Revenue (in %) ÷ Growth in GSDP (in %)

Compound Annual Growth Rate (CAGR) over a period of last 5 years could be used to measure growth in the variables. It should be noted that increases should be measured in real terms. For GSDP estimates, figures from Planning, Economics and Statistics should be used.

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7 CAGR is computed using the formula \([\left(\frac{\text{Value of variable in final year}}{\text{Value of variable in first year}}\right)^{\frac{1}{\text{total number of year included in analysis}}} - 1}\).
**Trend Analysis:** Trend Growth Rate (TGR)\(^8\) for the variable may be computed by running trend regressions, so that yearly variations can be taken care of.

### 10.5.2 State’s share in Central Taxes
State’s share in central taxes is Madhya Pradesh’s share in the overall sharable pool of resources. As per the Constitution, proceeds of certain taxes have to be shared between centre and states according to the recommendations of Central Finance commission. These shareable taxes include Corporation Tax, Taxes on Income other than Corporation Tax, Wealth Tax, Customs, Union Excise Duties, Other Taxes on Income and Expenditure and Service Tax.

Buoyancy with respect to GDP for each of categories mentioned below should be calculated.
- Corporation Tax,
- Taxes on Income other than Corporation Tax,
- Wealth Tax, Customs,
- Union Excise Duties,
- Other Taxes on Income and Expenditure and
- Service Tax

Finance Department should also make adjustments for policy changes such as increase or decrease in rates.

### 10.5.3 State’s Own Non-Tax Revenue (SONTR)
State’s own Non-Tax revenue (SONTR) includes funds received from revenue (not classified as tax) departments, interest receipts, dividends and profits from public sector enterprises, user charges and operating surplus in respect of various social services and economic services provided by the State. For estimating SONTR, trend analysis of past data may be undertaken. Estimates may be adjusted for policy changes and resource generation initiatives.

### 10.5.4 Plan Grants
Plan grants include grants from centre for state plan schemes, central plan schemes and centrally sponsored schemes. Trend analysis may be undertaken to estimate Plan Grants with due consideration for any schemes that are newly launched or schemes whose life is coming to a close in the ensuing year.

### 10.5.5 Non-Plan Grants from the Centre
Estimates under this head should be calculated based on the existing Central Finance Commission recommendations.

### 10.6 Expenditure estimates
Expenditure estimates comprise non-plan revenue expenditure, plan revenue expenditure, capital expenditure and disbursement of loans and advances.

#### 10.6.1 Non-Plan Revenue Expenditure
Non-Plan Revenue Expenditure (NPRE) broadly represents committed expenditure of the state. NPRE comprises primarily expenditure on interest payments, pension liabilities, subsidies and others. The estimation for these items should be undertaken as follows:
- Interest Payments: Estimates of interest payments should be prepared using actual debt stock data and an average interest rate obtained from the debt management system of the state.

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\(^8\) In Microsoft Excel, TGR can be calculated using the ‘logest’ function.
- Major Subsidies (Non-plan): Major subsidies include grants given to local bodies and Panchayati Raj, power and other grants. In the absence of any policy changes, subsidies can be assumed to grow at nominal GSDP growth rate.
- Salaries: For estimation of expenditure on salary, trend analysis may be undertaken. Adjustments may be made on account of events such as pay scale revisions or regularization of large number of employees (Teachers, Health workers).
- Pensions: Estimation of Pension liability should be based on actuarial estimates. In absence of actuarial estimates, trend analysis may be undertaken.
- Expenditure on Maintenance of Assets: Trend analysis may be carried out for estimation of such expenditure.
- Expenditure on other detailed heads like grant-in-aid/ equipment etc: Trend analysis may be carried out for estimation of such expenditure

10.6.2 **Plan Revenue Expenditure:** Plan Revenue Expenditure (PRE) includes expenditure under state plan, centrally sponsored schemes and central plan schemes. For estimation of plan revenue expenditure, trend analysis may be undertaken.

10.6.3 Disbursement of Loans and Advances: Loans and advances are given by Government of Madhya Pradesh both for developmental purposes and non-developmental purposes. In the absence of any policy changes, disbursement of loans and advances should be assumed to grow at nominal GSDP growth rate.
Chapter 11 Budget Circular

11.1 Finance department should prepare a budget circular to be sent to all the state departments in the beginning of each budget cycle. This circular should provide instructions to develop the budget for the next financial year. It should normally contain important information regarding the following issues:

- Innovations and Changes in budgetary process
- Budget calendar

The following may also be considered for inclusion:

- Overview of fiscal situation
- Government Priorities

11.2 Instructions for preparing budgetary estimates and requirements: This section should contain instructions such as following:

- All the stakeholders should submit completely filled in formats.
- Demand for resources should contain all relevant information.
- Written justification and explanation should be provided for all forms that are not completed.
- Budget requests should be submitted in electronic and hardcopy format.
- Each form should be signed by the relevant authority.

Departments should ensure that the budget request complies with the priorities outlined by the Government.

11.3 Innovations and changes in the budgetary process: All the changes made in the budget process should be highlighted. Such changes can be

- Change/ improvement in classification
- New procedures such as rationalization of formats,
- Additional forms, information to be provided, etc.

11.4 Budget calendar: Budget calendar should contain the deadlines for various tasks to be undertaken to prepare the budget. An indicative budget calendar is presented in Annexure 5.

11.5 Overview of fiscal situation: Preliminary estimates of overall revenue and expenditure should be provided. Details for preparing such estimates have been presented in Chapter 10.

11.6 Governmental priorities for the medium term: This should detail the focus sectors and priority areas of the government. All stakeholders should take into consideration these priorities while providing estimates in order to ensure compliance of their requirements with the overall policy, concept, and strategy of the Government.
**SECTION 2A: PREPARATION OF REVENUE ESTIMATES**

**Chapter 12 Assessment of State’s Financial Resources**

12.1 In order to assess the quantum of financial resources that would be available to the state in the ensuing financial year, Finance Department carry out a category wise estimation of receipts from all possible sources. These estimates along with estimated non-plan expenditure for the state determine size of the Annual Plan.

12.2 Broad guidelines issued by Planning Commission of India for preparation of estimates on State’s Financial Resources are:
   - Approved scheme of financing for the Five Year Plan under implementation should be adhered to
   - Aggregate level of borrowings and State’s own funds should be estimated proportionate to the Five Year Plan projections
   - Fulfillment of requirements under State’s FRBM Act should be ensured

12.3 State’s Financial Resources comprise of State Government (SG) Resources, Resources of Public Sector Enterprises (PSEs) and Resources of local Bodies. These components have been presented diagrammatically in Figure 13.

![Figure 13: Components of State’s Financial Resources](image)

12.4 The main constituents of **State Government’s Own Funds** are Balance from Current Revenues (BCR), Miscellaneous Capital Receipts (MCR) and Plan Grants from the Finance Commission as shown in Figure 14.
12.4.1 **Balance from Current Revenues (BCR):** BCR is defined as Revenue Receipts net of Non-Plan Revenue Expenditure (NPRE). To arrive at Revenue Receipts, receipts under following components should be estimated:

- **State’s Share in Central Taxes:** For preparation of inputs to be submitted to the Planning Commission of India in line with the guidelines issued by it, state’s share of Union taxes are estimated on the basis of projections made by Thirteenth Finance commission in its recommendations. However, to get a more accurate estimation of revenue under this head for its own planning and budgeting exercise, Finance Department may:
  - Carry out a trend growth or buoyancy analysis of central taxes over the last five years
  - Use the growth rate obtained to project level of central taxes in the ensuing year
  - Rationalize these projections incorporating economic factors, policy decisions and/or any other event that may impact central tax collections significantly
  - Apply proportion of central taxes proposed for Madhya Pradesh in the recommendations of the Central Finance Commission.

- **State’s Own Tax Revenues (SOTR):** SOTR estimates should be prepared based on assessments by different tax collecting departments such as the Commercial Tax Department (CTD), Transport Department, Energy Department and Revenue Department.
• **State's Own Non-Tax Revenue (SONTR):** SONTR estimates should be prepared using inputs from revenue earning departments such as the Forest Department, Mining Department, Water Resources Department etc.

In case of SOTR and SONTR, concerned departments are required to submit budget estimates of revenue receipts in specified formats to Finance Department as per dates specified in the Budget Circular. After scrutiny and compilation, discussions should be held by the Deputy Secretaries of Finance Department with Head of Departments for finalization of these estimates.

• **Non-Plan Grants from the Centre:** Estimates under this head should be based on the existing Finance Commission recommendations.

For both SOTR and SONTR, GSDP growth should also be taken into consideration for estimating revenue growth given that revenues generally move in line with economic activity. For example, tax buoyancy with respect to GSDP may be used as a measure for estimating revenue under these categories. Tax buoyancy is defined as percentage increase in revenue due to a one per cent increase in GSDP and can be calculated using the following formula:

\[
\text{Tax Buoyancy} = \frac{\text{Growth in Revenue (in %)}}{\text{Growth in GSDP (in %)}}
\]

Compound Annual Growth Rate (CAGR)\(^{10}\) over a period of last 5 years could be used to measure increase in the variables. It should be noted that increases should be measured in real terms - i.e. after adjusting for inflation. Increases measured in nominal values would result in estimates of tax buoyancy that are biased towards 1.

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<tbody>
<tr>
<td>SONTR (Adjusted for Inflation)</td>
<td>140,286</td>
<td>419,029</td>
<td>211,558</td>
<td>252,173</td>
<td>261,389</td>
<td>7.65%</td>
</tr>
<tr>
<td>GSDP (Adjusted for Inflation)</td>
<td>9,751,839</td>
<td>10,030,709</td>
<td>11,202,780</td>
<td>12,385,598</td>
<td>13,603,166</td>
<td>9.16%</td>
</tr>
</tbody>
</table>

Tax Buoyancy = 7.65% / 9.16% = 0.83

12.5 **Non-Plan Revenue Expenditure (NPRE)** consists of (1) Non-Plan Non Developmental Revenue Expenditure; (2) Non-Plan Developmental Expenditure; and (3) Non-plan Transfers to Local Bodies and PSEs.

\(^{9}\) Alternatively, tax buoyancy can be calculated by running a regression of the logarithmic value of revenue on the logarithmic value of GSDP. In Microsoft Excel this analysis can be carried out using the ‘linest’ function.

\(^{10}\) CAGR is computed using the formula \([[(\text{Value of variable in final year}) / \text{Value of variable in first year}]^{\frac{1}{\text{total number of year included in analysis}}} – 1\).
Non-Plan Non Developmental Expenditure consists of expenditure under General Services covering the following four broad categories:

- **Interest Payments**: The level of interest payments should be calculated on the basis of the expected debt stock at the end of the current year. Debt stock should be appropriately adjusted so as to meet FRBM requirements.

- **Pensions**: To estimate pension payments, care should be taken to build in impact of revision of Dearness Allowance (DA), the retirement profile of State employees, changes in the retirement age and the commutation formula. Once the Pensioner Data has been compiled by the Directorate of Pensions, life expectancy in the state should also be brought in into the pension estimates.

- **Salaries**: Salaries should be estimated taking into account increments on basic pay, DA, increase in house rent allowance as a result of increase in basic pay, etc.

- **Others**: This largely includes establishment expenses like office expenses, Travel Allowance (TA) and Daily Allowance (DA), Petrol Oil & Lubricants (POL), purchase of motor vehicles, expenditure on maintenance of assets, etc. Expenditure on these items should be estimated after detailed scrutiny of actual requirement and estimations should be kept in line with historically attained growth rates, inflation and any rate increases.

Non-Plan Developmental Expenditure reflects expenditure on social and economic services covering salaries and other expenditure. Estimation of the salary component should be done using the approach mentioned above for salaries. For estimating the non-salary component, care should be taken to make adequate provision for maintenance expenditure on material and equipment before other items of expenditure.

12.5.1 **Miscellaneous Capital Receipts (MCR Net):** MCR (Net) should be calculated as the balance of Miscellaneous Capital Receipts over non-plan disbursements. Estimates of MCR should include:

- Loans from the Center (e.g. loans received from the National Co-operative Development Corporation, Rural Electrification Corporation; loans for modernization of police force; plans loans under Central Sector Schemes/ Centrally Sponsored Schemes)

- Recovery of Loans and Advances

- Net Contingency Fund

- Net inter-state settlements

- Receipts from sale of capital assets

- Net depreciation and other funds of departmental enterprises

- Net variation in reserves with RBI

- Net Public Account (excluding balances under GPF)

Non-plan disbursements to be subtracted from the above receipts include repayment of loans for non-plan capital outlay and other outlay on Corporation Sponsored Schemes.

Estimates of the above components of MCR (Net) should be prepared on the basis of past trends and capital inflows expected due to state government policy decisions such as
those regarding disposal of capital assets and divestment/sale of assets of State Owned Enterprises.

12.6 **Plan Grants by Finance Commission**: Grants for State-specific needs, maintenance of forests and heritage conservation, etc. as recommended by the Central Finance Commission should be included under this head.

12.7 **State Government’s Budgetary Borrowings** are calculated by subtracting repayment of loans from gross borrowings. Gross borrowings mainly consist of:

12.7.1 **Balances from the General Provident Fund (GPF)**: Net accretion to General Provident Funds should be estimated on the basis of expected new deposits and interest income net of withdrawals during the year.

12.7.2 **Loans against Small Savings**: Past trends should be used to estimate receipts from loans against small savings.

12.7.3 **Net SLR Based Open Market Borrowings (OMB)**: SLR based market borrowings should be arrived at by subtracting state’s institutional borrowings from the total borrowings permissible as determined by the Fiscal Deficit target of the state for the financial year.

12.7.4 **Negotiated Loans and Other Finances**: Plan loans for socially oriented sectors from Life Insurance Corporation of India (LIC) and General Insurance Corporation (GIC), loans from NABARD, IDBI, etc fall under the category of ‘Negotiated Loans and Other Finances’. Loans expected to be raised by power utilities should also be shown under this category. Estimates under these heads should be retained at current levels in the absence of firm figures. In case of negotiated loans raised by Public Sector Enterprises (PSEs) from developmental institutions appropriate amounts based on past experience and future plans should be provided for in the estimates.

12.7.5 **Loan Component of Central Assistance**: This head should include estimates of the loan portion of Normal Central Assistance and of Additional Central Assistance for Externally Aided Projects. Estimates are to be prepared based on past trends and on the basis of guidelines, if any, issued by the Central Government.

12.8 **Central Assistance** should include grants under Normal Central Assistance, Additional Central Assistance for Externally Aided Projects (ACA for EAPs) and ACA for special and other programs as allocated by the Planning Commission of India based on the Gadgil formula. For preparation of inputs to be submitted to the Planning Commission of India in line with the guidelines issued by it, item-wise allocation under Central Assistance may be retained at current year’s level. However, to get a more accurate estimation of revenue under this head for its own planning and budgeting exercise, Finance Department may:

- Carry out a trend growth analysis of central assistance received by the state over the last five years
- Use the growth rate obtained to project level of central assistance likely to be received in the ensuing year
- Rationalize these projections incorporating economic factors, policy decisions and/or any other event that may impact such grants significantly

12.9 **Resources of State PSEs** should be assessed in terms of internal and extra-budgetary resources, including borrowings. Internal Resources of State Electricity Boards (SEBs)
and State Road Transport Corporations (SRTCs) should be assessed taking tariff at current levels. Such resources should be balance of the expected expenditure. Expenditure estimates should be prepared using inflation figures as specified in guidelines issues by the Planning Commission or by applying factors which the Board or Corporation may consider suitable to take care of increase in input cost, O&M and remuneration. Additions to normal revenues of SEBs and SRTCs on account of tariff and fare revisions expected may be indicated as additional resource mobilization.

12.10 **Resources of Urban and Rural Local Bodies** should include Internal Resources, Extra-Budgetary Resources and Budgetary Support. Estimates of total resources of Rural and Urban Local Bodies should be classified into untied and tied funds with tied funds estimates further divided into State Plan Grants, Centrally Sponsored Schemes, EAPs and Others.

12.11 Estimates of State's Financial Resources so worked out should be consistent with the guidelines and formats issued by the Planning Commission of India. Once the entire exercise has been completed, estimates should be sent to the Finance Minister for approval.

12.12 After approval has been obtained, estimates along with explanatory notes should be compiled in formats prescribed by the Planning Commission and sent to the Financial Resources Division of the Planning Commission of India and the State Planning Board.

12.13 For finalization of the state plan outlay based on available financial resources, discussions are held with the Planning Commission of India at two levels. The first round of discussion should be held between the concerned Finance Department officials and the Advisor, Financial Resources, Planning Commission usually in the month of September/October. Second round of discussions are to be undertaken with the Chief Minister and the Deputy Chairman of Planning Commission held in December/January.
SECTION 2B: PREPARATION OF EXPENDITURE ESTIMATES

Chapter 13 Estimates of Expenditure

13.1 Estimates of expenditure comprise of details of spending requirements of departments and constitute the government’s annual formal request to the Vidhan Sabha for approval of expenditures involved.

13.2 Preparation of estimates should commence in all departments in the beginning of each financial year. Formats in which these estimates should be prepared are given in the electronic formats provided by the Finance Department to all BCOs. These formats along with instructions issued in the budget circular should be communicated to all estimating officers by the HoDs/BCOs.

13.3 It is essential that estimates of expenditure should be as accurate as possible. An avoidable excess in an estimate is as much a financial irregularity as an excess in actual expenditure. Broad guidelines to be kept in mind by estimating officers while framing expenditure estimates have been listed in the subsequent paragraphs.

13.4 Medium Term Expenditure Framework (MTEF): Allocation of funds across different heads should be in consonance with strategic needs and targets identified in the MTEF formulated for the department (vide Chapter 16). Estimating officers should follow instructions issued by the heads of departments /BCOs for expenditure prioritization and prepare estimates accordingly using the same unit costs and norms as utilized for projections under the departmental MTEF.

13.5 In case a given department does not have an existing departmental MTEF, concerned HoDs/BCOs should issue broad guidelines to their estimating officers with respect to identified priority areas for expenditure and prescribed norms for estimation of expenditure.

13.6 Past Actuals to be Consulted: Actual expenditure incurred in the last three years, as also revised estimates (vide Chapter 25) for the current year, should be taken into consideration for preparing estimates for the ensuing year. Past figures should be used to identify any noticeable tendency for expenditure to rise or decline, any abnormal feature during past years, any recognizable regularity in movement of expenditure and any special event likely to arise with the potential to impact expenditure significantly.

13.6.1 Every item of expenditure should be duly scrutinized and checked for necessity before inclusion in estimates. This annual exercise of preparation of estimates provides an opportunity to identify and remove expenditure that has become irrelevant or can be cut down on.

13.6.2 It should be noted that estimates prepared should cover all charges, including outstanding liabilities of past years to be paid during the ensuing financial year, in other words, amounts asked for should be inclusive of all anticipated liabilities.

13.7 Estimates to be prepared on gross basis: Budget estimates should, as a rule, be prepared on a gross and not on a net basis. Gross transactions for both receipts and charges in each department should be entered separately. It is not permissible to deduct
receipts from charges or vice versa. There are, however, certain exceptions to this general rule of gross budgeting. Refunds of revenue, for instance, are deducted from gross collections and the budget should be prepared only for net receipts, the reason being that refunds do not represent real expenditure and are merely repayments made out of receipts. Similarly, receipts on capital account are also subtracted from expenditure and are not shown separately as receipts.

13.7.1 Provision for losses should not be made in the estimates. If, however, the nature of work of a department is such that some losses must be regarded as inevitable each year, provision for them may be made with special sanction of the Finance Department.

13.8 *New Expenditure:* Estimates of expenditure should provide for only the existing level of goods and services utilized by departments. They must not include proposals for changes in establishment, additional contributions, increases in contract grants, etc. All such proposals should find a place in the schedule for 'new expenditure' *(vide Chapter 14)* and must be submitted to Finance Department independently as per dates specified in the budget circular.

13.8.1 No provision for increased expenditure that requires specific sanction of the competent authority should be included in these estimates unless that sanction has already been obtained. Even in the case of a sanctioned scheme, provision should be made for only an amount that can actually be brought into effect in the budget year.

13.9 *Accounting Classification of Estimates:* The list of major and minor heads of account of state receipts and disbursements, as prescribed by the Controller General of Accounts, should be used for classification of expenditure estimates. Introduction of any new major and / or minor head, as well as removal or a change in the nomenclature of any of the existing heads, requires approval of CGA and cannot be carried out until such approval has been obtained. New primary units of appropriation and detailed heads, however, may be introduced if there is a genuine need felt. Such introductions, however, also require prior approval from Finance Department.

13.9.1 Finance Department, on request from other departments as well as based on its own assessment, may create a new demand number. Usually, this may be done in case of creation of a new department or a new type of expenditure (e.g. expenditure on Externally Aided Projects or Devolution of Grants to Local Bodies). Similarly on merger of two or more departments, the Finance Department may delete the concerned demand number(s).

13.9.2 For classifying expenditure under different heads of accounts, rules listed in the Government Accounting Rules, 1990 should be adhered to.

13.10 *Charged Expenditure:* Items estimated under the category of 'charged' expenditure should be shown in italics and their details should be given separately.

13.11 *Estimation of Non-Plan expenditure:* Estimates of non-plan expenditure including salaries, prepared by estimating officers, should be within the head wise ceilings provided by budget controlling officers.

13.12 *Estimation of Salary Expenditure:* In estimates for expenditure under the salary head estimating officers should:
• Clearly indicate number of posts budgeted for in the current year and those for which provision has been proposed for budget year, both for permanent and temporary posts
• Mention scales of pay under each standard object
• Make a separate provision in case pay is progressive or time based increments are due during the budget year
• In the case of temporary posts, provide for continuance of only those posts that are actually required. Number and date of orders by which each post was created or last retained should invariably be quoted for reference.
• Provide for any additional temporary/contractual posts required under a sanctioned scheme or project. Necessity for such posts should, however, be clearly explained and it should be reported whether cost involved is included in sanctioned cost of the scheme or project.
• Provide for likely increase in dearness allowance. If no guidance is available on the same from Finance Department, estimates should be prepared using the same dearness allowance percentage as adopted last year for estimation.

Formats in which estimates for salary expenditure have to be prepared for submission to the Finance Department have been given in Annexure 16.

13.12.1 Establishment Expenditure: Estimates for establishment expenditure should include expenditure under standard objects such as wages, office expenses, purchase of vehicles, contractual services etc. Estimates should be prepared keeping in view changed requirements and should not be a simple extrapolation of historical expenditure. Sufficient care should be taken to ensure that expenditure is classified under proper standard objects, and not clubbed under the category of ‘other expenditure’

13.12.2 Allowances and Honoraria: In case of fixed allowances, estimates should be based on sanctioned rates and on actual calculations of amounts to be drawn by incumbents at various posts in the budget year. Changes, if any, in the rates due to increase in pay or accrual of annual increments should also be taken into account into such calculations.

13.12.3 Estimates for fluctuating allowances should be based on current year’s allotment viewed in light of the average of the past three years’ actual.

13.12.4 Once reviewed and finalized by the respective BCOs, these estimates should be forwarded to the Finance Department through the concerned Administrative Departments for scrutiny and finalization within timelines specified in the budget calendar. Figure 15 shows the process of estimation and finalization of non-plan expenditure at the state level.
13.12.5 Following should be taken into cognizance while estimating Non Plan expenditure.

- Keep in view changed requirements and not simply extrapolate historical expenditure for estimating expenditure under standard objects such as wages, office expenses, purchase of vehicles, contractual services etc. Appropriate increases in expenses on electricity, telephone, Petrol and Oil Lubricants (POL) may be incorporated in the estimates.

- Take sufficient care to ensure that expenditure is classified under proper standard objects – classification under the category of ‘other expenditure’ should be avoided as far as possible.

- Prepare estimates for fluctuating allowances based on current year’s allotment viewed in light of the average of the past three years’ actuals.

- Support all increases proposed with full and convincing justifications.

- Scrutinize each item of expenditure and check for necessity before inclusion. Any expenditure that has become redundant or can be cut down should be removed or reduced.
Incorporate all outstanding liabilities of past years required to be paid out in the ensuing financial year. These liabilities should be clearly specified and justified in the note accompanying these estimates on submission to the concerned controlling officer.

13.13 **Estimates of Plan Expenditure:** Estimation of plan expenditure for the state is carried out in four stages. In the first stage, Finance Department is required to estimate the state’s resource envelope for the ensuing financial year incorporating the quantum of central assistance likely to be available to the state (*vide* Chapter 12). From this resource envelope, committed expenditure of the state government should be subtracted to arrive at the total plan size which along with its detailed scheme of financing should be communicated to the State Planning Commission (SPC).

13.13.1 In the second stage, the SPC, in consultation with Tribal Development Department, is responsible for dividing the total plan size between the State Sector Plan and District Sector Plan. Taking social/political/economy related and other factors into consideration, these plans are to be further sub divided into department and district wise ceilings respectively. For district sector plans, indicative ceilings should be based on an appropriate formula and should also be tailored to meet local needs in districts. Factors enumerated in Table 7 are considered for determining district wise allocations. Weights shown in the table are only indicative.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Weight (2007-08)</th>
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<tr>
<td>Population</td>
<td>25.00%</td>
</tr>
<tr>
<td>Area</td>
<td>12.50%</td>
</tr>
<tr>
<td>No. of agricultural land</td>
<td>12.50%</td>
</tr>
<tr>
<td>Per hector value of agriculture production (Reverse)</td>
<td>12.50%</td>
</tr>
<tr>
<td>No. of registered industries and No. of employees per lakh of population (Reverse)</td>
<td>12.50%</td>
</tr>
<tr>
<td>Per capita electricity consumption</td>
<td>12.50%</td>
</tr>
<tr>
<td>Literacy rate(Reverse)</td>
<td>12.50%</td>
</tr>
</tbody>
</table>

The process of estimation of plan ceilings across departments and districts is shown in Figure 16.
13.13.2 In the third stage, on receipt of the ceiling, estimating officers in departments should prepare estimates for plan expenditure under existing and new schemes (vide paragraph 14.12). Factors to be taken into consideration by estimating and Budget Controlling Officers during this stage have been detailed in Part I of the Budget Manual. On finalization of these estimates by the department, they should be submitted for review and approval to the SPC.

13.13.3 Similarly for District Plans, district collectors are responsible for coordinating the preparation of estimates for their districts. Estimates prepared should be reviewed and approved by the District Planning Committees and then submitted to the SPC.

13.13.4 In the fourth and final stage, on receipt of the estimates from departments and districts, it is the responsibility of the SPC to hold discussions with estimating and Budget Controlling Officers as well as with district collectors for finalization of allocations. The Finance Department and Tribal Development Department are also required to be involved in these discussions. Once all estimates have been discussed and finalized, the SPC is responsible for communicating the schematic allocation of the state plan to the Finance Department.

13.14 BCOs are also required to submit periodic action plans for execution of plan schemes to the Administrative Department. These periodic action plans will form the basis for allotment and release of periodic plan budget allocations by the DTA on treasury server once the Appropriations Act has been enacted.

13.15 State Five Year Plans: Preparation of the State Five Year Plan primarily involves:
• Carrying out an assessment of the quantum of resources like to be available to the state over the next five years, and
• Prioritizing their use, taking the various sector goals and priorities into consideration. Resources, being limited and with a high opportunity cost, have to be deployed in the most judicious and economically efficient manner.

The main steps that should be followed for preparation of the State Five Year Plans have been given in the sub sections below.

13.15.1 **Assessment of Committed Expenditure**: Committed expenditure refers to the heads/items of expenditure under which the concerned department may have limited discretion in affecting a reduction. Usual categories of committed expenditure include:
• Salary
• Pension
• Debt servicing (principal repayment and interest payment)
• Contractual payment and obligations
• Scholarships/Grant in Aids where benefits and beneficiaries have been identified to a reasonable extent

13.15.2 **Assessment of all schemes**: This would involve identification of schemes that can be terminated under the state plan, and of the components of such schemes that constitute committed expenditure. To ensure continuation, such committed expenditure should be shifted to the State Non Plan in the subsequent financial years.

13.15.3 **Identification of Core Investments**: This would involve identification a core set of investments that should be made even if an economic downturn causes a shortfall in available resources.

13.15.4 **Integrated Approach**: It is equally important to strengthen the institutional framework for implementation of programmes/projects and for the delivery of services. Especially in the Social Services Sectors, it would not be possible to ensure effective and efficient delivery of services if planning were restricted to ‘Plan’ outlays alone. Departments should adopt an integrated view of service delivery.

13.15.5 **Inclusivity**: Programmes under the Five Year Plan should be formulated ensuring a focus on weaker sections of the society including women and people belonging to the Scheduled Castes and Scheduled Tribes.

13.16 **Off Budget Estimates**: Department BCOs are required to prepare estimates of off budget funds likely to be provided by GoI for department schemes in the ensuing financial year and submit the same along with the other expenditure estimates to the Finance Department.

13.17 **Probable savings**: During course of the year, Administrative Department shall review departmental expenditure to identify areas of probable savings and suggest to the Finance Department possible areas to economize expenditure. While preparing Budget Estimates, estimating offices should take such suggestions into consideration and all probable savings identified should be shown sub-head wise.

13.18 **Aid Material and Equipment**: When material and/or equipments are received by a state department free of charge from any foreign/government agency through GoI, its receipt
should be properly accounted for. The value of such material and equipment should be entered in state government accounts as negative entries (recoveries11) under the major head ‘3606 – Aid Material and Equipment’. Incase the value of such aid has not been specified by the donor agency, its approximate value should be calculated as per GoI norms or replacement costs.

13.19 **Works Departments**: Works departments should send project/scheme wise information to the Administrative Department covering broadly the following points:

- Amount for which administrative and financial sanction has been issued, along with reference number and date of the sanction
- Amount as per technical sanction and updated progressive expenditure as per norms fixed by the concerned works department
- In case the project/scheme is likely to cost more than the amount of the original administrative and financial sanction, the current status of the revised administrative financial and technical sanction
- Position of stock suspense relating to opening balance and likely requirements of stock as per norms for material to be used on works
- Justification for purchase of new machinery and equipment

13.20 Charges on account of general services like Establishment and ordinary Tools and Plants should be classified by the Works Departments under appropriate sub-heads of the minor heads "Direction and Administration" and "Machinery and Equipment" as the case may be. Such classification of expenditure for Establishment and Tools and Plants should be prepared as per procedures specified in the Central Public Works Accounting Code (CPWA Code).

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11 For more details on recoveries refer to paragraph 23.13.
Chapter 14 New Service/ New Instrument of Service

14.1 New service\(^{12}\) refers to expenditure arising from a new policy decision, not brought to the notice of the Vidhan Sabha earlier, including a new activity or a new form of investment.

14.2 New instrument of service, on the other hand, refers to relatively large expenditure arising out of an important expansion of an existing activity.

14.3 As per Articles 115 (1) and 205 (1) of the Constitution of India, no expenditure can be incurred on a 'new service' or 'new instrument of service' from the Consolidated Fund of the State without prior approval of Vidhan Sabha through supplementary demands for grants. However, in accordance with Article 267 (1), in case it is not possible to wait for prior approval of Vidhan Sabha, the State Contingency Fund can be drawn upon for meeting expenditure on the new service/ new instrument of service, pending its authorization by the Vidhan Sabha.

14.4 Under a working arrangement arrived at by Finance Department in consultation with the State Public Accounts Committee, the term 'new service' is taken synonymous with the term 'new expenditure'. Broadly speaking, expenditure involved:
- On a new scheme,
- In adoption of a new policy,
- For provision of a new facility, or
- Any substantial alternation in character or extent of an existing facility should be treated as constituting 'new expenditure'.

14.5 Based on recommendations of Estimates Committee of the Vidhan Sabha and with approval of the State Public Accounts Committee, monetary limits that serve as a criteria for classifying different kinds of expenditure as 'new expenditure' have been set. These have been given in detail in Annexure 6.

14.6 In line with requirements specified in the Constitution, a statement on estimated new expenditure for the ensuing financial year is presented to the Vidhan Sabha as part of Volume IV of the budget literature. Estimates in the statement are broken down to the level of minor heads. This statement also includes a brief description on the nature of expenditure and specifies its recurrent and non-recurrent components.

14.7 Under rules and instructions issued by the Governor under Article 166 (2) and (3) of the Constitution, Finance Department is required to examine and advise concerned departments on all schemes of new expenditure proposed for inclusion in the Budget and is empowered to decline to make a provision for any scheme which has not been so examined.

14.8 Instructions and procedures described in paragraphs below hold valid for proposals of new expenditure arising in the course of the current financial year for which provision should be made through supplementary demands for grants.

14.9 Proposal for new expenditure prepared by estimating officers should show recurring and non-recurring expenditure separately, by the major and minor heads, sub-heads, objects

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\(^{12}\) As per Office Memorandum No. 2164/B-1/1995 dated 10\textsuperscript{th} March 1995 issued by the Finance Department, Government of Madhya Pradesh
and detailed heads of account. In case recurring and non-recurring expenditure proposed spreads over a series of years, estimates for each year should be mentioned.

14.10 If any assistance in form of loans, grants, contributions or donations or any other receipts or recoveries is expected, details thereof for each year should be given and heads of account to which they will be creditable should be indicated.

14.11 Schemes relating to engineering projects or works must be accompanied by preliminary plans and approximate estimates. Following details in engineering projects should be also presented:

- Total estimated cost of the project,
- Time likely to be required for completion of the proposed project - Various factors such as seasonal conditions, scarcity of labor, delay in acquisition of required land, etc. should be taken into consideration while making such estimates and such assumptions should be presented along with the estimates.
- Probable risks and factors outside the control of the proposing department that could result in possible delays in implementation
- Expenditure to be incurred each year (quarterly basis) based on the estimates given by the agency entrusted with the execution of the project.

14.12 **New Expenditure under Five Year Plans:** All proposals and schemes for 'new expenditure' under Five Year Plans undergo 3 stages of review and evaluation as diagrammatically shown in Figure 17.

Figure 17: Stages of Review for New Expenditure under Five Year Plans

14.12.1 **Stage I – Review by concerned Administrative Department:** All proposals for new schemes/projects should be submitted by BCOs to the administrative department concerned for
their perusal. Administrative departments are responsible for examining these documents thoroughly, looking at both the administrative and financial aspects, and recommending for implementation only those that are not only administratively sound but also are essential.

14.12.2 **Stage II – Review and Approval by State Planning Commission:** Once examined and approved by the concerned administrative department, new schemes/projects proposed under the Five Year Plan should be submitted by BCOs for evaluation to the State Planning Commission (SPC). SPC weighs the potential social benefits of each such scheme against the financial cost of implementation.

14.12.3 **Stage III – Review and Recommendation by SFC/EFC/PSC:** The copy of the proposal shall be sent to Finance Department at least two weeks in advance and depending upon the total budgeted expenditure proposed under the new scheme/project over the period of the Five Year Plan, Administrative Department should then set up a meeting of any one of the following three state level Committees:
- Standing Finance Committee (SFC)
- Expenditure Finance Committee (EFC)
- Project Screening Committee (PSC)
(Members constituting these committees and their financial powers have been given in Annexure 6)

14.12.4 For evaluation by the Committee, BCOs of the concerned department should prepare a Project Document which details the objectives of the proposed scheme/project, expected duration of implementation, financial implications, both immediate and in future and its annual physical and financial targets. This Project Document and a précis on the proposed scheme/project should be submitted to members of the Committee at least seven days before the scheduled date of the meeting. The format of this précis has been given in Annexure 6.

14.12.5 In case the proposed scheme/project includes any category of expenditure that has been curtailed by the Finance Department/ Council of Ministers to encourage economy of expenditure, then such expenditure should be separately detailed in the précis submitted to Committee members.

14.12.6 If curtailment of such expenditure by the Finance Department is as per Clause 11(2) of the FRBM Act, then evaluation of the proposed scheme will be carried out either by the EFC or PSC and administrative approval of the Finance Minister will be required.

14.12.7 If the proposed new scheme/project includes any category of expenditure that has been curtailed as per recommendations of the Council of Ministers, then evaluation will be carried by the PSC and administrative approval of the Council of Ministers will be required.

14.12.8 No new scheme/project under the Five Year Plan should be incorporated in the annual state budget without the recommendations of the aforesaid Committees. Exceptions to this procedure comprise of schemes carried out from Special Purpose Grants of the Central Finance Commission and from grants given to local bodies as per recommendations of the State Finance Commission as well as for Externally Aided Projects.
14.13 Proposals relating to sanction of loans or grants-in-aid to local bodies, non-government institutions, corporations, private parties and individuals, etc., should not be submitted until admissibility of the loan or grant-in-aid applied for has been fully examined against existing rules, orders or approved schemes. An undertaking to the effect that admissibility provisions have been examined should be submitted by the concerned department along with such proposals.

14.14 In case of loans, terms and conditions to be attached should be clearly mentioned. Additionally, a proper assessment of the latest financial position of the beneficiary in question should necessarily be carried out and presented determining whether:

- Government aid is really needed;
- Beneficiary has sufficient resources to meet expenditure not covered by the loan, if any; and
- Is there a possibility of any difficulty in effecting recovery of the loan and interest thereon? If yes, then how is it proposed to be mitigated?

14.15 Proposals for increase in allotment granted under ‘contingent expenditure’ should be supported with details of recurring items and actual expenditure incurred therein in the past three years.
Chapter 15 Tribal Sub Plan and Schedule Caste Sub Plan

15.1 The Tribal Sub Plan (TSP) and Schedule Caste Sub Plan (SCSP) are strategies initiated and designed by Government of India for implementation by State Governments in order to bridge the gap in the socio-economic status of Scheduled Tribes (STs) and Scheduled Castes (SCs).

15.2 As per guidelines issued by the Planning Commission of India, Annual Plan allocations of the State should be segregated into Normal Plan, Tribal Sub Plan (TSP) and Schedule Caste Sub Plan (SCSP). Funds earmarked for TSP and SCSP should be in proportion of the population of Scheduled Tribe (ST) and Scheduled Caste (SC) respectively to the total population of the State. These funds are non divertible.

15.3 **Tribal Sub Plan**: Funds allocated under TSP should be utilized for the following population:
- **Integrated Tribal Development Project (ITDP) areas** which are generally contiguous areas of the size of at least tehsil or block in which the ST population is 50% or more of the total population in that area
- **Modified Area Development Approach (MADA) pockets** which are identified pockets having 50% or more ST population with a minimum total population of 10,000
- **Clusters** which are identified pockets having 50% ST population with a minimum population of 5,000
- **Primitive Tribal Groups** characterized by a low rate of growth of pre-agricultural level of technology and extremely low level of literacy
- **Dispersed tribal population** i.e. those who fall outside the categories listed above.

15.3.1 Funds under TSP are sourced from:
- State Government support to Annual Plan
- Special Central Assistance (SCA) to Tribal Sub Plan: A 100% grant-in-aid provided by the Ministry of Tribal Affairs, GoI to the State Government
- Grants under Article 275 (1) of the Constitution
- Funds under other schemes of the Ministry of Tribal Affairs, Government of India
- Sectoral programs of Central Ministries/Departments.

15.4 **Schedule Caste Sub Plan** is an umbrella strategy to ensure flow of targeted financial and physical benefits from all the general sectors of development for the benefit of Scheduled Castes in the State. Funds under SCSP are sourced from:
- State Government support to Annual Plan
- Special Central Assistance (SCA) to Schedule Caste Sub Plan which is a 100% assistance given by the Ministry of Social Justice and Empowerment, GoI, to the state on the basis of certain criteria such as SC population of the State, relative backwardness of the SCs, percentage SC families covered by composite economic development programs in the State Plan to enable them to rise above the poverty line, etc.
- Funds under other schemes of the Ministry of Social Justice and Empowerment, Government of India
15.5 **Preparation of TSP and SCSP**: Estimating officers of each department are required to prepare estimates for TSP and SCSP along with estimates of other expenditure for the concerned department. The process of preparation of estimates is the same as presented in Chapter 13. However, the criteria as presented under paragraph 15.3 should be kept into consideration in preparation of TSP and criteria as established under paragraph 15.4 should be kept into consideration for preparation of SCSP.

15.6 Following points should be taken into consideration by the estimating officers during preparation of TSP and SCSP:

- Schemes that provide direct benefits to individuals or families belonging to Scheduled Castes or Scheduled Tribes should be included under SCSP/TSP
- Outlay for area oriented schemes directly benefiting Scheduled Castes/ Scheduled Tribes hamlets/villages having a majority of Scheduled Castes population/tribal hamlets should be included in SCSP and TSP
- Schemes to develop agriculture and allied activities like animal husbandry, dairy development, vocational training, etc. that provide a source of livelihood to the SC and ST population should be included.

15.7 As per guidelines issued by the Planning Commission, the State SC and ST Welfare Department is the nodal agency for formulation and implementation of the TSP and SCSP. Annual ceilings for allocations under TSP and SCSP are issued by this department based on its discussions with other state departments. SC and ST Welfare Department is also responsible for scrutinizing the expenditure estimates submitted under TSP and SCSP by different departments. Thus, SC and ST Welfare Department is entrusted with the powers with respect to evaluation of budget proposals, control of expenditure, reappropriations etc. for TSP and SCSP on behalf of the Finance Department.
Chapter 16 Medium Term Expenditure Framework

16.1 In order to introduce a medium term perspective in planning and budgeting in departments, Medium Term Expenditure Frameworks are being tested on pilot basis.

16.2 MTEFs would be formulated by state departments (for estimating budget requirements for existing services and assessing resource implications of future policy changes over the next five years.

16.3 Since MTEFs are multi-year rolling framework, they are required to be updated on an annual basis using latest budget figures and data on achievement of physical targets by the concerned department.

16.4 Financial Advisors (FAs) instituted in departments would be entrusted with the responsibility of preparing MTEFs to align available resources with prioritized needs of the department.

16.5 Preparation of MTEF would require FAs to reconcile a top down estimate of available resources with a bottom up estimate of required resources. The top down assessment should be based on projections made in statements issued by Finance Department for FRBM compliance and/or any other macro fiscal framework used by Finance Department for projection of state expenditure with a proportionate breakdown for the department based on last three year averages. The bottom up estimates of resources required would be based on identified needs for interventions and/or reprioritization of expenditure in order to meet stated objectives of the department more effectively and efficiently within the resource envelope.

16.6 Top down estimate of resources likely to available to the department in the next five years would require FAs to:
   - Break aggregate projections made by Finance Department for state expenditure into the different developmental heads (sectors) based on past proportions
   - Incorporate the state policy stance reflecting priority areas for spending of public money in the inter sectoral division
   - Calculate the share likely to be received by the department from the relevant sector’s allocation based on past averages.

16.7 For formulation of bottom up estimates in the departmental MTEF, FAs would be required to:
   - Understand the development agenda and goals\(^\text{13}\) of the government with respect to the sector under consideration
   - Identify key issues facing the sector and constraints affecting attainment of government goals
   - Lay down and prioritize objectives\(^\text{14}\) of the department in attaining government goals
   - Define outputs\(^\text{15}\) of the department for realization of department objectives

\(^{13}\) Goal is a higher-level identified situation that the government seeks to attain such as removal of poverty

\(^{14}\) Objective is what is to be achieved by the department through various schemes

\(^{15}\) Outputs are the specific, direct deliverables of schemes
• Identify Major Scheme Outputs\textsuperscript{16} (MSOs) of department on the basis of their relative significance to the attainment of objectives
• Determine performance indicators\textsuperscript{17} for each department objective and MSO
• Identify ongoing schemes or new interventions that can contribute to the realization of MSOs
• Set targets for identified performance indicators
• Cost schemes (existing and new) to achieve scenarios of targeted performance level.

16.8 A diagrammatic representation of the major steps involved in the bottom up estimation of resources required has been given in Figure 18.

16.9 On receipt of the budget circular from Finance Department with instructions for preparation of estimates of expenditure and receipts, Heads of Departments /BCOs should communicate the same to all estimating officers of the department along with guidelines for updation of MTEF.

16.10 Estimates prepared for the ensuing year should be in conformation with the strategic priorities and focus areas identified in the existing departmental MTEF (if it has already been prepared and adopted by the department).

16.11 Once compilation of all budget requests by estimating officers has been completed, FAs should submit updated MTEFs along with the budget proposals for plan expenditure to the Administrative Department. A copy of the same should also be sent to the State Planning Board.

16.12 Further detailing of the procedures to be undertaken for preparation of MTEF has been done in Annexure 7.

\textsuperscript{16} MSOs are contributors to the achievement of objectives with relatively higher importance (can be chosen by qualitative method of selection, impact-weighting)

\textsuperscript{17} Performance indicators tell what exactly is the input or output measure being targeted and hence are specific and clearly measurable
Figure 18: MTEF Process – Bottom Up Estimation

MTEF PROCESS – Bottom Up Estimation

STEP 1: Sector Review & Prioritization of Objectives

1.1 Sector Review
- Current status of key performance indicators
- Policies and Schemes of State and GOI
- Issues of Concern for the Sector

1.2 Institutional Diagnostic Review
- Administrative Setup
- Organizational Structure
- Departmental Functions
- Departmental Process

STEP 2: Developing Logframe and Performance Indicators

2.1 Developing Major Final Outputs (MSOs)
High-weighted outputs of department that enables achieving its objectives

2.2 Developing Logframe
Establishing linkages between Goals, Objectives, MFOs and Schemes

2.3 Developing Performance Indicators
- Department ‘Objective’ Indicator
- Department ‘Output’ Indicator

STEP 3: Gap Analysis

3.1 Past Expenditure Analysis
3.2 Trend Projections

3.3 Identifying Interventions for meeting departmental objectives
3.4 Costing of Interventions

STEP 4: Developing Expenditure Framework Scenarios

Scenario building for expenditure projections by improvement in key indicators

4.1 Trend Scenario - Business as usual scenario
4.2 Moderate Scenario - Additional interventions for achieving outputs realistically
4.3 Aggressive Scenario - Achieving output targets as per national/universal goals
Section 2C: Fiscal Discipline and Outcome Orientation

Chapter 17 FRBM Act Compliance Requirements

17.1 Government of Madhya Pradesh enacted the Madhya Pradesh Financial Responsibility and Budget Management (FRBM) Act in 2005 which became effective from January 2006. The major objective of this Act is to ensure prudence in fiscal management and fiscal stability by:

- Progressive elimination of Revenue Deficit\(^{18}\) (RD)
- Reduction in Fiscal Deficit\(^ {19}\)
- Prudent debt management consistent with fiscal sustainability
- Greater transparency in fiscal operations of Government
- Conduct of fiscal policy in a Medium Term Fiscal Framework.

17.2 Under this Act, the State Government is required to set medium term fiscal policy targets and present the following three statements along with the budget every year:

17.2.1 The Macroeconomic Framework that should provide:

1. An overview of the State economy
2. Analysis of growth and sectoral composition of GSDP
3. Assessment related to State Government Finances and future prospects

The format for presentation of this Statement in the Vidhan Sabha as per Madhya Pradesh FRBM Rules 2006 (Form F-1) is given in Annexure 8.

17.2.2 The Medium Term Fiscal Policy Statement that should highlight fiscal objectives of the State Government. It consists of three parts – Part A consists of three year rolling targets in respect of following fiscal indicators:

1. Revenue Deficit/Surplus as percentage of GSDP
2. Fiscal Deficit as percentage of GSDP
3. Outstanding total liabilities as percentage of GSDP

Part B of the Statement should explain assumptions underlying the above mentioned targets for fiscal indicators. These include assumptions used for arriving at revenue receipts, capital receipts, total expenditure and GSDP Growth. Part C of the statement involves an assessment of sustainability relating to:

1. Balance between revenue receipts and revenue expenditures
2. Use of capital receipts including borrowings for generating productive assets
3. Estimated yearly pension liabilities worked out on actuarial basis or using trend growth rate for the next ten years.

The format for presentation of this Statement in the Vidhan Sabha as per Madhya Pradesh FRBM Rules 2006 (Form F-2) is given in Annexure 8.

\(^{18}\) Revenue Deficit = Revenue Receipts – Revenue Expenditure
\(^{19}\) Fiscal Deficit = (Revenue Receipts + Recovery of Loans and Advances) – Total Expenditure
17.2.3 **The Fiscal Policy Strategy Statement** should discuss:

1. Fiscal policy overview presenting an overview of the fiscal policy currently in vogue
2. Fiscal policy for the ensuing year dealing with tax and non-tax policy, expenditure policy, borrowings and contingent liabilities
3. Strategic priorities for the ensuing year describing resource mobilization, broad principles underlying the expenditure management, priorities relating to management of public debt
4. Rationale for Policy changes with regard to major policy changes in respect of budgeted expenditure, including expenditure on subsidies and pensions, management of the public debt and the charges for public utilities

The format for presentation of this Statement in the Vidhan Sabha as per Madhya Pradesh FRBM Rules 2006 (Form F-3) is given in Annexure 8.

17.3 The State Government, under the FRBM Act, is also required to disclose at the time of presentation of budget the following:

1. A three year (last year, current year and ensuing year) trend in the following fiscal indicators (Form F-4 given in Annexure 8)
   a) Gross Fiscal Deficit as Percentage of GSDP
   b) Revenue Deficit/Surplus as Percentage of Gross Fiscal Deficit
   c) Revenue Deficit/Surplus as Percentage of GSDP
   d) Revenue Deficit/Surplus as Percentage of Total Revenue Receipts
   e) Total Liabilities as Percentage of GSDP
   f) Total Liabilities as Percentage of Total Revenue Receipts
   g) Total Liabilities as Percentage of State’s Tax Revenue Receipts
   h) State’s Tax Revenue Receipts as Percentage of Revenue Expenditure
   i) Capital Outlay as Percentage of Gross Fiscal Deficit
   j) Interest Payment as Percentage of Revenue Receipts
   k) Salary Expenditure as Percentage of Revenue Receipts
   l) Pension Expenditure as Percentage of Revenue Receipts

2. A Statement (Form F-5 given in Annexure 8) showing:
   a) Part A: Components of state government liabilities such as market borrowings, loans from center, special securities issued to NSSF, borrowings from financial institutions/banks, ways and means advances from RBI, and public account
   b) Part B: Weighted Average interest rate on state government liabilities with respective weights corresponding to the amount borrowed. The interest rate should be calculated on contractual basis and then annualized.
Illustrative Examples: Weighted Average Interest Rate

Example 1
Suppose the State Government raised resources from the market on three occasions during a fiscal year for an aggregate amount of ₹6,000 crore. The annual rates of interest were 10 per cent, 12 per cent and 14 per cent, for ₹1,000 crore, ₹2,000 crore and ₹3,000 crore, respectively. The weighted average interest rate in respect of the resources raised during the year would, therefore, be

\[
\left[\frac{1000 \times (10/100) + 2000 \times (12/100) + 3000 \times (14/100)}{1000 + 2000 + 3000}\right] \times 100
\]

\[
= \left[\frac{100 + 240 + 420}{6000}\right] \times 100
\]

= (760/6000) \times 100

=12.67%

Example 2
Suppose the previous and current years pertain to 2008-09 and 2009-10. Suppose the total outstanding amount of special securities issued by the State Government to the NSSF was ₹1,000 crore as at end-March 2009 and ₹1,500 crore as at end-March 2010. Suppose the total interest cost incurred by the State Government on this account during 2008-09 and 2009-10 amount to ₹100 crore and ₹120 crore, respectively. Then the weighted average interest cost on the outstanding amount of special securities issued to the NSSF during the previous year (i.e. 2008-09) is equal to 100/1000 = 10 per cent. Similarly, the weighted average interest cost on the outstanding amount of special securities issued to the NSSF during the current year (i.e. 2009-10) is equal to 120/1500 = 8 per cent.

c) Part C: Details of special ways and means advance/ ways and means overdraft availed by the state government from RBI
3. Details of Consolidated Sinking Funds (Form F-6 given in Annexure 8)
4. Details of Outstanding Guarantees given by the Government (Form F-7 given in Annexure 8) and Guarantee Redemption Fund (Form F-8 given in Annexure 8)
5. A Statement of Financial Assets (Form F-9 given in Annexure 8) based on data from the Finance Accounts prepared by AG, Madhya Pradesh
6. Details of Revenues raised but not realized due to dispute etc. (Form F-10 given in Annexure 8)
7. Details of number of Government employees including employees in Public Enterprises and State Aided Institutions and their salaries (Form F-11 given in Annexure 8)

17.4 The various data inputs and the respective agencies responsible for providing these inputs for preparation the above mentioned statements have been given in Table 8.

Table 8: Statements/Forms to be prepared under the Madhya Pradesh FRBM Act

<table>
<thead>
<tr>
<th>Statement/ Form</th>
<th>Data Inputs Required</th>
<th>Source/ Source Agency</th>
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<tr>
<td>Statement/ Form</td>
<td>Data Inputs Required</td>
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</table>
| **The Macroeconomic Framework (Form F-1)** | - GSDP Estimates  
- Sectoral Composition of GSDP | Planning, Economics and Statistics Department |
<p>| | Overview of State Finances including revenue, expenditure and deficit figures | Budget Documents, Finance Department |
| <strong>Part A</strong> | | |
| <strong>Part B</strong> | Details of State Finances including revenue, expenditure and deficit figures | Budget Documents, Finance Department |
| <strong>Medium Term Fiscal Policy Statement (Form F-2)</strong> | GSDP Estimates | Planning, Economics and Statistics Department |
| | Details of State Finances including revenue, expenditure and deficit figures | Budget Documents, Finance Department |
| <strong>Part A</strong> | | |
| <strong>Part B</strong> | Details of State Finances including revenue, expenditure and deficit figures | Budget Documents, Finance Department |
| | Central Finance Commission Report | Central Finance Commission |
| <strong>Part C</strong> | Details of State Finances including revenue, expenditure, deficit and pension liability figures | Budget Documents, Finance Department |
| <strong>Fiscal Policy Strategy Statement (Form F-3)</strong> | Details of State Finances including revenue, expenditure, deficit and pension liability figures | Budget Documents, Finance Department |
| | Fiscal policies, strategic priorities and key fiscal measures of the State Government | | |
| <strong>Form F-4</strong> | GSDP Estimates | Planning, Economics and Statistics Department |
| | Details of State Finances including revenue, expenditure, deficit and pension liability figures | Budget Documents, Finance Department |
| <strong>Part A</strong> | | |
| <strong>Form F-5</strong> | Details of Market Borrowings | Statement 17, Finance Accounts (Major Head: 6003; Minor Head: 101) |</p>
<table>
<thead>
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<th>Statement/ Form</th>
<th>Data Inputs Required</th>
<th>Source/ Source Agency</th>
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<td>Details of Loans from Centre</td>
<td>Statement 17, Finance Accounts (Major Head: 6004; Sub Major Heads: 01, 02, 03, 04, 07)</td>
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<tr>
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<td>Statement 17, Finance Accounts (Major Head: 6003; Minor Head: 111)</td>
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<tr>
<td>Borrowings from Financial Institutions/ Banks</td>
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<tr>
<td>WMA/OD from RBI</td>
<td>Statement 17, Finance Accounts (Major Head: 6003; Minor Head: 110)</td>
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<tr>
<td>Public Account</td>
<td>Statement 16, Finance Accounts (Major Heads: 8001, 8009-12, 8121, 8223, 8226, 8228, 8229, 8235, 8342, 8443, 8448, 8449)</td>
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<tr>
<td>Other Deposits</td>
<td>Statement 16, Finance Accounts</td>
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**Part B**

Details of government liabilities and associated interest rates

Annexure to Statement 17, Finance Accounts

**Part C**

Details of special ways and means advance/ ways and means overdraft availed by the state government from RBI

Annexure to Statement 17, Finance Accounts

Form F-7 Details of Guarantees given by state government to different state department

Concerned State Government Departments

Form F-8 Details of GRF

Statement 16, Finance Accounts (Major Head: 8235; Minor Head: 117)

Form F-9 Details of Government Assets – loans and advances given by state government and financial investments

Statement 18, Finance Accounts

Form F-10 Details of Revenues raised but not realized due to dispute etc

Concerned State Government Departments

Form F-11 Details of number of Government

Planning, Economics and
17.7 The Minister-in-Charge of the Finance Department is required to place half yearly review reports before the Vidhan Sabha on the trends of receipts and expenditure with reference to their respective budget estimates. The first half yearly report covering the months April-September is usually presented in the ensuing session of the Vidhan Sabha while the second report for the period October-March is presented in the monsoon session of the Vidhan Sabha in the ensuing financial year.

17.8 These half yearly reports are prepared by the Finance Department and consist of:

- An overview of the economic performance of the state in the six month under consideration including growth in GSDP
- Detailed figures for tax and non tax receipts of the state, as well as non-plan and plan expenditure incurred in the six months
- Comparison of the key fiscal indicators with figures for the corresponding six months of the previous financial year

17.9 Where owing to unforeseen circumstances, any deviation occurs in meeting the obligations cast on the State Government under the FRBM Act, the Minister-in-Charge of Finance Department is required to make a statement in the Vidhan Sabha explaining:

1. Whether such deviation is substantial and relates to the actual or potential budgetary outcomes
2. Remedial measures the State Government proposes to take.

17.10 A review of compliance of the provisions of Madhya Pradesh FRBM Rules is required to be undertaken once in two years by an agency appointed by the State Government and such reviews are also required to be presented in the State Vidhan Sabha.
Chapter 18 Outcome Budget

18.1 Outcome budget for the State is tabled in the Legislature as a separate document within a few days after the Annual Financial Statement has been presented by the Finance Minister.

18.2 As per guidelines issued by Government of India, outcome budget should be prepared and presented for all plan expenditure proposed by the state government. This would allow outcome budget to function as a tool for the Vidhan Sabha and government to monitor progress of developmental programs.

18.3 Preparation of Outcome budget: With respect to the outcome budget, Finance Department issues instructions and formats for preparing departmental outcome budget and Administrative Department should:

- Compile and collate the individual outcome budgets submitted by HoDs;
- Hold discussions with HoDs for finalization of targets set for departmental developmental programs;
- Monitor performance against fixed quantifiable deliverables.

18.3.1 On receipt of the instructions for preparation of outcome budgets, Heads of Departments are required to nominate nodal officers in their respective departments to coordinate and prepare the departmental outcome budget based on inputs and information received from the various estimating officers. The Financial Advisor in the department should assist this nodal officer in discharge of his duty as well as periodically review the progress of preparation.

18.3.2 Nodal officers should attempt to convert financial outlays under each department plan scheme to fixed measurable and monitorable physical outcomes or 'quantifiable deliverables'. Such conversions would require interpreting schemes' objectives/outcomes in quantitative terms. It should be noted that schemes targeted towards the same outcome may have different quantifiable deliverables.

18.3.3 By benchmarking standards of performance based on past performance of the scheme and institutional capacity of the implementing department, annual targets for each quantifiable deliverable should be set.

18.3.4 Once quantifiable deliverables have been finalized, nodal officers should divide targets for these deliverables across different estimating officers of the department in proportion to the plan grants placed at their disposal.

18.3.5 Estimating officers, on receipt of instruction from nodal officers, are required to fill in information in a matrix listing out each scheme, its objective/outcome, plan outlay (including off budget expenditure), department level outcome indicators and expected outcomes. Information should be updated for achievement against deliverables which were set for the existing financial year (upto 31st December), and for the previous year. Reasons for under performance and remarks, if any, should be also stated. An illustrative table for 2010-11 has been given in Annexure 9.
Chapter 19 Gender Budget

19.1 The Gender Budget is to be presented by the Government of Madhya Pradesh to the Vidhan Sabha as a part of the Budget Literature in a separate volume.

19.2 Heads of concerned Departments should communicate the guidelines and formats for preparation of Gender Budget to all estimating officers on receipt of the same from the Finance Department.

19.3 As a first step in preparation of Gender Budget, estimating officers should carry out an analysis of schemes under their purview from a gender perspective. Based on this analysis, they should classify the schemes into 2 categories as follows:

- **Category 1: Women specific expenditure**: Programs which have 100 percent budget provisions for women
- **Category 2: Pro women expenditure**: Programs in which a minimum 30 percent of expenditure can be attributed to be spent on women.

19.4 For each of these schemes, the estimating officers should formulate indicators against which the performance of scheme will be evaluated and monitored on an annual basis.

19.5 The Gender Budget format requires estimating officers to capture allocations made for each scheme as per budget estimates of the ensuing year, revised estimates of the current year and actual expenditure incurred in the previous year. Additionally, for each scheme, the format requires listing the status of identified performance indicators in the previous year and the targets set for the ensuing year.

19.6 For schemes that fall in Category 2, the format requires expenditure for each scheme to be further broken down separately into each of the following components along with the assumptions or basis for arriving at these numbers:

- Expenditure targeted at women
- Expenditure targeted at men
- Gender Neutral Expenditure

19.7 Detailed formats for Categories 1 and 2 schemes have been given in Annexure 10.
SECTION 2D: FINALIZATION OF BUDGET

Chapter 20 Scrutiny, Compilation and Finalization of Budget Estimates

20.1 As per rules framed by the Governor under Article 166 (2) and (3) of the Constitution, Finance Department is responsible for preparing Statement of estimated revenue and expenditure for the State, to be laid before the Vidhan Sabha each year.

20.2 For preparation of this Statement, Finance Department is required to scrutinize, compile and finalize the estimates of receipts and disbursements received from Heads of Departments and other estimating officers. Steps involved in undertaking this activity have been diagrammatically shown in Figure 19.

Figure 19: Steps involved in preparation of Annual Financial Statement

20.3 Scrutiny of departmental estimates:

On receipt of departmental estimates (vide Chapter 13), Administrative Department is required to inspect these estimates, item by item, with due regard to:

- Explanations furnished by estimating officers,
- Correction slips from the Accountant General’s office
- Recommendations, if any, of the concerned department and forward the compilation to the Finance Department.

20.3.1 With respect to estimates of receipts, Finance Department should take into account any special information affecting them which it may possess and which has not already been
taken into account by estimating officers including the Accountant General or the administrative department.

20.3.2 With respect to estimates of disbursements, the Departments must direct closest scrutiny to items relating to fluctuating and non-recurring charges. For recurring expenditure, the Departments should focus mostly on review of estimates under the salary object head, and if necessary, modify these figures on account of probable savings and/or actuals of previous years. The Departments should also ensure that ‘total filled posts’ rather than ‘total sanctioned posts’ have been used for estimation of salary expenditure. A similar check should be carried out for the estimates of expenditure under the wages object head.

20.3.3 Fluctuating charges, on the other hand, should be analyzed item by item to identify increases which have not been adequately or satisfactorily explained. Items under which no increase has been proposed should also be investigated with the objective of effecting any legitimate reduction. Similarly, during perusal of estimates of non-recurring charges, any amounts discovered not covered by sanction should be removed. Further, in case there is no reasonable certainty that amounts estimated will be spent, they should be reduced or eliminated.

20.3.4 During review Finance Department should make corrections, as necessary, in classification of receipts and disbursements under heads of accounts such as major heads, minor heads and primary units of appropriation, voted and charged, revenue and capital, and plan and non-plan. It should also be ascertained that significant demands have not been made under miscellaneous heads such as under the minor head ‘800- Other expenditure’.

20.4 During this stage, Finance Department may choose to create or change any demand number used for classification of departmental expenditure based on requests for the same by departments and/or on considerations of ease in accounting and presenting expenditure estimates.

20.5 Enquiries by Finance Department: In course of examination of estimates, Finance Department may require further explanations or clarifications with respect to certain items of expenditure before finalization. Normally, such enquiries should be addressed by Finance Department to Administrative Department with the latter expected to furnish the required information after consulting the concerned Heads of Department. In cases where it is very obvious that the details will have to be obtained from multiple offices i.e. Heads of Department and other estimating officers (DDOs), Finance Department may address their inquiries directly to these concerned officers with a copy of the enquiry to the concerned administrative department for the sake of speeding up the process.

20.6 Compilation of Detailed Estimates: After an item by item scrutiny of departmental estimates, Finance Department should compile the figures in the form of Detailed Estimates. In the event the Finance Department requires further clarifications on the departmental estimates at the time of compilation, it may invite the concerned BCOs for discussions.

20.7 Finalization of Estimates: Once the compilation of the Detailed Estimates has been completed, discussions on departmental non-plan and committed plan expenditure estimates should be held by the Deputy/ Additional Secretaries of Finance Department.
with BCOs for finalization of these estimates. These discussions provide departments an opportunity to put forward and justify proposals for new/additional expenditure. The Departments should also ensure that centre and state shares have been correctly estimated for expenditure under Centrally Sponsored Schemes.

20.8 After all the departmental estimates have been settled, Finance Department should re-examine the estimates as a whole and makes changes as may be found to be necessary, keeping the financial position of the State and/or any other financial factor that may impact the estimates in consideration.

20.9 **Additional Resource Mobilization:** Discussions may be held by the Principal Secretary, Finance with the Principal Secretaries of revenue earning departments of the state for making fiscal management related policy decisions on generation of additional revenues through revision in tax rates/cess/duties and/or user charges.

20.10 **Pre-Budget Discussions with Finance Minister:** High level discussions with the Finance Minister may be held by Finance Department officials to discuss the intended fiscal approach for the ensuing financial year. Economic achievements of the government to be highlighted in Finance Minister’s Budget Speech during the budget presentation to Vidhan Sabha are also finalized during these discussions.

20.11 **Budget Speech of Finance Minister:** A parallel exercise that should be carried out by the Finance Department along with finalization of budget estimates is the preparation of the budget speech of the Finance Minister. This involves collection and compilation of information from state departments and an analysis of the performance of sectors across the state in the current financial year against targets set. A brief overview of government policies to be implemented in the ensuing financial year is also to be provided in this document.

20.12 **Submission of Estimates to Council of Ministers:** A preliminary note by the Finance Department based on figures in the consolidated estimates, together with schedule of new expenditure and the connected explanatory notes, are placed by Finance Department before the Council of Ministers for its approval.

20.13 **Last Stage Modification:** Finance Department may, with approval of the Cabinet, at any stage before the budget is presented to the Vidhan Sabha, make such modifications in the estimates as may be necessitated by emergence or discovery of factors impacting the estimates framed so far.
Chapter 21 Presentation of Budget to the Vidhan Sabha

21.1 Before the legislature session for passing of the budget begins, it is the responsibility of the Finance Department to prepare the Draft Appropriations Bill and to get it vetted by the Law and Legislative Affairs Department.

21.2 Budget, like any other Finance Bill, can be presented and discussed in the Vidhan Sabha only after the assent of the Governor. To obtain the same, Finance Department, after approval of the Appropriations Bill by the Council, sends the proposal to the Governor through the Chief Minister for assent. The proformas for obtaining the Governor's assent for presentation and discussion of the Appropriation Bill in the Vidhan Sabha have been given in Annexure 11. The appropriation amount mentioned in the Bill cannot be altered without the assent of the Governor.

21.3 **Budget Literature:** The documents to be presented to the Vidhan Sabha for approval of Appropriations Bill are decided by the Finance Department after approval of the Council of Ministers. The budget literature currently presented to members of Vidhan Sabha consists of:

21.3.1 **Finance Secretary’s Memorandum:** This document should present a gist of the State budget incorporating a summarized version of:
- Accounts of the previous financial year,
- Revised estimates over sanctioned budget estimates of the current year
- Budget estimates of the next financial year with revised estimates of the current year
- Fiscal parameters such as revenue, fiscal and primary deficit, and
- State’s resource position and ways and means estimates

21.3.2 **Volume I – Annual Financial Statement:** This document should contain information on State’s receipts and expenditure on the revenue and capital account and transactions on the public account disaggregated to the level of major heads.

21.3.3 **Volume II:** This document should show detailed receipts anticipated under the Consolidated Fund and detailed receipts and expenditure under the Public Account along with explanatory notes.

21.3.4 **Volume III – Grant wise Expenditure:** In this document, demand number wise provisions disaggregated to the level of minor heads are to be presented along with explanatory notes.

21.3.5 **Volume IV:** This document should consist of the following two statements:
- Statement showing major head wise expenditure under different demand numbers (with a breakup into Gross provision, recoveries and net provision)
- Statement showing a summarized list of new services/items included in the budget

21.3.6 **Volume V:** This document should consist of information on guarantees given by the State Government to various Government undertakings and allotment of government land on concessional rates.

21.3.7 **Volume VI - Gender Budget:** This document should contain the gender based estimation of expenditure allocated to selected departments under various schemes (**vide Chapter 19**).
21.3.8 **Volume VII – Transfers to Local Bodies from State Government**: This should include details of inter-governmental transfers made to urban and rural local bodies in the state.

In line with the recommendations of the Central Finance Commission, this volume should show:
- Details of plan and non-plan wise classification of transfers separately for all categories of ULBs and all tiers of PRIs
- Details of funds transferred directly to the local bodies outside the State Government’s budget

21.3.9 **Volume VIII – Statement on Central Assistance Received Directly by Institutions of State Government (Off Budget)**: This document should present department wise information on funds expected to be received from the Central Government directly by state agencies that are not appropriated from the state budget.

21.3.10 **Volume IX - This is a compilation of all schemes heads which are related to agriculture & allied activities and directly or indirectly support such activities (Agriculture Budget)**.

21.3.11 **Demand for Grants Books**: These books should consist of demand number wise non-plan and plan expenditure disaggregated to the lowest level of classification of accounts i.e. detailed heads.

In line with the recommendations of the Central Finance Commission, these books should show the transfers made to:
- ULBs in the state under the minor heads 191, 192 and 193; and
- PRIs under the minor heads 196, 197 and 198.

21.3.12 **FRBM Statements**: In compliance with the FRBM Act, the Macroeconomic Framework, Medium Term Fiscal Policy Statement and the Fiscal Policy Strategy Statement (vide Chapter 17) for the State are to be presented along with the budget.

21.3.13 Budgetary documents listed above are to be prepared by the Finance Department. In addition to these, following documents are prepared and presented by the Directorate of Economics and Statistics at the time of presentation of the budget:
- **Budget in Brief**: This document contains diagrammatic and tabular representation of the major components of next year’s budget. Expenditure estimates under different heads reflect State Government priorities for the coming year. Expected revenue receipts from different sources to fund proposed programs are also presented.
- **Economic Survey**: This document details performance of the economic indicators of the State.
- **Census Survey of Government Servants**: This book contains scale wise description of posts of employees in Government/Semi-government/Local bodies/Universities at the end of the preceding year.

21.4 **Procedure for presentation to and Disposal of the Budget by the Vidhan Sabha**: Procedures relating to presentation of State Budget to the Vidhan Sabha, its discussion by the Vidhan Sabha and voting of demands for grants is governed by rules framed by the Legislative Assembly in accordance with provisions of Article 202 to 207 of the Constitution, rules made by the Governor under Article 166(3) of the Constitution, and the Rules of Procedure and Conduct of Business in the Madhya Pradesh Legislative
According to Rules referred to above, the budget has to go through the following stages:

21.5 **Stage 1: Presentation to Vidhan Sabha** – The budget presentation starts with the speech of Minister in-charge of Finance Department. This speech is approved in a special meeting of the Council of Ministers normally held just before its presentation in the Vidhan Sabha.

21.6 **Stage 2: General Discussion** - On days appointed by the Speaker / Chairman, general discussions begin in the Vidhan Sabha on the budget as a whole and/or on any question of principle or policy involved therein.

21.7 **Stage 3: Vote on Demand for Grants** - After general discussions are over, vote on Demands for Grants is taken up in the Legislative Assembly.

21.8 **Stage 4: Appropriation Bill** - After voting of all Demands for Grants has been completed, an Appropriation Bill is introduced to authorize expenditure from the State Consolidated Fund to provide for:
   - Grants approved by the Assembly, and
   - Expenditure charged on the Consolidated Fund

21.9 **Stage 5: Governor’s Assent** – After the Governor’s assent to the Bill is obtained, amounts shown in the Act thereto become the sanctioned grants for expenditure under the various Demands.

21.10 **Stage 6: Notification in the Official Gazette**: The notification of the Appropriation Act in the Gazette is sufficient authority for payment and appropriation of the sums included there in.

21.11 **Corrigendum to Budget**: Incase printing errors are detected in the budget literature after budget notification; the Finance Department is authorized to issue a corrigendum to budget.
Chapter 22 Vote on Account

22.1 Under Article 206 of the Constitution, the Legislative Assembly of a State is vested with power to sanction withdrawal of certain amounts of funds from the Consolidated Fund even before voting on demands of grants and passing of the Appropriation Act takes place (i.e. procedures prescribed under Article 203 and 204 of the Constitution). Such grants made in advance by the Legislative Assembly are referred to as Vote on Account.

22.2 Vote on Account is usually resorted to when due to certain circumstances the Legislative Assembly is unable to vote on all demands for grants before commencement of the new financial year, such as in case of elections. Funds sanctioned under Vote on Account enable the Government to incur expenditure that cannot be delayed or postponed till budget is passed by the Assembly.

22.3 Following documents are presented to the Vidhan Sabha for approval of expenditure under Vote on Account:

1. Budget in Brief Annual Financial Statement - Volume I
2. Schedule of Demands for Grants and Appropriations: This document should present budget estimates for expenditure under different demand numbers and charged appropriations for interest payments, debt service and public debt. Based on number of months for which Vote on Account is presented for, allocations for this period should be proportionally calculated and shown against budget estimates for the complete ensuing financial year.

22.4 Grants allocated under Vote on Account cannot be utilized for expenditure on new services/ schemes. Such expenditure has to be incorporated in demands for grants voted on by the Vidhan Sabha.

22.5 Care should be taken to ensure that Vote on Account prepared is consistent with demands made in the full fledged budget. When the Appropriations Bill is finally presented in the Vidhan Sabha it has to subsume advance grants made under Vote on Account.
SECTION 3: BUDGET EXECUTION

Chapter 23 Communication and Distribution of Grants

23.1 Communication of Grants: To ensure that communication of sanctions is effected with least possible delays; BCOs should prepare necessary draft allotment orders for distribution of grants immediately after the concerned Demands for Grants have been voted for by the Legislative Assembly without waiting for passing of the Appropriation Act. These drafts should be referred to the Finance Department for concurrence, where necessary, and kept ready so that treasury withdrawal can start on the first treasury working day of the financial year.

23.2 Once sums charged on the Consolidated Fund have been authorized by passing of the Appropriation Act, the Finance Department should intimate the same to all departments.

23.3 A soft copy of the data on the quantum of allocations provided to each BCO in the state should be sent to the Directorate of Treasuries and Accounts. Finance Department should also send copies of the Budget Literature to the Accountant General.

23.4 BCOs should submit expenditure plans divided into periods prescribed by the Finance Department. They will be able to draw from their allotted budget as per these plans. Unspent amounts at the end of the period will be deemed as savings and would not be available to the concerned department. However, the Finance Department, on request from Administrative Departments, may restore these allotments, subject to availability of funds.

23.5 Administrative departments should ensure that new items of expenditure for which provision has been included in the budget as passed by the Vidhan Sabha are sanctioned by them, as permissible under the departmental delegation of powers, without delay. A copy of each such order should be sent to the Accountant General and the Finance Department.

23.6 Distribution of Grants by Budget Controlling Officer: On receiving the required authorization by the Finance Department after enactment of the Appropriations Act, BCOs should distribute the plan grants placed at their disposal among the disbursing officers as per the periodic action plans and budget circular issued by Finance Department before allotment of budgets to BCOs.

23.7 During distribution, care must be taken to intimate allotments with complete accounts classification of each sum allotted, i.e. the major head to the standard object of expenditure.

23.8 A soft copy of the DDO-wise allocations made must be sent to the Directorate of Treasuries and Accounts. Figure 21 shows the process of how details of BCO and DDO wise allocations made in the State are recorded in the State Financial Management System by the Directorate of Treasuries and Accounts.
23.9 BCOs have to route distribution of the budget to sub-ordinate disbursing officers through Financial Advisors posted in the department. Disposal of grants in multiple installments should ideally be avoided by BCOs. If, however, multiple installments are found necessary, reasons for the same should be recorded by BCOs on the allotment file/register.

23.10 In case of sanctioned expenditure, e.g. pay and allowances of sanctioned posts and committed expenditure, no fresh sanction is necessary and the sanction once given remains valid unless funds necessary to make the sanction operative have been specifically refused by Government.

23.11 In case of expenditure sanctioned for a specified term, the sanction becomes inoperative after that term has expired. Disbursing officers should, therefore, obtain timely approvals for extension of the term, if considered necessary. It is essential that in case extensions are not to be renewed, the same is communicated to disbursing officers well in time, because in the absence of a definite order to the contrary they may continue to incur expenditure, in anticipation of a sanction. Such expenditure incurred will constitute a financial irregularity.
23.12 **Un-scrutinized Items:** Un-scrutinized items of expenditure included in budget estimates on account of unavoidable circumstances or unavailability of complete information at the time of budget finalization should not be distributed by concerned administrative departments unless approval on the breakup or details of the items of expenditure has been obtained from the Finance Department. In case of such items fall under plan expenditure, a similar approval would be required from the State Planning Commission.

23.13 **Recoveries:** Negative entries under Budget Estimates may appear in Demand for Grants on account of recoveries. Estimates of recoveries should be shown as negative entries under budget estimates. As per Chapter 5 of the Government Accounting Rules, Government of India, 1990, recoveries comprise of repayment of or payment by:

- another department in the state; or
- another government; or
- a non-government party (including public sector undertakings, autonomous bodies and private persons and bodies to a government department);

which initially incurred the charge and classified it in the accounts as final expenditure by debit to revenue or capital heads of accounts. Recoveries towards establishment charges, tools and plants, fees for procurement or inspection of stores, or both, etc. effected at percentage rates or otherwise, are some examples.

23.13.1 Recoveries of expenditure for services or supplies made to non-Government parties or other Governments (including local funds and Governments outside India) shall, in all cases be classified as receipts of the Government rendering such services or supplies.

In the following cases, entries should be made as “recoveries” and shall be taken as reduction of expenditure:

- When Government undertakes a service merely as an agent of a private body, so that the entire cost of the service is recovered from that body, the net cost to the government being ‘nil’
- Receipts from sale proceed of materials, plants, etc. received from old structures in case work in progress
- Transactions of ‘Stock and Suspense’ accounts in case of Public Works
- In case of projects jointly executed by several Governments, where the expenditure is to be shared by the participating Governments in agreed proportion, but expenditure in incurred by the Government and shares of other participating Governments recovered subsequently such recoveries from other Governments shall be exhibited as abatement of charges under the relevant expenditure head of account in the books of the Government incurring the expenditure initially.

E.g. recoveries falling under this category may be represented under:

**2059 – Public Works** – [80] – General – {799} – Suspense - #74 – (-) **Recoveries** – 001 Receipts from other States; or

As between different departments of the same Government, the recoveries shall be classified as deduction from the gross expenditure except that such recoveries as are made by a commercial department should be treated as receipts of that department.

Receipts and recoveries on Capital Account in so far they represent recoveries of expenditure previously debited to a Capital Major Head shall be taken in reduction of expenditure under the major head concerned except where under the rules of allocation applicable to a particular department such receipts are taken as revenue receipts.
Chapter 24 Control of Expenditure

24.1 At all levels of government, an attempt should be made to ensure that expenditure incurred is properly accounted for and recorded, is used for the purpose it was sanctioned for and is utilized in way that ensures ‘value for money’. Essential requirements for achieving this are strong internal expenditure control systems within the government setup that are cost effective, well understood and complied with. Responsibilities within these control systems should be clearly defined and communicated well before any expenditure is incurred.

24.2 The main stakeholders involved in monitoring the progress of expenditure and keeping it within sanctioned limits in the State are – Finance Department, Administrative Departments, Heads of Departments/ Budget Controlling Officers, Drawing and Disbursing Officers and the Accountant General. Procedures and instructions to be followed by all departments for ensuring effective and efficient control over expenditure have been listed in this Chapter. A diagrammatic representation of flow of information between the different stakeholders as a part of the internal control system of the state has been shown below.

Figure 22: Flow of Information in the State’s internal expenditure control system
24.3 **Finance Department:** Under the rules made by the Governor under Article 166 (2) and (3) of the Constitution, Finance Department is entrusted with the overall responsibility of watching the Government’s cash balances and the state’s ways and means operations.

24.4 **Administrative Departments:** Administrative Departments are required to undertake steps, if necessary, to contain expenditure and to investigate the causes of extravagance to prevent recurrence of any irregularity or impropriety in expenditure.

Administrative Departments are also required to evaluate proposals submitted by BCOs for re-appropriation of funds to supplement allotments which have proved or are likely to prove insufficient. If found valid and justified, Administrative Departments should approve such proposals if it is within their powers to do so; and if not, then they should forward these applications to Finance Department or the SC&ST welfare department as the case may be, for approval and sanction.

24.5 **Heads of Departments/BCOs:** Heads of Departments are responsible for controlling expenditure from grants or charged appropriations placed at their disposal and should exercise control through BCOs, if any, and disbursing officers subordinate to them. Duties of BCOs with respect to control of expenditure are:

- To ensure that grants placed at their disposal are expended only on objects for which they have been provided for while at the same time ensuring that standards of financial propriety are maintained;
- To move the competent authority, to provide additional funds either by re-appropriation or through supplementary provision, when an excess over total grants placed at their disposal is unavoidable or some new expenditure has to be incurred;
- To surrender appropriations or portions thereof which are not likely to be required during the year;
- To ensure observance of all financial rules and regulations by subordinates;
- To ascertain whether amount has actually been credited to the account of the state government before incurring expenditure on items to be financed by financial institutions or Government of India partly or fully.

24.5.1 **Maintenance of Registers:** BCOs should keep themselves updated with progress of expenditure under different units of appropriation of the grants under their disposal. They should maintain registers in physical form with records of all sanctions made and expenditure and liabilities incurred, including those of the previous years. Formats for maintaining these registers have been in Annexure 13. Similar details should also be recorded with respect to works taken up on behalf of the central government, other state governments and local or other bodies, etc.

24.5.2 Additionally, BCOs are required to maintain registers in physical form in which statements of monthly expenditure and liabilities received from disbursing officers are consolidated with their own monthly records of expenditure and liabilities. Entries in these registers should be made when all disbursing officers’ returns for a particular month have been received and have been carefully examined to ensure that:

- Accounts have been correctly and appropriately classified;
• Progressive expenditure has been properly noted and available balances correctly calculated;
• New liabilities, if any, have been incurred under proper authority;
• Expenditure plus liabilities of the current year are within the appropriation sanctioned;
• Statements have been signed and verified by disbursing officers themselves.

24.6 In order to monitor receipt of monthly statements from disbursing officers, BCOs should maintain records with respective DDO codes. BCOs should ensure that records are updated on a monthly basis.

24.6.1 BCOs should also ensure recording of adjustment figures communicated by the Accountant General on account of transfer entries and expenditure debited to grants through ‘accounts current’ (i.e. expenditure incurred in another state/ Union Territory for inclusion in the accounts of this state) is carried out correctly. If any such adjustment affects the appropriation at the disposal of a subordinate disbursing officer, the same should be communicated immediately by the controlling officer to the concerned disbursing officer.

24.6.2 Submission of Statements to Accountant General: Every month, BCOs should send the Accountant General a statement showing totals of departmental expenditure and liabilities under each unit of appropriation. These statements should be prepared and forwarded so as to reach the Accountant General by the 20th of the month following the month to which the accounts relate.

24.7 Submission of Half Yearly Progress Report to State Planning Commission: BCOs are required to prepare and submit half yearly progress reports on the execution of plan schemes to the State Planning Commission. For the same, BCOs should collate data on expenditure and achievement of physical targets of plan schemes implemented by the department from the concerned DDOs. The SPC may hold discussions with the concerned BCOs on these progress reports as may be found necessary.

24.8 Drawing and Disbursing Officers: Responsibilities mentioned above of BCOs attach equally to disbursing officers. DDOs should ensure they comply with all the requests made by BCOs and provide detailed information in a timely manner. In addition, disbursing officers should ensure that conditions preliminary to incurring of expenditure are satisfied. These include ensuring that:
• Sanction of the competent authority exists;
• Funds to cover the required expenditure are available in full at their disposal; and
• Probability of any excess expenditure over amounts allotted must be foreseen by disbursing officers and intimation of the likely excess, along with reasonable explanations for the same should be sent to the controlling officer concerned in sufficient time.

Every controlling officer, with respect to expenditure incurred by him/her, is in the same position as a disbursing officer.

24.8.1 Maintenance of registers: Every disbursing officer is required to maintain a register of expenditure under each detailed head of account with which s/he is concerned. Separate registers should be maintained for plan and non-plan expenditure. Allotments
communicated by the controlling officer at the beginning of the year should be noted in this register under each detailed head. Should the allotment against any standard object be increased or reduced by the controlling officer subsequently, required corrections should be made in the register. Formats for maintaining these registers have been in Annexure 14. Details of each bill cashed at the treasury under the appropriate standard object should also be entered in the register along with the number and date of each voucher on which money has been drawn.

24.8.2 Procedure for presentation of bills at the Treasury: Bills presented to the Treasury by disbursing officers should mention complete details of proposed expenditure including its proper accounting classification up to the level of detailed heads and should also specify if the expenditure is ‘charged’ or ‘voted’. Separate bills should be drawn for plan and non-plan expenditure.

The Drawing and Disbursing Officer must reconcile every voucher from the treasury and should receive monthly reconciliation statements duly signed by Treasury Officers.

24.8.3 Submission of Statements: In the first week of each month, disbursing officers are required to submit statements of expenditure and liability of the previous months to the controlling officer concerned. These statements should contain numbers and dates of treasury vouchers against entries in respect of which reconciliation statements issued by the Treasury have been received. If there are no transactions to report for any month, a nil statement should be submitted. Additionally, these statements should specify the opening balance of the budget for the month, the expenditure incurred during the month and the balance budget remaining thereafter.

24.8.4 Submission of these monthly statements to BCOs should not in any case be delayed on account of delay in receiving reconciliation statements from the Treasury. In cases of such delay, the statement with voucher numbers and dates of encashment of the bills relating to the reconciliation in question should be sent to the Treasury Officer for verification from office records after which it should be duly submitted.

24.9 Accountant General (AG): The Accountant General furnishes monthly statements of receipts and expenditure to the Finance Department in order to enable it to constantly monitor the state government’s expenses and cash balances. AG also sends reports to the concerned Administrative Departments regarding disproportionate or excessive expenditure observed under any grant. The departments are required to promptly investigate and take suitable remedial measures.

24.9.1 Inter-departmental Adjustments: To ensure that all periodical/annual adjustments between various departments of the government are properly and promptly made, the Accountant General should maintain a record showing:

- All periodical adjustments that are usually required to be made,
- The month’s account in which the adjustments should be made, and
- The actual date of adjustment.

24.9.2 Reconciliation of Department Expenditure Figures: The Accountant General is also responsible for checking statements of department expenditure with its own records, which are based on vouchers received directly from the treasuries and the accounts...
received from accounting officers of other states or Union Territories. Such reconciliation is done with the objective of:

- Ensuring that departmental accounts are sufficiently accurate to secure efficient departmental financial control, and
- Ensuring accuracy of accounts maintained in the AG’s office from which the final state accounts are compiled.

24.9.3 BCOs are responsible for reconciliation of accounts maintained by BCOs with those appearing in AG’s books and for identifying and correcting misclassifications.

24.10 Separate procedure for Works and Forest Departments: Budget allocations to Works and Forest Departments are made available through Works Departments Drawal Facility (WDDF) and Forest Department Drawal Facility (FDDF) respectively which are operated through state treasuries.

24.10.1 Works Department Drawal Facility: Public Works Department, Water Resources Department, Public Health Engineering, Narmada Valley Development, Rural Development and Housing and Environment Department are entitled to avail this facility. Procedure to be followed under WDDF is as follows:

i. In the beginning of every financial year, Finance Department provides BCOs with their approved budgetary allocations based on the periodic action plans submitted. BCOs then redistribute these allocations amongst DDOs of the department. A soft and hard copy of these reallocations orders should be sent to the Commissioner, Treasuries and Accounts and at the same time should be put on the central server of the Directorate of Treasuries and Accounts. Copies of these orders should also be sent to the concerned treasuries.

ii. Work plan for plan projects of the department should be formulated by BCOs. Also, funds allocated to these projects should be subject to revision based on the status of actual progress to be evaluated once in every 2 months. Such allocation revision orders should be entered into the central server of the Directorate, Treasuries and Accounts.

iii. Allocation of non-plan expenditure for construction, maintenance, repair etc amongst the DDOs should be done as per the scheme code classification. Monthly limit on drawings from the State Fund by the engineers should also be specified in such allocation orders.

iv. Works carried out under the Deposits head will be provided with a computer generated ID by the treasuries. DDOs are entitled to withdraw money from this head as per ceiling specified for each category of work.

v. DDOs are required to provide object and detailed head wise information on the expenditure incurred in formats issued by the Commissioner, Treasury and Account. These details should be submitted in soft and hard copy to the respective treasuries. From the computer server situated in these treasuries, this information should be fed into the central server of the Directorate, Treasury and Accounts. This will allow expenditure incurred as per details submitted by the DDOs to be automatically debited from the concerned works accounts. Also, cheques for settlement of construction work related bills will be auto generated by the computer once expenditure details have been fed in.
vi. DDOs are also required to submit a copy of monthly accounts along with the monthly expenditure report generated through the application software of WDDF to the Accountant General.

24.10.2 Forest Department Drawal Facility: Steps (i), (v) and (vi) mentioned above for WDDF are applicable for the Forest Department.

24.11 Conditions for appropriation out of allotments: Heads of departments and subordinate authorities who are recipients of distributed allotments under particular units of appropriation, have, subject to special orders, full powers to appropriate sums to meet sanctioned expenditure falling under these units, provided that:

- An allotment for ‘charged’ expenditure must not be appropriated to ‘voted’ expenditure and vice versa;
- An allotment must not be utilized for an item of expenditure which is not covered by sanction.

24.11.1 An appropriation is operative until close of the financial year after which any unspent balance lapses and is thus not available for utilization in the ensuing financial year.
Chapter 25 Revised Estimates

25.1 **Revised Estimates (RE)** are estimates of probable receipts or expenditure for a financial year, framed in the course of that year. These estimates are in reference to transactions already recorded and those anticipated for remainder of the year. The estimates are based on orders already issued or contemplated to be issued or any other relevant facts that become known during the course of the financial year.

25.2 Revised Estimates do not authorize any expenditure, nor do they supersede Budget Estimates as the basis for regulation of expenditure. However, RE should be prepared with due care, as they not only enable the Government to arrive at the approximate closing balance of the current year, but are also prima facie the best guide to estimates of the next financial year.

25.3 Revised Estimates should separately show Voted and Charged items and should be prepared by the same authorities responsible for the preparation of original estimates. Except where otherwise specially ordered by the Finance Department, they should be prepared along with Budget Estimates for the ensuing financial year.

25.4 Revised Estimates should be checked by carrying out the following calculation:

- Arrive at Revised Estimates for the current year by assuming they will bear the same proportion to the actuals of the first four months as the actuals of the previous year bore to those of the first four months of that year. These calculations should be made on basis of figures for the past three years, if available, rather than those of any one year.

25.5 Due allowance should be made for any abnormal features in those years or any substantial item of revenue or expenditure likely to be realized or incurred, as the case may be, in the remaining months of the financial year. For example, Revised Estimates under major head ‘2029 Land Revenue’ should be based on actual receipts recorded during the first four months, regularity of rainfall in the year, extent of suspensions and remissions (including price remissions) and the revenue likely to be collected during the remaining eight months of the year. A study of the past figures under this head may show that such revenue has a tendency to rise and fall more or less periodically. Any such cyclical tendency should be taken into consideration while preparing Revised Estimates.

25.6 Preparation of Revised Estimates thus demands a close watch on progress of revenue and expenditure under different budget heads, as compared with revenue and expenditure for the corresponding period of the past year, or previous years.

25.7 Revised Estimates should be submitted by BCOs so as to reach the Finance Department as per deadlines specified in the budget circular. The forwarding memorandum should explain fully and clearly how the revised figures have been arrived at; and precise and informative explanations on every important variation in Revised Estimates as compared with Budget Estimates should invariably be given.

25.8 In the event that Revised Estimates for any head of expenditure exceed the Budget Estimates for that financial year, then the concerned controlling officer should obtain necessary sanctions for carrying out re-appropriations (*vide Chapter 26*). Incase re-
appropriations cannot be carried out or are insufficient, then a request must be submitted to the Finance Department through the concerned administrative department for supplementary grants (vide Chapter 28).

25.9 **Preliminary statements of excesses and savings**: After preparation of Revised Estimates based on actuals for first four months, a statement of anticipated excesses and savings in expenditure should also be prepared and submitted by all BCOs so as to reach the Finance Department as per deadlines set in budget calendar. Only those items in which any excesses or savings are anticipated should be shown in the Statement. If there are no such items, a blank statement should be submitted. Reasons for any anticipated excesses or savings should always be given in the remarks column.
Chapter 26 Re-Appropriations, Surrender of Savings and Excess Grants

26.1 Re-Appropriations: Every controlling officer is expected to ensure that not only the total expenditure is kept within the total grant or appropriation placed at his/ disposal but also that expenditure under each unit of appropriation is kept within the amount originally provided under it. Unavoidable and unforeseen circumstances may, however, sometimes make it necessary to incur expenditure under a unit of appropriation in excess of the amounts originally estimated under it. It may also be the case that expenditure under certain heads may not have to be incurred to the extent originally estimated resulting in savings. Subject to certain restrictions and limitations mentioned hereafter, savings available under certain heads can be re-appropriated to meet requirements for additional funds under other heads within the same grant. This is termed ‘re-appropriation’ of expenditure.

26.2 As the appropriation accounts prepared by the Accountant General is up to the level of sub-heads (subordinate to a minor heads as per accounting classification), sub-heads under each Grant or Charged Appropriation will constitute the smallest unit of re-appropriation.

26.3 Re-Distribution: Transfer of allotments between different subordinate disbursing officers within the same unit of appropriation are deemed as re-distribution and not re-appropriation. Re-distributions can be made by BCOs subject to restrictions and limitations imposed by Government.

26.4 Re-appropriations are permissible only when it is known or anticipated that appropriation for the unit from which funds are diverted will not be utilized in full or that savings can definitely be affected in it. It is both objectionable and irregular to sanction re-appropriation from a unit under which no savings are anticipated at the time of sanction with the expectation of restoring the original allotment under that unit later in the year by transferring savings that may then become available from other units or supplementary grants.

26.5 Re-appropriations are not permissible:
   i. From one grant/appropriation to another
   ii. Within a grant:
       a) From revenue account to capital account or vice versa
       b) From a voted allotment to a charged allotment or vice versa
       c) To provide for new expenditure, whether voted or charged until such expenditure has been authorized by an Appropriation Act
   iii. After close of the financial year
   iv. For an amount less or more, as the case maybe, than that specified by the Finance Department (such specifications may vary from year to year).
   v. Re-appropriations are not permissible to a head of expenditure that does not exist prior to the request for re-appropriation or to a head of expenditure that does not have any funds budgeted under it in the Budget Estimates approved by the Vidhan
Sabha. Any head of expenditure to which a re-appropriation is requested should necessarily have at least an existing token amount budgeted under it.

26.6 Powers to sanction re-appropriations are regulated by rules framed by the Finance Department in exercise of its powers under Business Rule II (iii) of Finance Department Delegations and Rules. These are:

a. In addition to conditions mentioned in paragraph 26.5, as per delegation of financial powers in the state, all re-appropriations are subject to the following restrictions:
   i. Without prior consent of the Finance Department, no re-appropriation may be made to meet any expenditure which is likely to involve further outlay in a future financial year
   ii. Funds allotted for expenditure on plan schemes should not be re-appropriated to meet non-plan expenditure and vice versa

b. For re-appropriation of plan expenditure from one department to multiple departments within one demand number, consent of State Planning Board and Finance department should be obtained

c. Savings on expenditure related to revenue collections can be re-appropriated for other expenditure, not related to revenue receipts, only with concurrence of the Finance Department

d. In case of detailed heads for which the state government has specified ceilings, any re-appropriation for expenditure over and above these ceilings cannot be carried out without prior consent of the Finance Department

e. For Central Sector Schemes, Centrally Sponsored Schemes, schemes funded from Reserve Funds and Externally Aided Projects, re-appropriations can be made only with approval of the Finance Department

f. In case of Water Resources/Public Works/Narmada Valley Development/Public Health Engineering Department, any re-appropriations of allocated amounts for expenditure under the ‘Suspense’ head requires prior approval of the Finance Department

g. Only one re-appropriation for any scheme shall be permitted in a single financial year. The competent authority for re-appropriation shall record a statement that the relevant conditions are fulfilled in the instant case and that this particular case does not fall under restricted category.

k. Re-appropriation of budgetary allocation within object heads is permissible except for detailed heads of Medical allowance, New Vehicle purchase, Vehicle purchases on replacements, Office furniture purchases, Other Allowances, Other contingencies, Other Charges and Others.

h. Transfer of funds from one standard object of expenditure to another may be sanctioned with the exception of savings in following object heads of expenditure:
   i. Salary,
   ii. Wages,
   iii. Office expenses,
   iv. Inter account transfer
v. Payment for professional services; and
vi. Examination and training (specifically savings under the detailed head of training)

26.7 Applications for re-appropriations should be made to the Finance Department in the prescribed format as given in Annexure 15. It should be accompanied by an explanatory note describing the necessity for transfer and reasons for anticipating savings under the primary unit of appropriation from which the re-appropriation of funds is proposed.

26.8 **Surrender of Savings:** By the second half of the financial year, it becomes essential for the Finance Department to know to what extent the sanctioned Budget grants (voted and charged) would suffice to meet expected expenditure. This is because:

- When there is unanticipated excess expenditure under any major head it must be met, where permissible, by re-appropriations of savings from elsewhere within the grant. Where this is not possible, supplementary estimates have to be presented to the legislature for expenditure in excess of ascertained savings.
- Such information on sufficiency of budget grants is necessary for preparation of Revised Estimates of expenditure.

26.9 In order to enable the Finance Department to collate such information and reallocate resources, **statements of anticipated savings in expenditure** are required to be submitted by all BCOs to the Finance Department not later than 15th January. The procedure for preparing such statements has been explained hereafter.

26.10 Disbursing officers may find in the course of year that expenditure under some detailed heads, sub-heads or primary units is likely to be less than the provisions made in the budget. Possible reasons for such savings could be:

- Actual postponement of expenditure
- Real savings due to economy in expenditure
- Normal savings attributed either due to over-estimation or to the usual administrative causes

As per rules, these savings should in no circumstances be re-appropriated to meet new expenditure without Finance Department’s concurrence.

26.11 Savings anticipated by a disbursing officer should be reported, as far as possible not later than 15th December, to the concerned controlling officer who should proceed to deal with the savings as follows:

i. Firstly, the Controlling Officer should examine allotments given to other disbursing officers under the same detailed head and transfer to the disbursing officer who requires an additional allotment of such sums as can be permanently or temporarily spared. Such a process amounts to a redistribution, which the controlling officer can ordinarily effect without approval from any other authority.

ii. Should the Controlling Officer find such redistribution is not possible, he should examine allotments against other detailed heads within the same standard object, with the objective of discovering probable savings and affecting a transfer. Where such redistribution is possible the Controlling Officer should carry it out provided s/he has been vested with the necessary powers. Otherwise, s/he should obtain the sanction of the competent authority.
iii. If provision of funds from within the same standard object is not possible, an examination of the whole grant or portion of the grant with which the Controlling Officer is concerned should be under-taken to see whether there are likely to be savings under any of the other units of appropriation, which could be utilized. If so s/he should proceed as indicated in point (ii) above.

26.12 In cases where after examination of the savings and excesses in the manner described above, the Administrative Department reasonably anticipates savings to accrue in the grant administered by it, the department should issue surrender order for the same. All such activity of surrendering should be as far as possible be carried out before 15th January so as to enable Finance Department to reallocate resources.

26.13 Grants that cannot be properly utilized should be surrendered in public interest. The existence of likely savings should not be seized as an opportunity for introducing fresh items of expenditure which in other circumstances would not have been introduced or would have been postponed to the next financial year. A rush of expenditure particularly in the closing months of the financial year will ordinarily be regarded financial irregularity.

26.14 On receipt of the surrender order, DTA will withdraw the surrendered provision. This will reduce allotments at the disposal of the BCOs by the surrendered amounts. A copy of the orders of the surrender should be forwarded to the Finance Department, Accountant General, Directorate of Treasuries and Accounts; and the Heads of Departments concerned. The HoDs will forward a copy of order of withdrawal to the BCOs for information and distribution where necessary, of the surrendered amounts among the subordinate officers for reduction in allotments at their disposal.

26.15 **Excess Grants:** In certain cases, after close of a financial year, appropriation accounts may reveal that expenditure under a grant was incurred in excess of the sanctioned appropriation under that specific grant. In such cases, based on recommendations of the Public Accounts Committee, this excess expenditure should be regularized by presenting it to the Legislative Assembly as required under Articles 205 (1) (b) of the Constitution by the Finance Department in the form of Excess Grants.
Chapter 27 Ways and Means Estimate

27.1 Finance Department should ensure that adequate funds are at all times available so that all authorized public demands can be met. Finance Department should also ensure that prescribed minimum cash balances of the State Government are maintained with the Reserve Bank of India.

27.2 In order to be able to do the above, it becomes essential for Finance Department to watch the ways and means position of the State carefully and constantly. This in turn requires inflow of receipts and outflow of payments to be regulated as far as possible, empowering Finance Department with the ability to forecast, with reasonable accuracy, when and in which department particular receipts would be realized or payments would be made.

27.3 Receipts and payments required to be monitored by Finance Department not only include revenue and expenditure but also transactions for which the Government acts as a Banker, Remitter, Borrower or Lender, such as deposits of all kinds, loans, disbursements, etc.

27.4 A consolidated statement on Ways and Means Estimates for the State for the ensuing financial year is presented to the Vidhan Sabha as a part of budget literature. This statement is usually annexed to the Finance Secretary Memorandum. With actuals of the previous year, budget and revised estimates for the current year and budget estimates for the ensuing year, this statement lists net transactions under the Consolidated Fund, Contingency Fund and Public Account in each year. Subtracting net total transactions from the opening balance of a year, the statement ends with the closing balance for that year.

27.5 To enable the Finance Department in preparation of forecasts for the likely cash balance position of the State, discussion may be held by the Finance Department with revenue earning departments. Moreover, Finance Department should be immediately informed incase BCOs anticipate large payments or significant shortfall in receipts which are likely to have a substantial impact on the State’s ways and means position. If BCOs are aware of the month in which an event likely to cause such an impact is to take place, then they should provide information on the same to Finance Department by 25th of the previous month. Examples of events that may cause a sudden rise in expenditure are elections, famine, floods etc.

27.6 Centrally Sponsored Schemes, Central Sector Schemes and Externally Aided Projects are avenues through which a large number of high value cash transactions take place between the state and central government. As such, they have a significant bearing on the ways and means position of the State.

27.7 With respect to Centrally Sponsored Schemes and Central Sector Schemes, concerned BCOs should:

- Submit a statement on month wise anticipated flow of funds from Government of India in the beginning of the financial year. Any variation expected in these figures during the course of the year should also be intimated to Finance Department.
- Ensure that utilization certificates, prescribed expenditure statements and progress reports are sent in time to concerned Government of India authorities so that financial
sanctions for release of funds are not delayed and flow of funds is maintained as projected.

- Ensure that expenditure under such schemes does not exceed ceilings sanctioned by Government of India.
- Ensure funds received from Government of India under these schemes do not remain unutilized.

27.8 For Externally Aided Projects, BCOs should:

- Send information to Finance Department by 15th of every month, incorporating therein expected receipts in the following month against reimbursement claimed so far.
- Enter amounts received directly by executing agencies under the Receipts Heads of State Accounts. Only after necessary budgetary provisions have been obtained should such funds be utilized to incur expenditure as per rules.

27.9 For monitoring receipt of claims under Externally Aided Projects and Centrally Sponsored and Central Sector Schemes, the steps given below should be undertaken.

27.9.1 Heads of Departments should appoint nodal officers responsible for lodging claims, pursuing financial sanctions with concerned Ministries of Government of India and for expediting inter-government adjustment advices by the concerned Pay and Accounts Officer.

27.9.2 Monthly progress report on Centrally Sponsored Schemes and Externally Aided Projects should be sent to Administrative Department and Finance Department.

27.9.3 On receipt of monthly progress reports, Finance Department should reconcile inter-government adjustment advices with financial sanctions and monitor further progress by pursuing it with concerned nodal officers.

27.9.4 For central assistance, every Administrative Department should monitor scheme wise expenditure and take remedial measure for short fall, if any. Major deviations from the budget provisions should be brought to the notice of the Finance Department.

27.9.5 In order to ensure that amounts of inter-government adjustment advices have been credited to the State Account by Reserve Bank of India, Finance Department should also monitor issuance of clearance memos against individual inter-government adjustment advices and submit monthly reports on the same to the Finance Secretary by end of 3rd week of the succeeding month. Simultaneously if any missing credits are found, the matter should be brought to the notice of Reserve Bank of India.
Chapter 28 Supplementary Estimates

28.1 As per Article 205 (1) (a) of the Constitution, when the amount authorized by the Appropriation Act to be expended for a particular service for the current purposes of that year or when a need has arisen during the current financial year for additional expenditure upon some new service not contemplated in the annual financial statement for that year, requests for supplementary grants may be presented by BCOs through their Administrative Department to the Finance Department.

28.2 Supplementary grants may be required for old as well as new schemes. In case of old schemes, a fresh vote of the legislature is not required if it is possible to meet the excess expenditure by re-appropriation of savings under other heads within the same grant. If however, no savings are available, such expenditure should be included in the supplementary estimates to be presented to the Vidhan Sabha for approval.

28.3 If supplementary grants consist of any new expenditure for which funds are available by re-appropriation from savings within the voted grant, a fresh vote of the legislature is still necessary owing to its being a new service not contemplated in the budget. Approval of the legislature for such expenditure will be taken by means of a token demand.

28.4 As provided in Article 267(a) of the Constitution, all unforeseen expenditure of a character that cannot be met by re-appropriation of savings within the grant should be met by an advance from the Contingency Fund. Recoupment of the Contingency Fund should be made by presenting supplementary estimates in the ensuing Vidhan Sabha session. Rules for regulating all matters connected with or ancillary to the custody of, payment of money into, and withdrawal of money from the Contingency Fund will be as per the Madhya Pradesh Contingency Fund Rules, 1957.

28.5 If supplementary estimate is for increased provision against a previously sanctioned object of expenditure, the authority concerned should show:
   a) That need for increased provision could not be foreseen at the time when the original departmental estimate was framed; and
   b) That in absence of such provision, injustice would be caused to some person not at fault or serious inconvenience or serious loss or damage would be caused to public service.

28.6 If a supplementary estimate is required for some new expenditure not previously contemplated in the budget, the authority concerned must show either:
   a) That the expenditure has been newly imposed by statute, or by order of court of law or other competent authority; or
   b) That urgent necessity has arisen for the proposed expenditure, the postponement of which would (i) involve extra expenditure ultimately, or (ii) be administratively impossible.

28.7 In case supplementary grants requested are for a new scheme/project under the current Five Year Plan, then approval of the State Planning Commission and SFC/EFC/PSC (as applicable) will be required. The detailed procedure for obtaining these approvals has been given in Chapter 14.
28.8 The primary responsibility of preparing and justifying proposals for supplementary grants rests on BCOs. Proposals should clearly specify whether conditions as prescribed in paragraphs 28.5 and 28.6, as may be relevant, are fulfilled. In case of applicability of clause (b) of paragraph 28.6, BCOs should explain the necessity and the urgency of the proposed expenditure and also why it is not administratively possible to postpone it.

28.9 Proposals for supplementary grants or appropriations should be submitted by the controlling officer to the concerned administrative department and not to the Finance Department directly. Administrative departments should examine the proposals very carefully and recommend to the Finance Department only those that are considered to be fully justified.

28.10 All proposals submitted by administrative departments to the Finance Department for supplementary grants should be accompanied by self-contained memoranda. It should clearly indicate the accounting classification up to the level of detailed heads under which additional grants and appropriations are required. If any proposal involves incurring of additional expenditure in the future years as well, it should also be clearly mentioned and estimates for the same should also be presented.

28.11 All applications for supplementary grants (format given in Annexure 16) must be submitted to the Finance Department within the time period specified in the Budget Circular after which that department may not be in a position to entertain any application.

28.12 After supplementary estimates have been passed by the Vidhan Sabha and the Appropriation Act authenticating the supplementary schedule of expenditure has been assented to by the Governor, Finance Department should communicate to the BCOs concerned as well as the Accountant General, the amounts included under the various grants and the distribution of these amounts over different units of appropriation.
SECTION 4: BUDGET MONITORING

Chapter 29 Review of Revenue and Receipts

29.1 Review of revenue and receipts is an important task in the overall budgeting process. Proper estimate of revenue and receipts allows:
   • Efficient resource allocation
   • Proper cash management
   • Avoid ways and means advances

29.2 For review of revenue and receipts, the BCOs should collect and compile records of all such receipts in specified formats.

29.3 Ensuring accuracy in recording of Receipts: The following instructions should be followed with respect to recording of revenue receipts:
   • It is essential that accounts prepared by DDOs are compiled independently without taking any inputs from the records of the Treasury. Treasury officials, however, may consult the controlling officers for verification of returns in some cases.
   • Amounts collected should be deposited into the treasury without delay. In order to minimize discrepancies between the treasury figures and departmental figures, challans used for depositing money in the Treasury should bear complete and correct details of the amount being submitted.
   • Revenue collections by departments should on no account be utilized for meeting any expenditure, except where utilization of departmental receipts for departmental expenditure has been specifically permitted by the Government.

29.4 In order to carry out this duty, BCOs should obtain from their subordinates monthly accounts and returns in suitable formats. They should then compare amounts claimed to be credited to the Treasury by these officials with statements of treasury credits furnished by the Accountant General to check if the amounts reported as collected have been duly credited to the Government account.

29.5 If incorrect entries are identified by BCOs, they should be communicated without delay to the Accountant General to ensure that necessary corrections are made. Where departmental registers of monthly accounts and receipts are not required to be maintained as per departmental rules, the heads of offices must make their own arrangement within the office to ensure correct and complete reporting of all receipts takes place.

29.6 Identification of Additional Sources of Revenue: BCOs should carry out a periodical review of revenue receipts at an interval of not later than three years in order to identify the additional sources of revenue for the department.

29.7 Submission of progress reports to Finance Department: A monthly statement prepared on this format should be submitted to the Administrative Department as well as the Finance Department. The controlling officer should also submit a month wise comparison between receipts and the estimate of receipts as submitted in the ways and means statement (As explained in Chapter 27). The controlling officer should provide
comparison between actual receipts and estimates as presented in ways and means estimates each month with details of previous months from the start of the financial year. For items with significant difference (more than 20%), an explanation should be provided. Where actual collections fall short of these estimates, steps necessary to speed up collections should be adopted.

29.8 **Accountant General.** The Accountant General also tracks departmental revenue receipts and reports to the Finance Department in case any abnormal fall or rise in figures is observed.

29.9 **Periodic review by Finance Department:** Progress of receipt of funds under Central Sector Schemes, Centrally Sponsored Schemes and Externally Aided Projects is periodically reviewed by the Finance Department.

29.10 **Monitoring of Government dues:** Subject to any specific arrangement that may have been authorized by Finance Department with respect to any particular category of receipts, it is the duty of BCOs in departments to see that all sums due to Government are regularly and promptly assessed, realized and duly credited to Government accounts.

29.11 Heads of revenue earning departments along with BCOs should obtain statements showing estimated current demand, arrears of previous years, and estimated collections month by month against current demand from their subordinates entrusted with the responsibility of assessing and collecting revenues.
Chapter 30 Review of Expenditure

30.1 Administrative Departments should carry out budget monitoring by reviewing expenditure incurred by departments during a financial year.

30.2 The primary objective of such monitoring is to ensure that:
- State budget presented and approved by the Vidhan Sabha remains a reliable guide to the actual expenditure incurred during the financial year, and
- More informed in-year resource allocation decisions can be made

Expenditure monitoring carried out by Administrative Departments during the course of a financial year should include not only expenditure incurred in the current financial year, but should also encompass a comparison and analysis of past expenditure data for the last three years. This monitoring should include calculating discrepancies between:
- Total budget estimates and actual expenditure incurred by a given department; and
- Expenditure budgeted and incurred under major heads of expenditure of the department.

This monitoring will enable the Administrative Departments to identify:
- Capacity issues faced by departments
- Weaknesses in planning processes while preparing expenditure estimates
- Any observable trend in the request for supplementary grants submitted by departments

30.3 **Outcome Budget:** To ensure that preparation and implementation of outcome budgets by departments is in line with the objective of achieving outcome orientation in all plan expenditure incurred, it is the responsibility of Administrative Departments to carry out an annual review of the performance of departments vis-à-vis targets set in the past three years.

30.4 **Gender Budget:** In order to ensure that estimating officers carry out a comprehensive gender sensitivity analysis while preparing estimates of departmental expenditure, Administrative Departments should carry out an annual review of the actual expenditure incurred by departments under their gender budgets in the past three years.

30.5 **Audit of Expenditure:** Section 13 of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971 empowers the CAG to audit all expenditure of the State Governments.

30.5.1 The audit process of CAG begins with a statement of understanding of the entity to be audited. This is normally done through an entry conference. The concerned Head of Office is expected to facilitate the audit team of CAG by answering questionnaires and attending interviews.

30.5.2 The audit team will then establish the basic facts about the entity through a ‘Factual Statement’. A Factual statement is a document prepared by the CAG based on the replies to the Inspection report.

30.5.3 CAG then may send a draft audit paragraphs (paras) to the entity which appear as audit observations in the Inspection report. In case, the CAG does not find the replies to audit
observations and to the Factual Statement satisfactory, the BCO or DDO will have to provide supporting replies to the draft audit paras.

30.5.4 On receipt of these replies by the CAG, an exit conference is held wherein the significant observations and audit objections are discussed.

30.5.5 After deliberations of the Exit conference have been completed, CAG publishes an Audit Report which is tabled in the Vidhan Sabha. The Public Accounts Committee (PAC) conducts hearings based on the Audit report and provides observations and action points. The PAC Observation is a document sent by the Vidhan Sabha to the concerned department based on the audit para’s of the CAG’s Audit Report.