BLOCK 4
PLANNING, BUDGETING AND AUDIT SYSTEM

BLOCK 4 : PLANNING, BUDGETING AND AUDIT SYSTEM

UNIT 9 PLANNING PROCESS*

Structure

9.0 OBJECTIVES

After studying this Unit, you should be able to:

- Explain the meaning of planning and planning process in BRICS; and
- Describe the procedure of planning and Institutional Mechanism of planning process in Brazil, Russia, India and China and South Africa.

9.1 INTRODUCTION

Planning is future course of action intended to achieve the set goals. It basically combines thinking and organising the activities that are primarily necessary to realise the laid down goals. Planning is the sine qua non systematic efforts, and more often chaos results in the ineffective planning. The effective execution of policies largely depends on "how good is the planning". Precisely, planning is the course of judgment about socio-economic development of the country. It is a process of management to achieve a preferred goal or target; a device to visualise the management of the project and its techniques; and a required step to attain specific goal/s. It is stated that if policy makers will plan immaculately then they can trim down much of the needed time and endeavor of accomplishing the objective.

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9.2 PLANNING PROCESS IN BRAZIL

Brazil became third major democracy of the World in 1988 after the end of long stint of Military dictatorship started way back in 1964. With the adoption of new Constitution Democracy dawned over Brazil paving way for the elections in 1989 and thereby, established Presidential form of the Government with federal set up. This ushered in era of development, and as a result all such institutions and processes, which could purposely assist to achieve development, were created. Policy-making and planning are the basics for any planned development. The planning, within economy, in Brazil is directed by certain crucial objectives and standards, which steers the complete approach including objectives of the definite events and their management. As far as the Brazil planning system is concerned, it has specific goals like augmentation, transformation, autonomy and equity. The planning Process in Brazil has come to be envisaging as a balanced method of adjusting the process of choice through the enterprise of an exact and enumerated relation between means and ends.

During 1967-74, Brazil penetrated a stagflation phase, which is associated with political liberalisation. Augmentation in an economy of Brazil refers to an increase in a country's ability to create the production of goods and services. At the time of military phase, the Brazilian society had urban dominance and the economy was very much industrialised and was heavily dependent on export. Civilian President held the office in the year 1985. Brazil gained experience from the following four separate political models:

a) A revisit to the Pre-1964 practice of political bargaining, clientelism and economic nationalism under the stewardship of Jose Sarney, President during 1985-90.

b) Invent of Neo-Social liberalism with upgradation of economic growth under the Fernado Collor de Mello, President during 1990-92.

c) Unreliable personal style of Social Nationalism under Itamar Franco, President during 1992-94.

d) Consensus style Social democratic and Neo-liberal Coalition, under Fornado Heneric Cardoso during 1995-2002.

The economic plan recognised in 1994 (Piano Real) noticed a vital spinning point in the Brazilian economy. It was flourishing in extremely dropping inflation and cemented the way for improvement in added fields. Low inflation in turn assists to guarantee noteworthy economic enlargement during the first four years of the Piano Real. From 1994 to 1997, the economy produced at standard annual rate of 3.5 per cent and thousands of new jobs were formed. The prototype of augmentation in the Brazilian economy diminished as an outcome of the catastrophe in the global economy of the years. Even so, the enlargement of 2.3 per cent per annum between 1994 and 1999 was drastically advanced than that accomplished before 1994.

Brazil triumphed over the financial crisis of the 1999-2000 and from 2001-03 actual wages chopped down and Brazil's economy produced, unusual, only

1.1 per cent per year, as the country enthralled a sequence of domestic and international economic distress. That Brazil fascinated these surprises without financial fall down is a tribute to the resiliency of the Brazilian economy and the economic programme put in place by former President Cardoso and reinforced by the President Lula Da Silva who was elected in 2002. He assumed to complete many of the development projects started since 1994.

In the history of thirty years, a sequence of plans has been organised by consecutive Brazilian governments in an enduring attempt to capitalise on the nation's resources for economic and social development. This planning history has been quantitatively rich but qualitatively poor.

Both the ministries, Ministry of Planning and Ministry of Finance are mainly responsible for planning in Brazil. The responsibility of the Ministry of Planning is to promote global planning and sectoral planning. The planning process in Brazil is spearheaded by the experienced ministries. The Ministries for Agriculture, Transport and Communications, Education, Labour and Social Order, Industries and Energy Supply are involved in the planning process in Brazil. In addition, there are economic institutes who are collectively responsible in the setting up many innovative projects, and plan supervision. The Fundacao Getulio Vargas and banks, particularly the Banco National de Desenvolvimento (BNDE) and the Banco do Brasil are collectively involved in the planning process. The Federal Audit Office and Inter-Ministerial Commission are also forming initiatives in the execution of the planning process. The Commission is executing and deciding the calculation of costs in the industrial sectors and its base price. In the execution of the planning process, there are also regional planning institutions. The Superintendency for the Development of the Northeast (SUDENE) and the other planning department of the 22 federal states and individual cities has been named.

The planning formations on the federal level are dispersed to the experienced ministries because of their accountability. In addition the Ministry of Planning is on the same level as the other knowledgeable ministries and has the ability to offer directions. This has been dangerously obstructing belongings on global planning due to the absence of pressure to synchronise sectoral development. In addition, it has become apparent that the usefulness of the Planning Ministry's actions significantly depends on the political significance and power of the Minister in charge.

Article 170 of the Constitution specifies that the principle of the economic order should be the deliberation of private proposal as the main factor of economic development – i.e. planning must, therefore, be on the principle of direction-planning through the process of free market services.

The process of planning in the Brazilian economy has following two stages.

a) ***Draft Plan***

The First Stage refers to the draft plan. Under this stage, the target growth of the economy, structural measures, and macro-economic and sectoral data are resolute conditionally. The draft plan is published for economic policy in the shape of a paper of 50-100 pages.

b) ***Skeleton Plan***

At this stage, the actual planning process starts and it is also called programming of planning. This responsibility comes under the supervision of Ministries of Planning, Finance and other relevant ministries. The SUDENE, SUDAM (Superintendency for the Development of the Amazonia), RADAM, INCRA and ROVALE are also involved in planning process in Brazil. It is the responsibility of these institutions to look after the projects in the process of implementation.

The Piano SALTE and Piano De Metas were responsible to implement the sectoral plans in Brazil. It was during 1950-1954 and 1956-1961, the first inclusive effort was made by setting up and executing economic policy plans for Brazil.

Goulart Plan initiated the Global Planning Programme, which was particularly based upon three-year plan for economic and social development in Brazil. This plan was already noticeable on account of recession. The global objectives were the following:

- persistence of the unreserved economic growth in industry between 1956 and 1961 with an average GDP growth rate of annually 6 p.c. and the matching per-capita growth rate of annually 3.10 p.c. for the period from 1963 to 1965.
- An improvement decrease of the inflationary expansion to an inflation rate of 11 p.c. in 1965.
- Alteration of the regionally as well as personally uneven allocation of incomes.
- Understanding of essential reforms, i.e. of management, banks, finance, and agriculture.
- Lessening of foreign debts, which augmented powerfully because of permanent balance of payments shortfall.

The following other global objectives were set up:

- Augmentation of economic expansion to an annual GDP growth rate of 7 p.c. for 1964-1966.
- Improving of gradual decline of the inflation rate from 80 p.c. (1964) to 25 p.c. (1965) and to 10 p.c. in 1966.
- Amplify of the general economic investment ratio between 17 and 20 p.c.
- Significant decrease of the hitherto established national budget deficits.

- Symmetry in the balance of payments through the expansion of a system of export creation enticement.

Mainly these goals are to be get hold of through monetary measures, predominantly by balancing future budgetary deficits not by an increase of the money supply any more, but by the government bonds. In the second place, expansion of the credit volume should augment at most at the same rate as the GDP at current prices does; and in the third place the increase of the minimum wages as permanent by the government, which manipulates noticeably the complete domestic wage level.

The Ministry of Planning, Budget and Management (MOPBM)

The Ministry is an innermost organ of the federal republic in Brazil. The objective of this Ministry is to execute long-term and short-term plan enshrined in the policies of the federal government in Brazil. The Ministry is in the planning process to promote state capacities and augment sustainable development in the execution of public policies. Planning process start with the help of overall objectives and the Ministry of planning is playing a leading role in fulfilling the objectives. The MOPBM ensures:

- Increase in the institutional capacity of public administration.
- Enhance Organisation and implementation of the state plans.
- Augment the supply of public service of distinction to citizens.
- Single-minded skills and the democratisation of labour relations.
- Augment the government's aptitude to execute public policies.
- Advancement of the process of allocation and supervision of public resources by escalating and incorporation of the functions of planning, budgeting, implementation, monitoring, evaluation, and control of public strategy.

The other major activities are directly linked to the planning process in Brazil. These are mainly on:

- formation of National strategic planning and execution of long-term public policies aimed at national growth;
- evaluation of socio-economic impacts of federal government policies, and performing studies for their re-evaluation;
- scrutiny of the socio-economic situation and the administration of cartographic systems and national statistics;
- organise, watch and appraise the laws proposed by the Federal Executive Branch;
- facilitate new sources of funds for the government strategy;

- devise guidelines, synchronise negotiations, supervise and appraise external financing of public projects;
- synchronise and direct cross government digital approach; and
- invent guidelines, manage and define corporate governance criteria of the federal state-owned project.

National Development Planning in Brazil

National Development Planning has emerged as an important mechanism of economic development in Brazil. Since the adoption of the New Constitution, 1988, the NDP in Brazil emerged as a multi-year development planning system engaging directly towards Law of Budget Directives, and Public expenditure management. Its major role is to enhance the productive guidelines for the distribution of public resources to augment efficiency and all-round development.

9.3 PLANNING PROCESS IN RUSSIA

The Planning Commission in Russia is called Gosplan (State planning Committee) and was established in 1921. The Gosplan is very much responsible for the development of Central Economic Planning. Its prime responsibility is to prepare and administer sequence of five year plans to boost the economy of USSR. The Five-year Plans were initiated in the year 1928, and the Gosplan was responsible for their formation and establishment according to the requirements affirmed by the All-Russian Communist Party (Bolsheviks). The Statistical Directorate was amalgamated into Gosplan in the year 1930 and Gosplan was re-subordinated to the Sovnarkom during the year 1931. These were associated with predictive and immediate planning. After that the Gosplan was separated into two Commissions.

i) The USSR Council of Ministers State Commission for Advanced Planning.

ii) The USSR Council of Ministers Economic Commission on Current Planning.

The Gosplan has an advisory opinion. It comprised of staff of 34 personnel and they are selected on the basis of academic expertise. Other 7 members were added from Russian Communist Party. In this way, Central planning got initiated.

Planning is treated as economic actions of the State in Russia and its economic establishment is created on the guideline of public. The development of planning institutions in Russia can be divided into three stages:

i) Before the establishment of Nation-States (non-Differential Planning): all category of plans were shaped on the basis of ethnicity and background.

ii) Opening of formal planning dealings and conception of planning establishment.

iii) Implementation of planning authorities and observance to the recognised procedures.

In Russia, the implementation of Planning authorities and observance to the recognised procedures may be divided into two sub-stages:

a) Planning in the Soviet period of economic supervision; and

b) Planning in the circumstances of market economy.

The stages of planning process in Russia are:

a) Soviet State Planning Committee

b) Material Balances of Planning

c) Establishment of National Planning

d) Establishment of Long-Term Perspective Planning

e) Establishment of Multi-level Plans

f) Establishment of Operational Planning

g) Operation of Strategic Planning

Now, we will discuss the process of Planning in Russia in detail.

a) ***Soviet State Planning Committee***

As we know, the nationwide centralised Economic Plan was established in the Soviet Union in 1920s. The Gosplan had given a blueprint of economic planning in the model of Soviet economy. On the lines of Soviet State Planning Committee, the Gosplan launched thirteen five-year plans. The objective of the first five year plan was to achieve industrialisation of the Soviet Union. The first Planning process was accepted in 1928 and it covered the period between 1929 and 1933. The last five-year plan was expected to be completed by 1991-1995. It was not successful on account of disintegration of Soviet Union.

b) ***Material balances of Planning***

The material balances of planning are method of planning process under the Gosplan. It associates with a planning agency. It takes the survey of inputs and raw material in the economy. It aims to prepare a balance sheet of the industry.

c) ***Establishment of National Planning***

The framework for establishment of National Planning system was developed in Russia to promote the expansion of planning possibility and perspective of shared agreement plans for personage industries in the economy. The Russian Federation was set up and the federation established the Constitution of State Commission on Electrification of the country in the year 1920 with a prime responsibility to improve a programme of national economic recovery and technical re-equipment and enhancement of reconstruction programme of the economy. The top–bottom directive system of economic management started to develop.

d) *Establishment of Long-Term Perspective Planning*

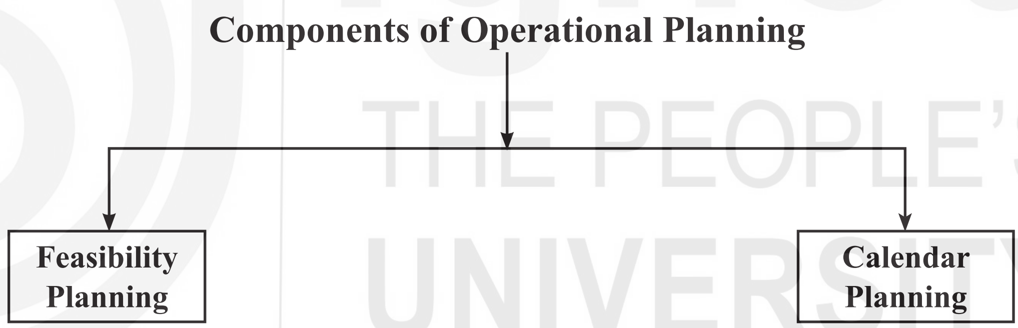
The State Perspective Planning in the shape of implementing five-year plans was set up in the country. In the early 1930s, five-year plans were discussed and deliberated in the annual plans. The methods of short-term planning were also established to maintain a balanced approach in the economy.

e) *Establishment of Multi-level Planning*

The Soviet State decided to set-up multi-level plans for the country. The priority was given to the formation of the State plan on the basis of multi-level plans. On the basis of the protocol of the State Plan, the Sectoral plan and plan for Enterprises were acknowledged. The successful working and the realisation felt of an industrial plan was an appropriate association of its draft. The formation of long-term plan, Medium-term plan and Current Plans for improvement of economic industrial development was framed differently.

f) *Establishment of Operational Planning*

Operational Planning is also a process of planning in Russian economy. The operational planning may be divided into two sub-units of planning.



Feasibility of planning refers to the process of long-term planning, which otherwise is called the perspective plan. This plan is approved by the ministries and it covers production, technical, and financial activities of an enterprise. It also refers to the social development of the human resources and deals with national economic plans and the plan of a single venture. It locates the particular indicators and components required for execution of government objective with the maximum competence. Techpromfinplan offered profound feasibility study of financial resources and components of the detailed estimates of production plan. The financial plan of an enterprise included only a profit and loss report. Operational planning had an executive role. In the surroundings of the market economy, venture becomes free from stringent control of the state. At present planning is enthusiastically mounting in Russia. There is a regular shift in importance from the existing planning to strategic planning.

g) *Operation of Strategic Planning*

The process of strategic planning is used at all levels of management.

- At the State level

- At the Regional level
- At the Enterprise level

Comprehensive strategic development plan in Russia is more distinctive. It is responsible for the improvement and monitoring aspects of implementation of the long-term and socio-economic improvement of the Russian Federation.

9.4 PLANNING PROCESS IN INDIA

In India, relevance of the planning was acknowledged before Independence. It is fundamentally a backward and frontward practice. Significant plans were deliberated in the politico-economic round — the Bombay plan, the People's plan, and the Gandhian plan. The Congress party has taken proposals in appointing an expert committee to give a design for national planning. A Planning and Development Department was set up in the government of India in the year 1944. It was only after the accomplishment of independence that grave thinking on the significance of planning was recommenced. The Planning Commission of the Government of India was formed on 15th March 1950 and the first Five-year Plan was originated on 1st April 1951.

Process of Planning

The following stages of planning are followed in the execution and implementation of plans for the socio-economic development of the country.

i) Perspective Planning

ii) Formulation of Guidelines

iii) Preparation of the Approach Paper

iv) Publication of the Draft Plan

v) Finalisation of the Plan

vi) The Phase of Implementation

vii) The Exercise of Evaluation

Now, we will explain the above mentioned stages in planning.

i) ***Perspective Planning***

The chief role of the Perspective Planning Division is to evaluate and estimate about the medium-term and long-term growth plan. It has multiple functions in the process of planning. It has different economic modeling unit in providing sectoral growth of the economy. The perspective planning stands for 5-20 years planned development. This is tentative and general goals for the long-term development of the national planning process. The perspective planning also covers macro-level economic modeling, fiscal issues, external sector on import and export, consumption and levels of living.

ii) ***Formulation of Guidelines***

The goal of plan is given guiding principle by a numeral of Working Groups, which are formed for each imperative sector. These groups encompass professionals, economists, and government in the Central Ministries and the NITI Aayog. They prepare targets for their individual sectors, keeping their requirements and possessions in view.

iii) ***Preparation of the Approach Paper***

The preparation of the approach paper is based upon the process of National planning in India. Thus, it is the responsibility to prepare major objectives, targets, issues and challenges.

iv) ***Publication of the Draft Plan***

The draft plan draws the set of goals and objectives of the plan. The draft plan also provides extensive suggestion of the precedence and targets in various sectors. The draft is thrashed out in governmental as well non-governmental sphere at the central and the state levels.

v) ***Finalisation of the Plan***

On the basis of additions and modifications, emanating from different central Ministries and state governments, the final version including modifications and deletions of the plan is given final shape. The finalisation of plan covers the administrative, financial and technical aspects of the plan.

vi) ***Phase of Implementation***

The phase of implementation is being directly articulated to the concerned Central Ministries and State administration. The process of implementation starts with the release of sanctions by the Ministry of Finance and State Finance Department.

vii) ***Exercise of Evaluation***

Monthly evaluation and assessment of the plan is necessary. Certain readjustments may have to be executed in the plan in the light of the evaluations. The plans are executed on the basis of above pattern.

Following institutional mechanisms were spearheaded in the execution and implementation of the planning process till 2014:

i) Planning Commission

ii) National Development Council

iii) State Planning departments and Boards

iv) District Planning agencies.

After August 17th 2014, the Planning Commission of India was dissolved to pave the way for NITI Aayog (National Institution for Transforming India). The NITI Aayog came up in January, 2015 to replace the command economy structure adopted by India. The Planning Commission top down model of development was no longer suited the changing economic conditions of the country. On the other hand, NITI Aayog consultative approach sounded appropriate as various state governments and other relevant think tanks at the grassroots levels provided the inputs for the formulation of plans. However, the strategy of economic planning in India before or after the NITI Aayog remained important as it described the long-term plans of India and also stressed upon the efficient utilisation of resources.

Thus, basic objective of Indian planning has been acceleration of economic growth to raise living standards of the citizenry.

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) Discuss the objective and role of the Ministry of Planning, Budget and Management in Brazil.

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2) What is Gosplan in Russia?

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3) Discuss the planning process in India.

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9.5 PLANNING PROCESS IN CHINA

China pursues planned development through the Five-Year Plan (FYP). China's FYP is not actually a single, coherent plan, nor is even fully contained within a discrete five-year period. Rather than a static policy blue print, the FYP is better thought of as an evolutionary planning and policy-making process. The Planning System is grouped into three steps and three groupings.

On the basis of administrative groups, the following components are divided into number of steps. These are mainly on:

a) the National Plans,

b) the Provincial Plans, and

c) the Local Plans (City and Country).

On the basis of objective and purpose, the following components of groupings are also highlighted. These are mainly on:

a) General Plans,

b) Special Plans, and

c) Regional Plans.

In Practice, the figure of planning stage can exceed three types. We can cite example: the governments of townships and development zones make their own formulation of special plans or execution of regional plans.

By purpose, there are also additional plan groupings such as Urban Development Plans, Land Use Plans, and Corporate Development Plans.

The five-Year Programme for Economic and Social Development is the mainly significant plan at the countrywide level in China. The Five-Year Plan was structured and re-named as the Five-year Program since the adoption of 11th Plan period. The prime responsibility of the plan is to promote economic and social empowerment.

The core plan formulation moved from setting development objective to putting forward advance strategies. A straightforward general plan is extended to an all-inclusive plan set, with special long-term plans and spatial plans leading a formative role.

Decentralised-decision making is upholding to give local governments more self-sufficiency in the formulation and execution of local plans. The process of planning in China has been completely changed from a clogged one to an unlock one and it is the result of lofty degree of clearness and public contributions. The planning processes have become standardised.

The National Development and Reform Commission (NDRC)

The NDRC was popularly called as State Planning Commission (SPC). It was formed in the year 1952. It was restructured as State Development Planning Commission in the year 1998.The Council office for Restructuring Economic System (2003) was mingled with the State Economic and Trade Commission and was called NDRC. The NDRC formulates FYP and keep an eye on these plans. It is a leading Planning Institution in China, playing a very significant role in the execution of Five-Year Plan document in Chinese economy.

Department of Personnel

The Department of Personnel is also monitoring the processing of documents, maintaining classified documents, and also tracking the day today work of the NDRC. This department is also very much accountable to review the information guidance programme of the policy studies.

Process of General Plans in China

Governments at the National, Provincial and local levels are very much integrative in arranging the formulation of general plans. The development and Reform Commission are also accountable in drafting policy procedure at the same level. Under the guidance of the State Council, the NDRC works on a plan draft along with other ministries and departments. Following chart will represent the process of planning formulation of National Plans in China.

The Policy-making process for the NDRC is accountable to the five-year plans of China. The Politburo Standing Committee is the most influential policy-making body in Chinese politics. It consists of 7 top members of the Chinese Communist Party. The Prime Minister heads the State Council. The body includes the chiefs of the major Chinese ministries and government bodies. Policies which have been made by the NDRC follow general principles set out by the President, Prime Minister and other members of the Politburo and the State Council. The NDRC'S authority expands down to the provincial, municipal, and country development and reform commissions.

Pre-Analysis

The pre-analysis begin two years prior to the commencement of the new plan. The planning process includes:

- examining the major issues pertinent to economic and social growth;
- enterprising probability assessment of state funded major capital speculation and infrastructure projects; and
- The course can take different forms such as domestic investigation, external contracting public hearing, dialogue and calling for proposition.

Plan Outlines (Drafting)

As per the notice issued to the NDRC on plan drafting, concerned ministries and departments put forward plan submission on their own conditions. The NDRC works out initial area-specific plan outlines based on this proposition, and then a general draft structure after compromise, synchronisation, and overall harmonising. Major plan objective of economic and social growth will be scheduled in the agenda.

Evaluation, Approval and Amendment

The finished plan outlines is subject to assessment and judgment of the officials at diverse levels, from ministries to the state Council and to the Party Central Committee. The ultimate explanation will be reported to the National Congress for endorsement after two rounds of considerable appraisal and amendment. The plan becomes a lawfully binding text once accepted by the National Congress, the Country's uppermost authority.

Publication and Process of Implementation

Once the Five Year Plan is accepted by the National Congress, the State Council takes the accountability to systematise the plan completion by distributing plan responsibilities to the governments and departments at different levels. A sound organisation is necessary for the accomplishment of plan execution, which comprise stepladder such as task share, social draft, harmonisation and information supervision.

Monitoring, Management, Appraisal and Assessment

These mentioned provisions and processes are developed to examine the performance of plan implementation. The assessment aims not only all-purpose presentation of the national economy but also the precise presentation of personage sectors, departments or areas. Quantitative components are also employed. Supervision is also worked out on behalf of the People's Congress. The other institutional bodies are also involved like Political Consultative Conference over emanating from the government departments or by the planning authority over economic activities of a range of category.

Process of Regional Planning in China

Apart from the national plans, there are also regional plans. The Regional plans have also a drafting team official. The major regional planning procedure includes:

i) Investigation and Data compilation
ii) Target setting based on widespread analysis and projections
iii) Segment detailed studies
iv) Plan drafting with graph and tables
v) Appraisal and evaluation by officials and experts
vi) Statement and endorsement by higher authorities
vii) Accomplishment and response.

The NDRC helps to generate macroeconomic policy. Local authorities and other government ministries and bodies are dependable to appraise policies in operation.

Process of Provincial Planning in China

The Provincial planning process can be executed in terms of three stages:

i) Preparation Stage.

ii) Formal Draft Outline Stage.

iii) Information Dissemination Stage.

The Preparation stage starts with an assessment of the last five-year plan. Several studies are conducted and evaluated on diverse aspects of the economy. It provides needed information to the policy-makers. The second stage refers to the outline and formal draft of the concerned provincial five-year plan. The Provincial city level studies have been collected and analysed for a broad outline of the five-year plan. In the third stage, information is collectively dispersed officially through the government and party guide and also on behalf of print and online media periodicals.

Planning Process of Special Plans in China

Special Plans in China are developed for economic and social development. Under this plan, the Government is entitled to use the available documents, review of projects, investment decisions, and allocating budget funds to the concerned sector. The duration of special plans is of five years. The guidelines, principles, targets, which are outlined in the purview of special plans are not mandatory. The concerned Ministries and commissions are accountable for formulating special plans for their respective areas and sectors. The Special Plans have following process of implementation:

i) Preparation is the first planning process under the special plan in China. The plan reflects the procedure of preparation of time table and activity plan for its future development. Techniques like review, survey and investigation constitutes the core of the special plan.

ii) Plan drafting is otherwise called plan outlining of tentative procedure of formal planning. It refers to the draft work such as key ideas based on pre-study results and recommendations from relevant departments. It needs to consult the experts and the public.

iii) Document matching is an important process of planning under special plan. It needs comparison with other major plans. National plan is also being studied under the purview of document matching. The draft should be studied carefully by the experts and qualified agencies.

iv) Plan targets are also an imperative development agenda under special plan. The target must have substantial impact under the special plan.

v) Publication is the hall mark of special plans. If the plan is approved, the suggestion can be made before its publication.

vi) Implementation process begins when the different departments of the government carry forward plan and its future outcome for processing.

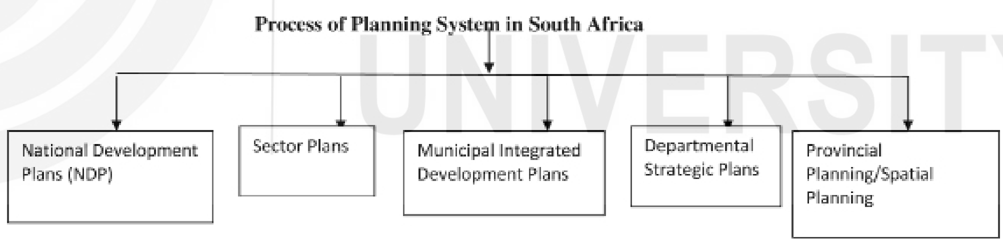
vii) Mid-term evaluation will be assessed and suggestions will be worked out for its future course of action.

It may be said that the policy-making process in China is somewhat different, if we will compare with Brazil, India and Russia. It is very much shared and consensual. The process of planning in China in terms of its execution and implementation level is being highly consistent.

9.6 PLANNING PROCESS IN SOUTH AFRICA

Planning is continuous process in South Africa, which involves decisions and choices made by the government to use alternative ways to use available resources. The theoretical foundation of planning in South Africa is largely based on British system of planning as South Africa remained under British regime for long time. National Planning is the responsibility of the office of Presidency and encompass strategies and policies for the country as a whole. South Africa has commenced the institutionalisation of national planning in the government, a process that will result in the creation of functional and integrated national planning system in the government.

The first step towards national planning was taken when the National Planning Commission of South Africa was set up in 2010. The objective of the Commission is to develop a long-term visualisation and deliberate plan for South Africa. The Public Service Act was passed in 1994 and Municipal System Act was also passed in the year 2000 for the process of strategic plans. The National Planning Framework was also formed in the year 2001 to bring linkages with elements of planning, budgeting, monitoring and evaluation. It set the framework and in saying planning is a process. It has also provided five yearly reviews of plans for socio-economic development. The following will represent the process of planning system in South Africa.



As mentioned above, the National Development Plan (NDP) offers the long-term revelation and developmental curve for the country. Here, Sector Plans refer to cover diverse sectoral areas. This is cross-cutting plan. Even, Municipalities Integrated Development Plans also provide Annual service Budget Implementation Plans. However, the Departmental Strategic Plans seek to promote the Public Service Regulations and it necessitates every department to arrange a strategic plan of certain objectives, which is based on Constitutional and other legislative mandates. It provides adequate monitoring mechanism in service delivery improvement programme.

After 1994, South African government promoted process of spatial planning. The spatial planning refers to the methods used by the public sector to influence the distribution of people and activities in spaces of various scales. The first part of spatial planning legislation brought in after 1994 was the Development Facilitation Act (1995) to take frontward the RDP goal of flouting down apartheid geography. The NDP made the case for a National Spatial Framework in 2012. In 2013, it was consequently legislated for by the Spatial Planning and Land Use Management Act. The Act explains the necessities for Municipal Spatial Development Frameworks. It initiates spatial framework at national and provincial levels. Data and Planning are also to analyse important data to locate emerging trends.

Institutional Framework and Planning Process in South Africa

The process of planning in South Africa is being initiated through following institutional procedures.

The Presidency is one of the institutional frameworks of planning process in South Africa. It has basic duties for the development of strategic planning. It is very specific to overall planning coordination. The National Planning Commission is also set up to analyse long-term development trends and giving guidance on long-term planning issues and implementation of the NDP.

Department of Planning, Monitoring and Evaluation is an implementing agency in the planning process in South Africa. It has responsibility with National Treasury to monitor and evaluate execution of policies for all-round development. It is also with the Secretariat subject to the National Planning Commission. Office of the Premiers is also collectively responsible for the execution of provincial plans and coordination of the policies for provincial plans.

National Treasury is an important strategic planning process and provides adequate guidance to Department of Planning Monitoring and Evaluation. The other responsibilities are also fulfilled at the provincial levels. The Department of Cooperative Governance is also setting agenda in providing public services and support to the preparation of Municipal Integrated Development Plans. The Parliament and Provincial legislatures are also accountable for strategic plans and annual performance plans. These are tabled in the Parliament.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) Discuss the process of provincial planning in China.

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2) Explain the planning process in South Africa.

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9.7 CONCLUSION

Planning in comparative perspective has been one of the basic pillars of the Country's approach to development. In the recent times, the relevance of the process of planning is much debated by the policy-makers across the globe. The role of planning in contemporary political systems is to coordinate the activities at all the levels in the government – Centre, States and Local.

9.8 GLOSSARY

Gosplan: Gosplan is a Centralised Economic Plan. It is framed in the process of Planning in Russia.

NDP: It refers to National Development Planning. It is one of the planning process mechanism developed in Brazil.

NDRC: It refers to National Development Reform Commission. The NDRC was popularly called as State Planning Commission (SPC).

Sectoral Plan: The Ministry of Finance is the fast running agency for sector plans. It is otherwise called sector investment plans.

Special Plans: Special Plans have different process of implementation. It comprises of preparation, plan drafting, study of document matching, plan targets, publication, implementation, and evaluation.

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9.10 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points:

   - The Ministry of Planning, Budget and Management is an innermost organ of the federal republic in Brazil.
   - The objective of the ministry is to execute long-term and short-term plan in the policies of the federal government in Brazil.
   - For more details, refer Section 9.2

2) Your answer should include the following points:

   - The Planning Commission in Russia is otherwise called Gosplan.
   - It was very much responsible for the development of Central Economic Planning.
   - It was established in 1921.

3) Your answer should include the following points:

   - Refer Section 9.4

Check Your Progress 2

1) Your answer should include the following points.

   The Provincial planning process can be executed in terms of three stages:

   - Preparation Stage
   - Formal Draft Outline Stage
   - Information Dissemination Stage.

2) Your answer should include the following points.

   - Refer Section 9.6

UNIT 10 BUDGETING AND AUDIT SYSTEM*

Structure

10.0 OBJECTIVES

After studying this Unit, you should be able to:

- Explain the significance of Budgeting and Audit;
- Discuss the features of budgeting system in BRICS countries;
- Compare and highlight the audit machineries in BRICS countries; and
- Distinguish and describe the budgeting and audit system of India from other BRICS countries.

10.1 INTRODUCTION

Finance is the life-blood of all monetised socio-economic formations ranging from simple nuclear families to complex national and international organisations. It is the fuel of the engine of administration and thus, is considered as one of the most important component of any government. Hence, it is required that finance has to be utilised and controlled in a systematic manner for its optimum utilisation. It is through Budgeting and Auditing (B&A), which are the common tools of all systems, that optimum utilisation of financial resources is ensured;

* Contributed by Prof. Swinder Singh, USOL, Panjab University, Chandigarh

however, the system of budgeting and auditing varies from country to country depending on the system of government followed by the nations. To fully understand the role and importance of B&A, a brief outline of the budgeting and auditing system prevalent among BRICS countries has been provided, in this Unit, in the ensuing discussion. Before examining the B&A, the significance and basic principles of budgeting and audit have also been discussed briefly.

10.2 SIGNIFICANCE OF BUDGETING AND AUDIT SYSTEM

Budgeting

Budgeting is one of the principal tools for financial management of a country. Infact, the economy of a country is greatly influenced by the budgeting actions of the government. The government budgeting is one of the major processes by which the use of public resources is planned and controlled. It is through the budget that the programmes of the government are brought, increasingly, to the service of citizens, enhancing their material and moral status. Budget provides benchmark, against which actual results are compared and corrective measures are applied to bridge the gaps. If we go for a basic definition of budgeting, it is regarded as a statement forecasting revenues and expenditures during a certain determined period of time. It is also an authorisation of an order by competent authorities to make the expenditures and collect the revenues (Paul L. Beauline). The French Accounting Law defines the budget as : "The budget is a document which forecasts and authorises the annual receipts and expenditures of the state and of the other branches of service which by virtue of the law are subject to the same rules and regulations". The budget is a plan or programme framed on the basis of past experiences and carries a preliminary proposal for schemes of action. Such a plan and proposals derive inspiration from the economic, political and social policy of the government and the economic ideology accepted by the country in question.

The government performs its functions with the help of its budget, and within the limits fixed in the budget. The budget, in fact, occupies a leading place among the special tools of the government, employed to direct and control the affairs of a nation. It is both revenue raising exercises, and the operation of techniques of monetary and fiscal control. It is the responsibility of the country's financial administration to effectively balance the budget by equating income with expenditure. The real significance of the budget system is to provide for orderly administration of the financial affairs of government. In a budgetary system, an estimate is first prepared of the expenditures that will be required for the proper conduct of governmental affairs together with the proposals for raising the financial resources to carry out these expenditures. In this way, the budget provides a financial roadmap to the government to maintain a balance between limited resources and limitless demands. At the same time, a thorough financial control is exercised through the budget at various stages — from the preparation of estimates to the expenditure making— the subordinate agencies within a department are involved in the initiation of estimations, senior officers scrutinise the estimates in terms of their needs and resources, whereas the top officers moderate the estimates in the light of accepted government policies. Thus, Budget is a critical skill, that is, important for every administration serving the people.

Audit System

Whereas the budget acts as a tool of financial control at various stages (before expenditure, after expenditure and in-between) the audit comes into picture at the time of making expenditure and after that. It is an integral part of any financial administration and an effective mode of control of public finance. It is a tool for assessing the internal operations of the administration. It is concerned with the independent examination of the accounts or verification of the statement of financial position and all the financial transaction. In the words of Charsworth, "audit means the process of ascertaining whether the administration has spent or spending its funds in accordance with the terms of the legislative instrument which appropriated the money". The primary purpose of audit is to ensure that in the process of expending government funds all canons of financial property have been observed; the rules and regulations which govern the expenditure are adhered to; and the expenditure has been incurred for the purpose of which it has been appropriated by the legislature. Therefore, Audit brings transparency in the financial affairs of the government.

Generally there are four stages of audit:

i) ***Appropriation Audit:*** looking into the conformity to purpose and statutory limits;

ii) ***Regulatory Audit:*** ensuring that the rules and regulations are fully adhered to;

iii) ***Propriety Audit:*** This is also called higher audit. It looks beyond the formality of the expenditure to its 'wisdom, faithfulness and economy;

iv) ***Efficiency Audit:*** It is beyond the other forms of scrutiny to an examination of the efficiency of the agency or the authority.

Now a day's, audit generally takes place along with the daily financial transactions and the preparation of accounts. Therefore, a parallel machinery of audit is generally installed in every administrative set up. It is only through the institutions of independent audit that the legislative control over the public expenditure can become really effective in ensuring the proper utilisation of funds with due regard to the consideration of economy and efficiency.

There is no universal system of B&A, except their basic principles. In most of the countries the system of financial administration, including the budgeting and audit was established first at the national level and from there spread to the provincial and local levels. Each country has got its own unique system influenced by historical and other factors and traditions. Let us now examine briefly the system of budgeting and audit in BRICS countries.

10.3 BUDGETING AND AUDIT SYSTEM IN BRAZIL

Budgeting

Brazil has a high degree of rigidity in its budgeting system. The Ministry of Finance is separate from the Ministry of Planning, Budget and Management but the budgeting is a separate function from planning. It is largely a top-down operation and the Brazilian President too has important role in it.

Broadly, the budgeting process in Brazil may be divided into three phases: the preparation of estimates and the draft budget; presentation of budget in the legislature for its enactment; and the final changes and endorsements by the President. The first phase starts much earlier than the April when it is to be presented to the Congress as a draft "Budget Guidance Law". The Congress has to pass it by the end of June, and in the final phase the presidential budget implementation directions are issued, which may carry many changes in the budget enacted by the Congress.

The initial process of budget preparation in Brazil starts with internal reviews by the Planning Secretariat and Budget Secretariat of the Ministry of Planning, Budget and Management. The Planning Secretariat reviews the results of the previous year's activities in terms of outcomes and outputs. It also proposes changes in the list of priority programmes and transmits this list to the budget Secretariat. As these programmes carry significant political priorities of the government therefore, these are generally not subject to cuts by the President. The Budget Secretariat primarily focuses on the resources needed to carry out the proposed tasks and programmes and announces the limits of expenditure by each Ministry. For this the Ministry of Planning and Budget and the Executive Secretary of each Ministry review that thoroughly.

In Brazil, the legislature plays a vital role in the budget process. The taxing and spending power of national legislatures is at the core of democratic accountability, and the "checks and balances" function of the legislature on the executive irreplaceable.

Historically, the role of Congress in the budget process has been limited in Brazil. Until 1989, Congress could not make any changes whatsoever to the budget proposed by the Executive, and extra-budgetary spending was quite prominent. The 1988 Constitution gave Congress powers to modify the budget, and this resulted in thousands of amendments proposed each year. As a consequence, a more responsible system for examining the budget was designed, setting knits both on the number and on the content of amendments.

Detailed congressional scrutiny of the budget takes place in the Joint Committee on Plans, Public Budgets and Auditing (the Joint Committee). The Joint Committee has a dominant role in examining the Executive proposal. It consists of 84 members from both houses of the Congress: 21 senators and 63 Deputies. Its chairman is elected each year, alternatively from the Senate and the Chamber of Deputies.

The Committee is assisted by a Research Office, consisting of about 35 professionals. However, they are not exclusively focused on providing services to the Joint Committee. The Congress also has full access to budgeting and accounting database of the Executive branch.

Audit System in Brazil

For the purpose of external audit, the Federal Court of Accounts (TCU) is the apex body as an auxiliary to National Congress (Legislature), which has the powers to control and oversight over federal public sector entities and federal public fund. It is paying attention to accountability and decision-making process, in particular in relation to audit of the consolidated year-end government report, known as Accounts of the President of the Republic of Brazil. The TCU strives to improve the ways in which it supports government accountability and decision-making.

Until May, 2016 for the purpose of the internal audit there was an office of the Comptroller General (CGU) which was responsible for internal control activities such as Public audit, disciplinary measures, corruption prevention etc. The Comptroller General was assisted by the Executive Secretariat, which had following four major wings:

i) Federal Internal Control Secretariat,

ii) Transparency and corruption Prevention Secretariat,

iii) National Disciplinary Board, and

iv) National Ombudsman's Office.

The acting President of Brazil dissolved the CGU in May 2016 and replaced it with a new Ministry of Transparency, Monitoring and Control. It was regarded as an effort to streamline federal agencies, cutting costs in a time of recession and spiraling deficits. Brazilian audit system has adopted the following types of audit as prescribed by the International Organisation of Supreme Audit institutions.

"Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.

Performance audit focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness; and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.

Compliance audit focuses on whether a particular subject matter is in compliance with authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities, which govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials.

In terms of audit, there are three different moments, in which it can be made previous, concomitant and subsequent. It is allowed to audit expenditures in all these stages, from authorisation to effective payment, however, it is not mandatory that the agency acts in all stages. In this way, it can be decided when it is most effective to carry out the audit process.

The Constitution of Brazil defines the TCU (Tribunal de Contas da Uniao) as a collegiate body made up of nine ministers - 1/3rd appointed by the Chamber of Deputies, 1/3rd by the Federal Senate and 1/3rd by the President with the prior approval of the Federal Senate. It requires that the TCU Ministers will be appointed for an open-ended term until mandatory requirement at 70 years of age and grant them the same rights and guarantees as magistrates of the Superior Court of Justice. These nine ministers elect among themselves a President and a Vice President for a term of one year, extendable for another year. The TCU follows a court-of-account ASI model. In this regard, it is more similar to the Supreme Audit Institutions (SAIs) of Germany, Netherland, France, Spain, and Portugal.

The TCU works with the formal objective to enhance government transparency and accountability. It excuses itself regarding clarity in budgetary, accounting and assets and makes an assessment of whether implementation of the federal budget and other operations financed using federal public resources, compiled with the Constitutional norms, laws and regulations. Its audit reports contain such compliances and reflect the clear picture of operation.

The TCU is a key independent body, which support good governance, inclusive development and clean administration. It helps to ensure that the government is held accountable for its management of public resources and the efficient, effective and economical use of tax payer's money. According to the OECD report, TCU work has a preventive effect— public officials behave differently, if they know their actions can be externally evaluated by an independent agency. This has made a positive impact on efficiency of spending and checking corruption. Over the years, studies have shown a good impact of the TCU's on audit of the government accounts and have improved government's financial performance.

10.4 BUDGETING AND AUDIT SYSTEM IN RUSSIA

Budgeting in Russia

As you already known, Russia is a federal state and there is a three layered government structure - federal, regional and local. At the federal level, along with the federal budget, the budget of extra-budgetary funds is also presented to the Parliament. These funds are : the State Pension Fund, the Social Insurance Fund and the Federal Mandatory Health Insurance Fund. At the regional level, there are territorial funds.

In the light of administrative reforms in Russia, on the pattern of "new public management", various institutional and budgetary reforms took place in 2007. One of the reforms was introduction of three-year budgets. Other reforms included the new Fiscal rules and extra budgetary activities.

The three-year budgets were started from the year 2008. The funds are authorised for the next budget year and a two-year planning period. Mainly it is on line-items pattern and appropriations remain unchanged for the current year but are inflated by the use of various indexes fixed by the Ministry of Finance. This arrangement is quite similar to multi-year budget estimations as used in many countries but in Russia it is codified for three-year's budget. The budget formulation procedure is divided into two distinct parts. In the first part, there is a technical update of the estimates for the upcoming year and the first out-year along with current policy estimates for the second year. The second part, involves the distribution of new spending in the budget year and also for the new out-years.

The parliamentary approval of the budget takes place as per adoption by the State Duma and approved by the Council of Federation. In the line of budgetary reforms in Russia, a new Programme Budgeting system was introduced in 2010 - for formulating, implementing and evaluating government programme in Russian federation. It was taken as tool to integrate the objectives of public policy with the budgeting. Earlier it was viewed as a problem to coordinate the programme and policies with the budgeting. There was a problem of lack of legislative support, inadequacy of professional training of specialists and the indicators did not fit into the objectives due to flawed methodologies.

The new system, which started in 2011 carries the expenditure portion of the federal budget in programme format. It has, since then, become a main task of Russian federal government to increase the effectiveness of budget expenditures. Funds have been allotted to the following programme blocks during 2011 to 2016.

- Innovative Development and Modernisation of the Economy.
- New Quality of Life.
- Efficient Government.
- Balanced Regional Development.

- Safeguarding National Security.
- Expenditure on progress as State Secrets.

In fact, the programmes being implemented in Russia are substantially different from those of other countries. However, despite their different nature, the government programme require certain conditions to be effective. These are— clear formulation of objectives, development of a logistic structure of the programme, a sound monitoring and evaluating mechanism, and so on. In this regard, guidelines for effective programme budgeting were issued by the Russian government in 2013. The focus of these guidelines was on increasing correctness, measurability, achievability, relevance and specificity.

The budget reform process, especially with regard to the programme budgeting, a transition towards regional perspective has started in 2016. Regions have already started the work towards new budgeting model. However, there seems a number of hurdles coming in way of adapting to new system of budgeting including the disagreements among the participants, inefficient use of funds, improper selection of tools for evaluation and so on. It can be said that the reform process is not yet complete, it's in the transitional stage only.

Audit System in Russia

In the Russian system of governance, audit is now regarded as a good indicator, which was not so earlier. In the modern form, audit was introduced during the second half of 1980s. Towards the end of 1993, first rules regarding audit activity in the form of "Provincial Rules of Audit Activity" on the basis of which four types of audit were introduced in Russia — General Audit, Book Audit, Insurance Audit and Audit of Commodity and Stock Exchange. In the year 2008, self-regulatory organisations of auditors were established, of which the following continue to exist today.

- Audit Chamber of Russia,
- Institute of Professional Auditors,
- Russian Collegium of Auditors, and
- Auditor Association (Sodruzhesto).

For the external audit of Russian Federation, there is a Constitutional body — Accounts Chamber of Russia, which is a permanent body of financial control and formed by Federal Assembly. It carries out the work assigned to it by the Federation Council and the State Duma. However, it enjoys functional independence.

The Accounts Chamber of Russia, comprises of a Chairman and one dozen members (auditors). The State Duma appoints the Chairman and six auditors, while the other six are appointed by Federation Council. The Chairman is assisted by one Deputy Chairman, the auditors for different activities of the State, the inspectors and other staff. The term of Chairman, his deputy and members is six years.

The Chamber exercises control over the fulfillment of the federal budget based on the principles of legality, objectivity, independence and openness. The Accounts Chamber carries out annual and current planning of its activities. The plan of work of the Accounts Chamber is a combination of control measures, as well as expert, analytical, and other kinds of works. Once the draft annual plan is considered and adopted by the Collegiums of the Accounts Chamber, it becomes mandatory for all authorities and state officials.

The Accounts Chamber informs the Federal Assembly on the outcomes of inspections and audits carried out, in particular on the loss of the state; and the legal violations identified. Based on the results of the control measures, the Account Chamber writes to the public authorities of the Russian Federation and heads of audited bodies to take steps to eliminate the violations found to compensate for the damage inflicted on the state and to call to account officials guilty of violation of the legislation of the Russian Federation and economic mismanagement.

When violations are found, the Accounts Chamber may give mandatory instructions to the administration of the enterprises, institutions and organisations so audited. In case of repeated failure to fulfill the instructions or in case of improper execution thereof the Collegiums of the Accounts Chamber may, as agree with the State Duma, decides to suspend all kinds of financial, payment and clearing transactions concerning the accounts of the audit body. When an embezzlement of state cash or tangible assets or other dishonesty is found in the course of an audit or inspection, the Accounts Chamber immediately sends the control documentation to the law enforcement authorities. During the period from 1997 to 2004, the Accounts Chamber recovered more than 66.7 billion Roubles for the treasury.

A unified federal budget control system has been developed by the Accounts Chamber. It involves continuous three-year control cycles over the administration of budget for each fiscal year in several stages, such as:

- preliminary control of the draft budget for the current year;
- current control during the fulfilment of budget for the current year; and
- comprehensive documentary inspection of the budget already fulfilled.

In the preliminary control stage, the draft budget parameters are compared with live data on the fulfilment budget for the current year, information on the social and economic situation in the country as a whole and in individual regions and industries. Current control is carried out during the whole year; it is a combination of control, expert and analytical measures. After the fiscal year is over, the Accounts Chamber starts comprehensive documentary inspection of the budget fulfilled.

Therefore, the trinity of preliminary control, current control and comprehensive documentary inspection forms a base of the unified system of the Accounts Chamber for control over the fulfillment of budget. This is supplemented with the results of audit measures carried out both under instructions of the Federal Assembly chambers and by initiatives from the Accounts Chamber itself.

The Accounts Chamber is making increasing use of performance audit to help improve the national economy. Performance audit demonstrates the result of using state funds while proving not only the legality and designated purpose but also the efficiency of solutions to nationwide problems. The Accounts Chamber is increasing the efficiency of audit measures through increasing emphasis on determining the efficiency and expediency of budget spending and use of federal property.

Besides the control functions, performance audit ensures transparency of regulatory bodies activity and gives the general public precise and comprehensive information on the outcomes of the activity of such bodies. By introducing performance audit into the working practices of the Accounts Chamber, the forms and methods of financial control are being reformed and required amendments are made to the legislation.

The property for IT is the support and monitoring of audit examinations, experts and analytical activities. The Accounts chamber plans to establish and develop sophisticated information's technologies for use during the financial control process.

10.5 BUDGETING AND AUDIT SYSTEM IN INDIA

India has a comprehensive and well developed system of budgeting and audit. It is mainly based on British pattern.

Budgeting

The system of budget in India is fundamentally based on the Constitutional provisions, which primarily reflect the British pattern. These basic provisions are:

i) ***Legislative or Parliamentary control over Taxation.*** Article 265 of the Indian Constitution clearly provides, "no tax shall be levied or collected except by authority of law". In fact, it is obligatory on the part of executive government to present all tax proposals before the national parliament in the form of Bill to be passed with law, and at the same time unless an act is passed authorising the levy of any tax, no tax can be levied.

ii) ***Legislative or Parliamentary control over Expenditure.*** This indicates. that not even a single penny can be spent except with the sanction of the legislature Article 266 of our Constitution lays down that all revenues received, all loans raised and all moneys received in the form of repayment of loans by the Union or State shall form one Consolidated Fund to be known as the Consolidated Fund of India or the Consolidated Fund of the State, as the case may be. The Constitution further provides that no money can be withdrawn out of the Fund except in accordance with law and for the purpose and in the manner provided for in the Constitution.

iii) ***Financial initiative of the Executive Government.*** The initiative for taxation or expenditure lies with the executive, and the Parliament cannot act in these matters suo motu. Articles 117 and 207 of the Indian Constitution lay down that no tax bill imposing can be introduced in the legislature, except on the recommendations of the President or the Governor as the case may be. Similarly, Articles 113 and 203 provide that no demands for grants of any money can be made, except on the recommendations of the President or Governor.

The overall system of budgeting may broadly be divided into three phases; Budget preparation, Legislative authorisation and budget execution.

The process of budget preparation in India can be divided into following stages.

i) ***Preparation of Preliminary Estimates by the Disbursing Officers***

The Indian budget year begins from 1st April and thus, budget grants for a budget year, are available for expenditure from 1st April to 31st March of the year. In fact, work in connection with the preparation of estimates begins in July or August before the commencement of the next financial year, when the administrative Ministries and heads of the Departments are supplied with the skeleton forms.

The form for preparing estimates contains some columns for:

a) Actuals for three previous years.

b) Sanctioned estimates for the current year.

c) Revised estimates for the current year.

d) Budget estimates for the next year.

ii) ***Scrutiny of the Estimates by the Department Controlling Officers***

The estimates received from the disbursing officers are scrutinised and reviewed by the department controlling officers. Here, the scrutiny is purely of administrative nature. The financial aspects are not considered.

iii) ***Scrutiny by the Accountant General and Administrative Department***

In the beginning of October, the estimates leave the desks of the controlling officer. The estimates pertaining to revenue and standing charges forming Part-I are submitted to the Accountant General for scrutiny and review. Besides this general exercise, the office of the Accountant General prepares the estimates under the heads— debt, deposit and remittance.

iv) ***Scrutiny Review Consolidation by the Finance Ministry***

The budget estimates prepared by the administrative ministries, after they have been verified by the Accountant General, are examined critically and after such revision or modification is consolidated together into the Budget of the Government as a whole.

v) ***Consideration of the Consolidated Estimates by the Cabinet***

Finance Ministry completes its scrutiny in the light of the priorities fixed and the availability of funds somewhere in January. The Finance Minister, in consultation with the Prime Minister, prepares the financial policy with regard to taxation, etc. This, however, is kept a very close secret. The consolidated figures are submitted to the Cabinet for point consideration. The Budget Division of the Ministry of Finance then incorporates the necessary changes in accordance with the orders of the Cabinet and thereafter, brings revised estimates for the current year, upto date, when it is fully approved by the Cabinet the budget is ready for submission to the Parliament.

In India, Finance Ministry exercises tremendous control over the estimates of the other departments. Such a tendency can be attributed to two basic reasons. First, the Ministry itself is not a spending organisation and can, therefore, act as the disinterested guardian of the tax-payers' interests. Secondly, the Ministry has to find out ways and means to meet the proposed expenditure. Thus, it must have a say in deciding whether it should be incurred or not.

After the approval by the Cabinet, the budget is ready for the submission to the Parliament for legislative authorisation. The budget goes through five stages in the course of its passage in the Parliament. The five stages can be identified as follows:

i) Presentation to the Legislature;

ii) General Discussion;

iii) Discussion and voting of Demands for Grants;

iv) Consideration and Passing of the Appropriation Bill; and

v) Consideration and Passing of Finance Bill or Taxation proposals.

Audit System in India

In India the origin of audit machinery can be traced back to British period. The office of Auditor General made its appearance way back in 1857. After that under certain reforms from time to time, the institution of Comptroller and Auditor General (C&AG) assumed independent authority and statutory recognition. Under the Constitution of India, this office got a prestigious status as an integral part of governance with certain amount of independence.

Audit in India is a Union subject. The main features of the Audit System introduced after 1950 are:

i) The Audit is mostly limited to the expenditure side only. However, its concern with the receipt is quite limited;

ii) Audit is conducted on behalf of the Executive, and audit reports are submitted to the Executive. The Executive in turns submits these reports to the Parliament;

iii) It is primarily a legality audit. Ordinarily it does not go into the question of merits of expenditure;

iv) Combination of Accounting and Auditing functions— in fact, audit and accounts have been organised fewer than one and same service called the Indian Accounts Service. It may be mentioned here that by the Comptroller and Auditor General Act, 1976 the audit functions have been separated ; and

v) Indian Audit and Accounts as already mentioned above is of centralised character meaning thereby, that there is no separate Audit and Accounts Services for the Union Government and the State Governments. Our system thus, deviates from the federal feature of the Constitution.

The power of accounting and auditing is vested in the Indian Audit Accounts Department. The Comptroller and Auditor General is the head of the Indian Audit and Accounts Department. S/he is assisted by Deputy Comptrollers and Auditor Generals in the performance of her/his duties. The Department has been divided into five classes of officers, which are:

i) The Civil Accounts and Audit Offices;

ii) The Posts and Telegraph Accounts and Audit Offices;

iii) The Railway Audit Offices;

iv) The Defence Services Audit Offices and;

v) The Commercial Audit Offices.

Under the Constitution of India, Articles 148 to 151 deal with the position and functions of the C&AG. In fact, the object of these provisions under the Constitution is to secure independence of the C&AG from the control of the Executive so that s/he can perform her/his duties and functions without fear or favour. The Constitution empowers the President to make appointment of the C&AG. However, s/he can be removed from office in the manner and on the like grounds as a Judge of the Supreme Court. Although the tenure of the Comptroller and Auditor General is 6 years, or till he attains the age of 65 years before the expiry of the said term of 6 years. After her/his retirement s/he is not eligible to hold any office under Union or State governments. Similarly, the administrative expenses of her/his office, including all salaries, allowances and pension are charged on the Consolidated Fund of India. The Comptroller and Auditor General is paid a salary equal to that of a Judge of the Supreme Court, along with other benefits.

According to Article 149 of the Constitution: "The Comptroller and Auditor General shall perform such duties and exercise such powers in relation to accounts of the Union and of the states and of any other authority or body as may be prescribed by or under any law made by the Parliament and until provisions in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor General of India immediately before the commencement of this Constitution in relation to the accounts of the Dominion of India and of the Provinces respectively".

Check Your Progress 1

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) What is the budgeting pattern in Brazil?

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2) Explain the basic features of budgeting and audit in Russia.

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3) Describe the significance of the Comptroller and Auditor General in Indian Auditing system.

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10.6 BUDGETING AND AUDIT SYSTEM IN CHINA

Budget Reforms in China

Due to wide ranging economic problems in China, a number of measures were initiated during the 1990s. The Chinese government tried the bold step of liberalisation. The gradual reduction of government control worked well in the productive sector but yielded less results in other areas. The budget was weak with the revenue mechanism of the planned economy undermining the market forces. It was observed by a number of experts that the system of budget was faulty with poor drafting and unrealistic estimations. Chen (2003) described the budgeting process as "chaotic", characeristised by fragmented control under numerous bodies and departments, and lacking transparency and accountability over the management of resources. Within the Ministry of Finance (MoF), numerous departments or bureaus were involved in budgeting, with each one in charge of one or more expenditure items, which were divided and allocated to many ministries or departments.

Since 1999, a broad package of reforms in budget management were introduced, covering reforms in budget preparation, budget classification, treasury management, government procurement and installing new information systems.

The centerpiece of the reform in budget preparation was the introduction of departmental budgets, which had following important objectives to:

i) Improve transparency

ii) Improve budgeting

iii) Harden the budget Constraints / restrictions for each spending unit

iv) Improve accountability for spending.

Initially four ministers were selected for the piloting, and on the basis of their experience MoF introduced new proposal forms and software for others.

There was another problem with the budget, i.e., it was being presented only in sketchy form on single piece of paper. It was changed into the gross one with full details and to be presented as books. The comprehensive budgets of each line machinery got directions to include all extra budgetary revenues and expenditures in their budget proposals. This proved to be a major side benefit of the introduction of departmental budgets. The Ministry of Finance has started budgeting of expenditure, separate from the revenue side.

To move away from passive, incremental budgeting based on past allocations, the Ministry of Finance has promoted the use of Zero Based Budgeting (ZBB) to review all expenditures including staffing levels.

To improve the informational content of budget presentations to facilitate analysis, the reform package also included a reform of the classification system. To improve transparency and aid analysis, China has adopted a Government Finance Statistics (GFS) system with some modifications. Some changes were introduced since 2002, and are used in budget preparation at both the central and sub-national levels. Even at the lowest tiers of the government, the new GFS - based classification system, shows expenditures by organisation and by economic function. A full rollout of a new classification system was introduced in 2005.

In China, budgetary reforms include the reforms in the budget execution also. In order to improve efficiency and to control monitoring and implementation "treasury reforms" have been introduced. Under this new system, all fiscal revenues enter directly into either the treasury account or one or the other special account. For these reforms, the Treasury Disbursement Centres are working. Along with other reforms, a new system of the Government financial management information system has been introduced for the purpose of information sharing, monitoring and control.

As observed by experts, the reforms have brought about a number of achievements, some of which are:

- one budget for one department;
- zero-based budgeting;
- integrated budgets; and

- establishment of internal budgeting rules for the MoF and central departments.

Despite a number of reforms, followings are some weak areas in the budgeting system of China. One big lapse in the Chinese system is the lack of legislative control over the budget.

Other weaknesses, as observed in some studies include the revenue forecasting, complicated public expenditure management system, lack of coordination between the central and local governments and despite much improvement the comprehensiveness of Chinese budget is still not up to the desired standards.

In China, the auditing system has played a significant role towards controlling the finances and economy and also improving administrative accountability and transparency. Over the years the current audit system in China has worked well towards better governance (China Journal of Accounting Research, 2012). Tracing the origin of government auditing in China, evidence of audit can be found during the rule of dynasties, as far back as 1000 B.C. However, the system was discontinued later. In the modern times, the People's Republic of China started the practice of audit in mid 1980s. Since then the audit machinery is continuing as an irreplaceable part of the governance. Gradually, the audit offices have been set up throughout the Chinese administration and all over the country. The audit system is a part of amended Chinese Constitution and Audit Law was formally promulgated in the year 1994 to empower the "government audit institutions" towards controlling and monitoring the public offices and the economy. As per the law, these audit institutions have the charge of auditing revenue and expenditure of the State departments and local councils, and also the state banking institutions and public undertakings. These audit institutions work independently without any interference of administration.

The National Audit office of the People's Republic of China (CNAO) is the supreme audit institution of China, which works directly under the guidance and leadership of the Chinese Premier.

The CNAO (formerly called State Audit Administration) covers and wide ranging areas as far as the audit and financial control is concerned. In particular, it covers these areas.

- implementation of the central budget, other revenues and expenditures of public finance;
- revenues and expenditures of the central departments, non-profit undertakings and their subordinate units:
- budget implementation and final accounts of the provincial people's governments;
- revenues and expenditures of the Central Bank, assets, liabilities, profits and losses of the central institutions;

- revenues and expenditures of the central government owned enterprises and enterprises, where state assets dominate;
- revenues and expenditures related to funds managed by the relevant departments of the State Council; and
- Revenues and expenditures of projects with loans and assistance from the international organisations and foreign government.

According to the Constitution and the Audit Law, the duties and responsibilities of the audit institutions are:

- auditing the budget implementation, final accounts, management and use of off-budget funds of department at the corresponding levels and the governments at lower levels;
- auditing assets, liabilities, profits and losses of state-owned monetary organisations and state-owned enterprises;
- auditing revenues and expenditures of the state non-profit undertakings;
- auditing the budget implementation and final accounts of the state construction projects;
- auditing revenues and expenditures of projects with assistance or loans provided by the international organisations or foreign governments;
- auditing state-owned enterprises, which are vital to the national economy and people's livelihood receive large entitlements from the government or suffer substantial losses, as well as other state-owned enterprises designated by the State Council or corresponding local people's government; and
- Auditing special funds such as social security funds and agricultural funds. Every year audit institutions, at various levels, shall present a report on the audit of budget implementation and other revenues and expenditures of the public finance.

For the purpose of audit a wide ranging powers have also been given to audit institutions. They can ask for any information, budget relating documents, financial plans or any information relating to accounts. They can even curb the ongoing acts of revenue or expenditures, which they feel are violating the laws or norms. They may reveal their findings or audit reports to relevant government department or even to public.

10.7 BUDGETING AND AUDIT SYSTEM IN SOUTH AFRICA

Budgeting

There was a time when there was no budgetary system in South Africa. Infact the budgetary system was quite secretive. As a matter of fact, budgeting was primarily confined to Executive only; and the Parliament was merely playing the role of a "rubber stamp". Therefore, the elements of transparency and accountability were missing in the public finance management system.

In South Africa, with the shift to democracy, the new system started focusing on good governance elements of accountability and transparency in 1990s. In the year 1998-99, the Medium-Term Expenditure Framework (MTEF) was introduced in order to encourage the participatory approach in budgeting process, transparency, accountability and policy-budget coordination. The MTEF is a three-year rolling strategy, which sets up spending plans for the national and provincial government departments.

Under the Medium-Term Budget Framework, fiscal and budgetary policy is integrated over the medium-term by linking a system of aggregate fiscal forecasting to a disciplined process of maintaining detailed medium-term budget estimates by the Ministries reflecting existing government policies. Forward estimates of expenditures become the basis of budget negotiations in the years following the budget and the forward estimates are reconciled with the final outcomes in fiscal outcome reports.

South African government has adopted a budgetary system, based on certain principles such as, publicity, clarity, accuracy, comprehensiveness, preciosity along with transparency and accountability. To make the budgetary system more effective, a participatory and inclusive approach has also been adopted. This implies that role players in the budget process must be identified so that the budget process becomes transparent. Such elements of good governance have the Constitutional basis in South Africa. Additionally the Constitution also states that the budgets in each sphere of the government must show the sources of revenue and the way in which proposed expenditure will comply with national legislation. The managerial leadership is expected to ensure that a culture of compliance with fiscal norms is institutionalised. The major role players in the budget process are:

- Cabinet
- Minister's Committee on the Budget
- Budget Council (Minister and provincial MECs for Finance)
- Budget Forum (Budget Council plus local government)
- Inter-governmental technical forums
- Departments
- Relevant Entities and Donors
- Financial and Fiscal Commission
- Legislatures.

The budget cycle in South Africa may be presented in the following manner, assuming it for 2018.

- Departments submitted their estimates of expenditure for the 2018 Medium-Term Expenditure Framework - within the 2017 Budget baseline and then with proposals for increasing estimates.
- The Medium-Term Expenditure Committee (MTEC), an in interdepartmental committee, considers the allocation of funds in respect of each functional grouping.
- The MTEC makes recommendations to the Ministers' Committee on the Budget.
- Then recommendations are taken to the Cabinet.
- Medium-Term Budget Policy Statement tabled in October, including the vertical division of revenue proposal for the 2018 MTEF.
- Adjustments estimates process is based on Section 30(1) and (2) of the Public Finance Management Act (PFMA) and is also tabled in October.
- Allocation letters for the 2018 MTEF are sent out in November, including the provision for earmarking certain amounts or set conditions.
- Budget documents are then prepared.

At different stages of the preparation of budget there are reviews, evaluations for the decisions on new major policy proposals by the departmental committees, inter-governmental and technical forums, budget forum, the Budget Council and the Cabinet before it is presented to the legislature.

When the budget is presented to the Parliament, the legislature committees consider the budget thoroughly and not just "rubber stamp" it. Once approved, it is enacted into a law. An analysis of the South Africa budgeting hints that besides line items and MTEF, there has also been adoption of some elements of other budgeting systems such as PPBS and Performance Budgeting.

Audit System in South Africa

Like the new budgeting system, South Africa has also adopted a pragmatic audit system. The Supreme audit institution of South Africa is Auditor General of South Africa (AGSA). Although the office of Auditor General is working since its establishment, the scope of its working and nature of its powers have been considerably expanded under the Constitution of South Arica. In accordance to the Constitution, the Auditor General Act was passed in 1995, and the Public Audit Act, 2004, which ensured AGs independence of working.

The AGSA is the supreme auditing authority of South Africa and there is also one Deputy Auditor General. The office of the AGSA is headed by an Executive

Officer. Below them there are two corporate Executive- one for regulatory audits and the other for non-regulatory audits. These two are heads of two separate wings of audit offices, country wide. The AGSA annually produces audit reports, on all the government departments, public entities, municipalities and public offices, beside other reports. As per vision statement of the AGSA, it exists to strengthen democracy by enabling oversight, accountability and governance in public sector through auditing, thereby building public confidence. For this, it works with the following values.

Our values

- We value, respect and recognise our people.
- Our accountability is clear and personal.
- We are performance driven.
- We value and own our reputation.
- We work effectively in teams.
- We are proud to be South Africans.

The AGSA is expected to work in manner so as to ensure the accountability of Executive before the Legislature. The accountability and transparency of the Executive is assured by publicising the manner in which the executive deals with taxpayer's money. To further strengthen the overall system of auditing, there is a standing committee appointed by the National Assembly to maintain the oversight of the AGSA to ensure its effectiveness, impartiality, independence and dignity.

The audit office is empowered to call for persons and papers within the institution whose accounts are being audited. If required, the head of the Institution / Department may be asked to appear with necessary information to the office of the Audit Officer. As per the provisions of the Public Finance Management Act, 1999, the accounting officer is specifically charged with the responsibility regarding budgetary control in her/his department and has to ensure (for auditing purpose) that:

- Expenditure of that department is in accordance with the vote of the department;
- Effective and appropriate steps are taken to prevent unauthorised expenditure; and
- Report to the executive authority and the relevant treasury — impending under-collection of revenue due, or shortfalls in budgeted revenue or overspending.

The South Africa supreme audit institute has indicated its commitment towards clean audit, which relates to avoidance of misstatements. It is also working in a pro-active manner by way of good governance, ensuring better financial management and providing leadership towards better performance. For this purpose, it is continuously ensuring proper record-keeping, daily and periodic reviews, effective monitoring, focusing on better procedures, emphasising the use of ICT, ensuring effectiveness in policy implementation and so on.

Check Your Progress 2

Note: i) Use the space given below for your answers.

ii) Check your answers with those given at the end of the Unit.

1) Explain the features of Budgetary Reforms in China.

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2) Describe the audit system in South Africa.

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10.8 CONCLUSION

Finance is the life line for all socio-economic formations ranging from simple nuclear families to complex national and international organisations. For the effective governance, the finance is thus, a basic means; and towards its optimum utilisation, budgeting and audit are the major tools. As we have seen in this unit, all the BRICS countries have adopted one or the other system of budgeting. Most of the countries follow the well accepted principles of budgeting. However, there are procedural differences as far as the budget making is concerned and over the years there have been notable reforms in the budgeting system of these countries. Similarly, as we have noted in this unit, these countries follow a systematic way of audit, based on certain principles. The audit machineries in all these countries, work under one supreme audit authority in the respective country, and these are working towards effective and good governance.

10.9 GLOSSARY

Budgetary Reforms: Improving the budget pattern, preparation and scope to make it more effective for the economy and governance.

Fiscal Policy: Relating to the government spending and taxation.

10.10 REFERENCES

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10.11 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Your answer should include the following points:

   - Your answer should include stages starting with initial preparation to the final stage of Cabinet approval.
   - For more details, refer Section 10.2

2) Your answer should include the following points:

   - Refer Section 10.4

3) Your answer should include the following points:

   - Refer Section 10.5

Check Your Progress 2

1) Your answer should include the following points:

   - Refer Section 10.6

2) Your answer should include the following points:

   - Refer Section 10.7