



CAG and Finance Commission

Why in News?

A meeting was held in Bhopal, Madhya Pradesh for consultation between [Comptroller and Auditor-General of India \(CAG\)](#) and Sixteenth [Finance Commission](#) on public finance.

Key Points

- **About the Meeting:**
 - It focused on three major areas: Union and State finances, local bodies and public sector enterprises.
 - It provided a **comprehensive framework for making fiscal management, audit, tax policy and public financial management** of the Centre and the States more transparent and effective.
- **Recommendations:**
 - **Decline in State Tax Revenue (SOTR)** : Need for strengthening the tax collection mechanism was emphasized.
 - **Standardisation of fiscal information** : It was proposed to standardise accounting procedures to provide transparent and comparable financial data.
 - The CAG stressed the need for further reforms in areas such as [stamp duty, registration fee and state excise duty](#) .
 - Also recommended adopting modern technologies like [QR codes](#) and **sensor-based systems**.
 - It was recommended that states with surplus revenue should create a **Budget Stabilization Fund** to avoid financial instability.
 - [Goods and Services Tax \(GST\) reforms](#) recommended strengthening the taxpayer verification process, integration of unregistered units and use of automated data collection and real-time information systems.

Comptroller and Auditor General (CAG)

- **Introduction:**
 - **According to Article 148 of the Constitution** , the CAG of India is the head of **the Indian Audit and Accounts Department (IA-AD)** .
 - He is **responsible for the safeguarding of public funds and overseeing the financial system** at both the central and state levels.
 - The CAG of India is governed by **the Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act, 1971**, which was significantly amended in the years 1976, 1984 and 1987 .
- **Appointment and Tenure:**
 - The CAG of India is appointed by [the President of India](#) by a warrant under his signature and seal .
 - The CAG holds office for a **term of six years or till the age of 65**, whichever is earlier.
 - The CAG shall be **removed from his office by the President only in the same manner** and on the same grounds as a [Judge of the Supreme Court](#).
 - The CAG can resign from his office at any time by submitting his resignation to the

President.

- After leaving the office, the CAG is not eligible for any other post under the Government of India or any State Government.

▪ **Pay and Allowances:**

- The **salary of the CAG is determined by the Parliament**, which is equal to the salary of a Supreme Court judge.
- The CAG's administrative expenses, including salary, allowances and pension, are charged on the Consolidated Fund of India , which is not subject to parliamentary vote.
- **Duties and Powers:** The CAG audits the accounts relating to expenditure from **the Consolidated Fund of India and State funds .**
- It also audits the accounts of Government corporations , public sector undertakings and government-financed bodies.
- The CAG submits audit reports to the President , who lays them before Parliament. These reports are scrutinised by **the Public Accounts Committee.**

Finance Commission

- **Constitutional Basis:** It is a constitutional body established **under Article 280 of the Indian Constitution .**
 - It is appointed by the President every five years or earlier as the President considers necessary.
- **Composition:** The Commission consists of a **Chairman and four other members** appointed by the President.
 - The Chairman should be a person who has experience in public affairs .
- **Functions and Duties :** The primary function of the Finance Commission is to make recommendations to the President on various financial matters .
- **Distribution of Taxes:** It recommends the distribution between the Union and the States of the net proceeds of taxes . This includes allocation of shares among the States from tax proceeds.
- **Grants-in-aid:** The Bill suggests principles for providing grants-in-aid to States from the Consolidated Fund of India .
 - This includes establishing the principles governing grants-in-aid to the states from the Consolidated Fund of India.