failure to realise these ambitious revenue targets, and pressure to conform to fiscal deficit targets, results in an unplanned compression of expenditures. This violates the basic budget discipline, as spending departments and State Governments are unable to implement the approved budget and appropriations. Spending departments have to carry out these unplanned expenditure cuts, which result in postponements and often cancellation of contractual obligations, time and cost overrun of projects and other adverse consequences on the productivity of public expenditures.

17.33 Prudent cash management is an important component of efficient PEM. This issue is important at both the Union and State levels. Considering the magnitude, poor cash management, by the Union Government in particular, has a significant adverse impact on monetary management as well as on the macro economy. At the State level, the holding of idle cash balances from borrowed funds involves interest costs. While States have to hold cash to manage the risks associated with shortfalls in revenues or to meet unforeseen expenditures, there is considerable scope for improvement in cash management by both the Union and State Governments.

17.34 There is considerable scope for improving expenditure management at both the Union and State levels. **We recommend that both the Union and State Governments improve their forecasts, by adopting a more scientific approach for this process. Similarly, the fiscal responsibility legislations and estimates in the MTFPs should be backed by well-calibrated reasoning to justify the forecasts. When forecasts are out of line with past trends, it is important to make a detailed statement on the intended reforms necessary to enhance revenue productivity and to rationalise expenditures. We also recommend that the Union and State Governments undertake measures to improve their cash management practices.**

Recommendations

i. We endorse the view that the transition to accrual-based accounting by both the Union and State Governments is desirable. We also recognise that this transition can only be made in stages, as it requires considerable preparatory work and capacity building of accounting personnel.We reiterate the recommendation of the FC-XII that the building blocks for making a transition to the accrual-based accounting system in terms of various statements, including those listed by the Commission, should be appended in the finance accounts by the Union and State Governments.We also reiterate its recommendation that action should be taken to build capacity among accounting professionals in accrual-based accounting systems. (para 17.14)

ii. We reiterate the importance of prompt and effective follow-up on the observations of the C&AG while preparing accounts, and adherence to the time line prescribed for the laying of accounts before the Parliament and State Legislatures.(para17.15)

iii. We recommend that a view be taken expeditiously on all the recommendations of the LMMHA Committee made in 2012. (para 17.16)

iv. At the Object Head level, we believe it is sufficient to have a few uniform Object Heads, such as salary, maintenance, subsidies and grants-in aid, across both the Union and States. Regarding the other Object Heads, we recommend that States retain their existing flexibility to open new Object Heads, according to their functional requirements. (para 17.17)

v. We reiterate the importance of linking outlays with outcomes. However, we emphasise that it is essential to spell out key indicators for outputs and to monitor these within an already defined accountability framework. (para 17.18)

vi. We recommend the formulation of appropriate indicators for the measurement of outputs, specification of standards and costs, and establishing a suitable accountability framework. (para17.19)

vii. We, suggest serious consideration of the issue of assigning primary responsibility for preparing outcome budgets at the level of actual spending and its consolidation at the relevant level of government. (para 17.20)

viii. We recommend synergising the efforts of the Union Government and State Governments towards building a technological platform in which their systems can interface and information can be shared, leading to end-to-end linkages, particularly in respect of sector-specific grants from the Union Government to the States. (para 17.21)

ix. We recommend that the Union and State Governments consider the recommendations of the Second Administrative Reforms Commission (submitted in 2009) on internal audit and internal control systems, and take a decision on each recommendation expeditiously. (para 17.22)

x. We reiterate the views of the FC-XI for a consultative mechanism between the Union and States, through a forum such as the Inter-State Council, to evolve a national policy for salaries and emoluments. (para 17.28)

xi. We recommend the linking of pay with productivity, with a simultaneous focus on technology, skill and incentives. We recommend that Pay Commissions be designated as 'Pay and Productivity Commissions', with a clear mandate to recommend measures to improve 'productivity of an employee', in conjunction with pay revisions.We urge that, in future, additional remuneration be linked to increase in productivity. (para 17.29)

xii. We urge States which have not adopted the New Pension Scheme so far to immediately consider doing so for their new recruits in order to reduce their future burden. (para 17.30)

xiii. We recommend that both the Union and State Governments improve their forecasts, by adopting a more scientific approach for this process. Similarly, the fiscal responsibility legislations and estimates in the MTFPs should be backed by well-calibrated reasoning to justify the forecasts. When forecasts are out of line with past trends, it is important to make a detailed statement on the intended reforms necessary to enhance revenue productivity and rationalise expenditures. We also recommend that the Union and State Governments undertake measures to improve their cash management practices. (para 17.34)