

ADMINISTRATIVE REFORMS COMMISSION

Report

FINANCE
ACCOUNTS
AND AUDIT



JANUARY 1968

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GOVERNMENT OF INDIA



ADMINISTRATIVE REFORMS COMMISSION

REPORT

ON

FINANCE, ACCOUNTS

&

AUDIT

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E R R A T A

<u>Page</u>	<u>Line/Paragraph</u>	<u>For</u>	<u>Read</u>
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8	4	comparatives	comparative
12	7 of para.20	disadvantage	disadvantage
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24	12 of para.48	consequtive	constructive
26	2 on top	emergency,"	emergency
47	8	thre	there
50	14 of para.93	discharged	discharge
52	9 of para.97	undertakings	undertaking
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CHAIRMAN

GOVERNMENT OF INDIA
ADMINISTRATIVE REFORMS COMMISSION
NEW DELHI

January 13, 1968.

My dear Prime Minister,

I have the honour of presenting to you this, the fourth report of the Commission, and it is on Finance, Accounts and Audit.

2. Two Study Teams and three Working Groups examined the problems and procedures relating to budgetary reforms, expenditure control, Centre-State financial relations, accounts and audit. Their reports contain modern ideas on financial administration and Shri V. Shankar, our Member, was incharge of this important work.

3. Our main objective in making the several recommendations contained in this report has been to re-orient the existing financial system and procedures to the needs of new developmental responsibilities of Government. The present budgetary system serves well the twin purposes of parliamentary accountability and control of expenditure. But it is deficient as an instrument of management and evaluation of performance. A system of budgeting which would inter-relate financial outlays with physical targets and achievements has become absolutely necessary. We have accordingly recommended the introduction of performance budgeting. Performance budget is in essence a technique for presenting estimates and expenditure in terms of functions, programmes, activities and projects. It would help create a built-in-mechanism for watching the progress in attaining programme targets and taking timely corrective action when things go away. It will also help reinforce the principle of accountability to Parliament. We have suggested that this new system be introduced in all developmental departments by 1970-71.

4. As regards the role of Audit, our approach is that Audit, instead of being content with playing a negative and neutral role, should aim at a positive and constructive approach directed towards seeking improvements in organisational efficiency and effectiveness of financial rules and procedures. We have also stressed that in commenting on the decisions of administrative authorities, Audit must consider the background of the relevant circumstances prevailing at the time those decisions were taken, as well as the overall objectives and achievements of the related activities.

(ii)

We have also drawn attention to the need on the part of the Audit Department to give a more pointed attention to the reinforcement of the internal control systems and procedures within administrative agencies, as well as to development of the necessary expertise for the conduct of efficiency audit.

5. We have also recommended strengthening of the present system of internal financial advice and the development of financial competence within each Ministry or Department.

6. The Financial Year starting from the 1st of April is not based on the customs and needs of our Nation. Our economy is still predominantly agricultural and is dependant on the behaviour of the principal monsoon. A realistic financial year should enable a correct assessment of revenue, should also synchronize with a maximum continuous spell of the working season and facilitate an even spread of expenditure. For centuries, people in India have become accustomed to commence their Financial Year on the DIWALI day. This practice has its roots in their way of life. The business community and other sectors of society start on the DIWALI day with the feeling that they have finished with the old period of activity and have embarked upon a new one. It is, therefore, appropriate that the commencement of the Financial Year should be related to DIWALI and, in order to prescribe it in terms of a fixed date, we have recommended that the 1st of November should begin the Financial Year.

Yours sincerely,

(Sd.) K. Hanumanthaiya.

Shrimati Indira Gandhi,
Prime Minister of India,
New Delhi.

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