



**GOVERNMENT OF INDIA  
ADMINISTRATIVE REFORMS COMMISSION**

**REPORT OF STUDY TEAM  
ON  
ACCOUNTS AND AUDIT**

**Indian Institute of Public Administration Building  
Indraprastha Estate, Ring Road  
New Delhi**

**September, 1967**

**PRINTED BY THE MANAGER GOVERNMENT OF INDIA PRESS  
SIMLA FOR THE MANAGER OF PUBLICATIONS CIVIL LINES DELHI  
1968**

*Price: Inland Rs. 4.50 P.—Foreign 10 sh. 6 d. or 1 \$ 62 cents*

**STUDY TEAM  
ON  
REFORMS IN ACCOUNT  
AND  
ROLE OF AUDIT**

*Chairman*

SHRI S. RATNAM

*Members*

SHRI M. A. CHIDAMBARAM

SHRI G. BASU

SHRI A. K. MUKHERJI

SHRI N. S. PANDEY

*Secretary*

SHRI J. C. LUTHER

*Research Staff*

SHRI S. L. MALHOTRA

SHRI H. K. L. CHAUDHRY

## LETTER OF TRANSMITTAL

S. RATNAM

*Chairman*

*Study Team on  
Reforms in Accounts and  
Role of Audit*

GOVERNMENT OF INDIA  
ADMINISTRATIVE REFORMS COMMISSION  
PATEL BHAVAN, NEW DELHI

*September 18, 1967*

Dear Shri Hanumanthaiya,

I have the honour to submit the Report of the Study Team on Reforms in Accounts and Role of Audit.

2. We have been asked to locate the principal problem areas in regard to the subjects allocated to the Study Team and suggest possible solutions for their Members of the Commission, in defining the scope of our work and our general approach to it with due regard to the overall aims and objectives of the Commission. It is our hope that our studies will be of some assistance to the Commission in discharging their onerous responsibilities.

3. The accounting system of the Union and State Governments still operates within a framework which was devised many years ago. With a vast expansion in the scope and volume of governmental activities, particularly after independence, and the emergence of a democratic society, a need has often been felt to refashion the accounting patterns and procedures to serve, more adequately, the needs of modern times. We have taken the view that the adequacy of an accounting system should be judged from its ability to serve the needs of Legislature for supervision and control, of Administration for effective and efficient implementation of programmes and of the general public for facility and convenience in their dealings with Government. It has been the endeavour of the Study Team to examine and suggest ways and means of strengthening and, where necessary, modifying the accounting system so as to make it a better instrument for subserving the three-fold objective of accountability, performance and convenience. Towards this end, we have made some practical suggestions for simplification and re-classification of the budgetary accounts, strengthening of the accounting set-up within the administrative agencies and streamlining of the procedures of payments and receipts by Government.

4. With regard to the role of Audit, we have focused our attention mainly on the desirability of promoting better harmony and understanding between Audit and Administration which, in our view, should be regarded as allies in a common endeavour to improve the efficiency and effectiveness of Governmental activities. We have made several suggestions for reorientation of audit principles and procedures with a view to not only aiding and assisting Administration but also to lending more purpose and significance to the concept of accountability to Legislature.

5. On behalf of the members of the Study Team, I would like to record our warm appreciation of the able and unsparing assistance and co-operation offered to us by the Secretary, Shri J. C. Luther. He has applied himself with zeal and initiative to the task of producing informative and analytical staff papers and has made a positive and constructive contribution to the formulation of the Study Team's views. Finally, he has taken a leading part in settling the layout and draft of the Team's Report.

With kind regards,

Yours sincerely,  
(Sd.) S. RATNAM

Shri K. Hanumanthaiya,  
Chairman,  
Administrative Reforms Commission,  
New Delhi.

	PAGE
<b>CONTENTS</b>	<b>1</b>
Preface .. .. .	3
<b>PART ONE—ACCOUNTS</b>	
<b>CHAPTER</b>	
I APPROACH AND OBJECTIVES .. .. .	10
II GENERAL SYSTEM OF ACCOUNTS .. .. .	..
1. Organisation	..
2. Compilation	..
3. Classification	..
III REFORMS IN ORGANISATION AND SCOPE.. .. .	..
1. Separation of Accounts from Audit	32
2. Departmental Accounts and Reporting Systems	..
3. Exchequer Control	..
4. Separation of Balances	..
5. Accounting of Government Property	40
IV REFORMS IN COMPILATION OF ACCOUNTS .. .. .	..
1. Organisation of Treasuries	..
2. Exchange and Settlement Accounts	54
3. Structure of Sub-Heads	..
V REFORMS IN CLASSIFICATION .. .. .	..
1. Functional Classification	..
2. Accounting and Reporting for Performance Budgeting	..
VI REFORMS IN PROCEDURES .. .. .	73
1. Mechanisation of Accounts	75
2. Payments to Government Servants	82
3. Transactions with Public	92
<b>PART Two—AUDIT</b>	
VII APPROACH AND OBJECTIVES .. .. .	..
VIII SCOPE AND ORGANISATION OF AUDIT .. .. .	..
IX AUDIT AND ADMINISTRATION .. .. .	105
X AUDIT OF SPECIAL AREAS AND AGENCIES .. .. .	..
1. Developmental Expenditure	115
2. Revenue Receipts	..
3. Panchayati Raj Institutions and Co-operative Societies	..
XI AUDIT OF PUBLIC SECTOR UNDERTAKINGS .. .. .	..
<b>PART THREE—CONCLUSIONS</b>	
XII SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	
1. Accounts	
2. Audit	

## APPENDICES

## PAGE

I	Ministry of Home Affairs' Resolution No. 40/3/65/AR(P) dated the 5th January, 1966 setting up the Administrative Reforms Commission ..	131
II	Administrative Reforms Commission Memorandum dated the 28th May 1966 constituting the Study Team on Reforms in Accounts and Role of Audit .. .. .	135
III	Administrative Reforms Commission Memorandum dated the 28th May, 1966 appointing the Study Team on Budgetary Reform, System of Expenditure Control and Procedure governing financial relations between the Centre and the States .. .. .	136
IV	Questionnaire issued by the Study Team on Reforms in Accounts and Role of Audit, .. .. .	138
V	List of persons and organisations, etc. from whom replies were received	146
VI	Abbreviations used .. .. .	149

## PREFACE

The Administrative Reforms Commission has been set up in terms of a Resolution of the Ministry of Home Affairs\* to examine the public administration of the country and make recommendations for reforms and reorganisation, where necessary. The Commission has been asked to "give consideration to the need for ensuring the highest standards of efficiency and integrity in the public services and for making public administration a fit instrument for carrying out the social and economic goals of people". One of the ten subjects that have been specified for particular attention by the Commission is Financial Administration and some of the pertinent issues under this head have been listed in the Schedule to the Resolution, as below:

- (i) Budgetary reform.
- (ii) Reform in the administration of accounts.
- (iii) The role of audit.
- (iv) The system of expenditure control, including procedures for sanctioning schemes and the problem of financial delegation and de-centralisation.
- (v) Procedures governing financial relations between the Centre and the States.

2. The Administrative Reforms Commission constituted two Study Teams† to examine the five issues listed under Financial Administration, one of them being the Study Team on Reforms in Accounts and Role of Audit. This Study Team was set up on the 28th May, 1966 with the following composition:

- Shri S. Ratnam—*Chairman*.  
Shri M. A. Chidambaram—*Member*.  
Shri G. Basu—*Member*.  
Shri A. K. Mukherji—*Member*.  
Shri N. S. Pandey—*Member*.

Shri J. C. Luther, Deputy Secretary, Administrative Reforms Commission, was nominated as Secretary of the Study Team.

The Study Team is expected to deal with items (ii) and (iii) in paragraph 1 above and its terms of reference are to ascertain facts, locate the principal problem areas, examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration.

3. A separate Study Team was set up by the Commission under the Chairmanship of Shri Venkatappiah to deal with the remaining items (i),

---

\* Please see Appendix I at the end of the Report.

† Please see Appendices II and III at the end of the Report.

(iv) and (v) mentioned above. One of the members, Shri N. S. Pandey and the Secretary, Shri J. C. Luther, were common to both the Study Teams to facilitate proper liaison between them in the allied fields of study.

4. As a first step in its work, the Study Team discussed and analysed the various types of problems pertinent to their field of enquiry and prepared a descriptive and analytical outline of some of the issues which were considered specially important. This list of issues, reproduced in Appendix IV, was circulated to well-known persons and institutions, with specialised experience and knowledge of the subject, within and outside Government to elicit their views. Simultaneously, the Secretary and the research staff attached to the Study Team organised and initiated studies of the available material relating to these issues with a view to preparing staff papers for consideration by us.

5. In defining the scope of our work and our approach to it, we have been guided throughout by the overall aims and objectives of the Administrative Reforms Commission and by an awareness of our primary role which is to assist the Commission in discharging its responsibilities. In this context, we have laid emphasis on measures to promote the efficiency and effectiveness of the audit and accounting system to aid the Administration in performing its varied and complex tasks and implementing its programmes and projects for economic and social development. In our studies, we have sought to focus attention more on the essentials of the general system rather than on the details of specific rules and regulations.

6. We have presented our report in three parts, Part One dealing with the accounting system, Part Two dealing with Audit and Part Three containing a summary of our conclusions and recommendations.

7. We would like to express our gratitude to the persons and institutions who have been good enough to respond to our questionnaire and send us their valuable comments. We are also grateful for the willing cooperation received by us from the Comptroller and Auditor General's office and, in particular, for the commendable zeal and diligence with which Sarvashri P. V. Vasudevan, Deputy Director, and R. N. Chopra, Assistant Director, have worked to assist the Study Team. The Working Group on Performance Budgeting appointed by the Study Team on Budgetary Reforms have given us their best cooperation in examining the accounting arrangements for performance budgeting and we are, indeed, grateful for their help. The research analysts attached to the Study Team, Sarvashri S. L. Malhotra and H. K. L. Chaudhry, both from the Indian Audit and Accounts Department, have worked with ability, sincerity and dedication in rendering all assistance to the Secretary of the Study Team, particularly, in the preparation of informative and analytical staff papers on several technical subjects calling for specialised knowledge. We have great pleasure in placing on record our warm appreciation of their excellent work.



---

---

**PART ONE**

**ACCOUNTS**

---

---

## CHAPTER I

### APPROACH AND OBJECTIVES

1.1. The present accounting system has a history of over hundred years behind it and its main outlines and principles have undergone but little change all these years. It may perhaps be assumed that a system which has remained unaltered in the face of far-reaching political and economic upheavals would have a good deal of merit in it. Some of the outstanding features of the general system are a combination of audit and accounting functions with an independent Comptroller and Auditor General, a decentralized system of payments and receipts through numerous and widely dispersed treasuries and a uniform pattern of classification and accounting procedures applicable alike to the Governments at the Centre and in the States and, with minor adaptations, to the various Ministries and Departments. The system was originally devised to render a complete and reliable account of the financial transactions of the Government to the Secretary of State in the United Kingdom and as such, its characteristic features were those which emphasized and enforced strict accountability for financial management. While the system has acquired, over the years, some commendable features such as simplicity and uniformity it has also displayed a certain weakness in adjusting itself to the needs and pressures of enormous changes in the nature and objectives of Government activities. In particular, there has been a lack of initiative in developing a modern accounting system to serve as an effective tool for managerial control. Subject to the approval of the President, the authority for determining the form of the accounts vests in the Comptroller and Auditor General. This has been done with a view to enabling him to discharge his own responsibilities for the preparation of annual accounts and the audit of Government accounts. The administrative authorities, by and large, seem to have been disinclined to take initiative in developing internal accounting systems to provide timely and pertinent information for the purpose of effective management of their expanding and complex functions.

1.2. The structure of the accounting system of a Government must satisfy the needs of Parliament, the Executive and the administrative ministries, including their subordinate agencies. First, the system must ensure that Parliament receives a full and reliable account of the Executive's stewardship of the funds provided to it. Thus, the form of the accounts must be such as to facilitate audit and a comparison of actual results with the appropriations approved by Parliament. Second, the accounting system should be so organised as to produce readily all information necessary to enable the Executive to fulfil its accounting responsibility to Parliament. Third, the administrative ministries and other

operative agencies should have internal accounting and reporting systems suited to their individual needs and equipped to produce timely information to aid them in taking sound managerial decisions.

1.3. We have examined the present system with a view to assessing the extent to which it is capable of subserving the above objectives. Our primary concern has been to devise practical measures to ensure that all these objectives can be adequately met by a well-organised accounting system. We have been particularly struck by a neglect of accounting systems and a general failure to develop accounting skills within the administrative ministries in relation to the third objective stated in para 2 above. In our deliberations, while giving due recognition to the merits of the existing institutional and other factors, we have endeavoured to examine if the requisite reforms and improvements can be secured by adapting and supplementing the existing system. We have generally been unwilling to discard the established practices and supplant them by costly and novel schemes for organisational changes on doctrinaire consideration. Nevertheless, we have not refrained from recommending more radical changes where circumstances so require and considerations of cost are not unfavourable. Apart from reviewing the general system, we have also examined the possibility of eliminating unnecessary duplication, detail and delay in certain procedures without impairing the basic and fundamental functions of a modern system of accounting and financial reporting.

1.4. The general layout of Part One of the Report dealing with the system of accounts is as follows: Chapter II is mainly descriptive and gives an outline of the organisation and system of accounts at present. In the next three chapters we have examined and indicated the scope for reforms in three distinct but related fields of organisation for accounts, the process of compilation and the system of classification. We have given some indication of the gaps and deficiencies that exist in the internal accounting systems of ministries in Chapter III and have advocated a major effort to review and strengthen their accounting set-up in a systematic manner and supplement it, to the extent necessary, by internal audit. We have simultaneously suggested a simplification of the accounts to be maintained by the Comptroller and Auditor General accompanied by a transfer of the responsibility for supplementary details to the ministries themselves. Chapter V contains our comments and recommendations on the general system and structure of accounts in relation to modern concepts of functional classification and programme budgeting. Chapter VI deals with the problems of simplifying the system of payments to government servants and transactions with the public. It also examines the feasibility of introducing mechanisation of accounts in certain areas. A summary of our conclusions and recommendations has been given in Part Three of the Report.

## CHAPTER II

### GENERAL SYSTEM OF ACCOUNTS

2.1. We propose to give here a general outline of the present accounting system with the methods and procedures being followed for the compilation of Government accounts. The first of three sections in this Chapter narrates the organisational set-up for accounts with particular reference to the duties and functions of the Comptroller and Auditor General with regard to accounts and the nature of accounting responsibilities of other agencies—the administrative departments and the treasuries. The other sections deal in some detail with the procedures for compilation and classification of accounts, inviting attention to some of the salient principles and features of Government accounts in India. The chapter, as a whole, is intended to provide the necessary background for appraisal of the various issues discussed in the subsequent chapters.

#### I. ORGANISATION

2.2. Under Article 150 of the Constitution, the Comptroller and Auditor General of India has been vested with the specific authority to prescribe, with the approval of the President, the form of accounts for the Union and State Governments and the methods and procedures to be followed by various agencies in discharging their accounting responsibilities. His powers and functions in respect of accounts and audit are specified in Articles 149 to 151. Article 149 envisages an Act of Parliament defining the duties and powers of the Comptroller and Auditor General in relation to the accounts of the Union and the States; it also lays down that, until such an act is passed, he would continue to perform such functions as were entrusted to the Auditor General of India before the commencement of the Constitution. As the Act has not yet been passed, the Comptroller and Auditor General continues to exercise his responsibilities in terms of the Audit and Account Order, 1936, as adapted by India (Provisional Constitution) Order, 1947. Accordingly, he has the overall responsibility for keeping the accounts of the Union and of the States with the exception of the accounts relating to Defence and Railways. The other minor and partial exceptions to this general rule are that the initial accounts are kept not by him but by the treasuries and by the administrative departments and that the subsidiary accounts, the accounts of the stores and stock and the commercial accounts, as prescribed by him, are maintained by the administrative departments and agencies themselves. In short, the function of keeping accounts is shared by the Comptroller and Auditor General with the treasuries and the administrative departments except in the case of Defence and Railways which have their own accounting organisations.

2.3. Even though the Comptroller and Auditor General has been relieved of the responsibility for keeping accounts of a specified class or character under the Initial and Subsidiary Accounts Rules, 1936, he retains full and effective control over the form in which the accounts are to be kept, including those to be kept by agencies other than the Comptroller and Auditor General. He derives this authority directly from Article 150 of the Constitution which runs as follows:

“The accounts of the Union and of the States shall be kept in such form as the Comptroller and Auditor General of India may, with the approval of the President, prescribe.”

The provision is all-embracing and comprehensive and leaves the initiative and responsibility for prescribing accounting principles, procedures and forms to the Comptroller and Auditor General, subject only to the approval of the President. The scope of the authority of the Comptroller and Auditor General relates to the totality of the accounts, including the accounts of revenue receipts, all subsidiary accounts, accounts of stores and stock, commercial accounts and all other records which may be required to be kept by and within the administrative ministries.

2.4. As a corollary to his duties and functions with regard to the keeping of accounts, the Comptroller and Auditor General is required to compile and submit to the Governments concerned annual accounts designated as the Finance Accounts and Appropriation Accounts, containing, respectively, a comprehensive account of receipts and expenditure classified under the various heads of account and the actual expenditure during the financial year in relation to the items specified in the Schedule to the Appropriation Act passed by Parliament. In addition, the Comptroller and Auditor General has to prepare and submit to the President a general financial statement incorporating a summary of the accounts of the Union and the States, particularly of their balances and outstanding liabilities, and such other information as may be required by the President. This statement is known as the Combined Finance and Revenue Accounts of the Union and State Governments. It is the duty of the Comptroller and Auditor General to furnish to the Government concerned such information as may be required by them relating to the accounts being kept by him and assist in the preparation of the Annual Financial Statement of the Union and State Governments to be laid before the Lok Sabha/the State Legislature under Article 112/202 of the Constitution.

## 2. COMPILATION

2.5. The focal point for primary record of the financial transactions of Government is the treasury. The treasury is the unit of the fiscal system in India and is located at the headquarters of each district in India with one or more sub-treasuries dispersed at other places in the district. The

treasuries handle the transactions of both the Union and State Governments and at places where the Reserve Bank of India or the State Bank of India has a branch, the treasury business is conducted by the Reserve Bank or its agent, the State Bank, on behalf of the treasuries. Even in such cases, the initial accounts are compiled and maintained by the treasuries. As an exception to the general rule, the initial accounts in respect of transactions of certain departments such as Public Works and Forest Departments are kept by the departmental officers themselves. The receipts and payments on behalf of these departments are accounted for in the treasury records in lump sum and not in detail as in the case of receipts and payments for other departments.

2.6. A list of payments supported by vouchers is sent by the treasury to the Accounts Officer in two instalments every month. The receipts and payments for the whole month are also recorded and compiled into a monthly cash account at the treasury and sent to the Accounts Officer. Similarly, in cases where payments in lump sum are recorded in the treasury accounts, the departmental officers compile a detailed monthly account from their initial record and submit it to the Accounts Officer together with the vouchers.

2.7. An important stage in the compilation of accounts is the classification of receipts and payments under the various heads of accounts. This is done partly in the treasury or the departmental office where the initial accounts are compiled, and finally in the office of the Accountant General on the receipt of initial accounts. The principles and patterns for classification of Government accounts have great significance in the accounting and budgetary structure of a country. We are dealing with this aspect in some detail in the next section. To complete this account of the various stages in the compilation of Government accounts, we may make a note of what goes on in the Accounts Office after the initial accounts have been received and entries have been classified in detail in accordance with the prescribed procedures. The monthly accounts received from the treasuries and departmental officers are compiled in the Accounts Office in the Consolidated Monthly Accounts of the Union Government and the States, as the case may be. To the cash transactions reported by the treasuries are added, at this stage, the adjustments on account of inter-departmental and inter-governmental transactions. The transactions of the Union Government taking place throughout the country are consolidated by the Accountant General, Central Revenues, who receives from all the Accounts Officers monthly accounts of Union transactions in India. Progressive figures are also compiled every month in respect of each State Government and the Union Government and, eventually, the Annual Finance Accounts and the Appropriation Accounts for the whole year are compiled, which, together with the reports of the Comptroller and Auditor General, are submitted to the President/Governor, who causes them to be laid before each House of Parliament/Legislature.

2.8. Since 1955, accounting and audit functions have been separated in a few Union Ministries/Departments, e.g., the Departments of Food, Rehabilitation and Supply, and the Lok Sabha and Rajya Sabha Secretariats. All payments relating to these ministries/departments are centralized with their Pay and Accounts Officer and their regional offices and are subject to full pre-check. The initial accounts for these departments are maintained by the concerned pay and accounts offices, who classify and compile the monthly statements which are forwarded direct to the Accountant General concerned for incorporation in the consolidated Government accounts.

2.9. It may be observed that the pattern of the compilation of Government accounts follows well-defined lines. It originates at the stage of the initial accounts maintained at the treasury and, in certain cases, by the departments themselves. The information flows from a large number of originating points to the various accounts offices where it is classified and consolidated into monthly and progressive figures separately for the Union and State Governments, merging finally into the Annual Finance and Appropriation Accounts which are submitted to the Comptroller and Auditor General and by him to the respective Governments. The chart at page 9A gives a graphic description of the various agencies and the channels involved in the compilation and preparation of final accounts by the Comptroller and Auditor General.

2.10. The accounting activities within the administrative ministries and departments are, of course, not limited to making payments and withdrawal from the treasury. Each drawing and disbursing officer has the initial responsibility of classifying his transactions with the treasury in accordance with the prescribed procedures. He also compiles departmental statements every month for submission to his controlling officer. The controlling officer is required to consolidate the figures independently and seek a reconciliation with the accounts compiled in the accounts office. To a certain extent, therefore, duplicate and parallel statements are being prepared, one line travelling through the treasury to the accounts office and the other from the drawing and disbursing officer to the controlling officer. The degree of detail in both sets of accounts being more or less identical, the justification for the duplication involved is that it provides a check against errors and omissions and ensures that drawing and disbursing officers keep proper accounts of the money drawn by them.

### 3. CLASSIFICATION

2.11. The general structure of Government accounts and, in particular, the system of classification of transactions are matters of great significance from many viewpoints. The adequacy and effectiveness of Parliamentary review and control over financial administration are determined substantially by the form and contents of consolidated and classified Financial

Statements together with the Demand for Grants submitted to Parliament. Similarly, for the purposes of financial control and effective financial management within the administrative ministries as also for an analysis of Government activities, a meaningful structure and classification of Government accounts is one of the prime requisites. In India, the Annual Financial Statement, commonly known as the Budget, is presented to Parliament and the State Legislatures in terms of the various sections and major heads of accounts grouped under them as prescribed by the Comptroller and Auditor General with the approval of the President of India. The heads of accounts do not necessarily correspond with the Demands for Grants which are arranged, in the Union Government and most, if not all, of the State Governments in accordance with the individual ministries and departments. As the accounts are maintained, basically, in terms of the accounting heads, coordination and correlation between the demands for Grants and the accounting heads is achieved by exhibiting the provision for each Demand under the relevant accounting heads broken down further into primary units of appropriation prescribed by Government. Thus, the structural pattern of accounts is intimately linked with the process of Parliamentary review and authorisation of the budget, and as such, it governs as well as it reflects the form in which budgetary data are compiled and presented to Parliament.

2.12. Government accounts are kept in three separate parts: the Consolidated Fund (Part I), the Contingency Fund (Part II) and Public Account (Part III).

In Part I, dealing with the Consolidated Fund, there are three main divisions, namely, (1) Revenue, (2) Capital, and (3) Debt, comprising public debt and loans and advances. Part II is self-explanatory with regard to its contents whereas in Part III relating to the Public Accounts, there are two main divisions, (1) Debt and Deposits, and (2) Remittances.

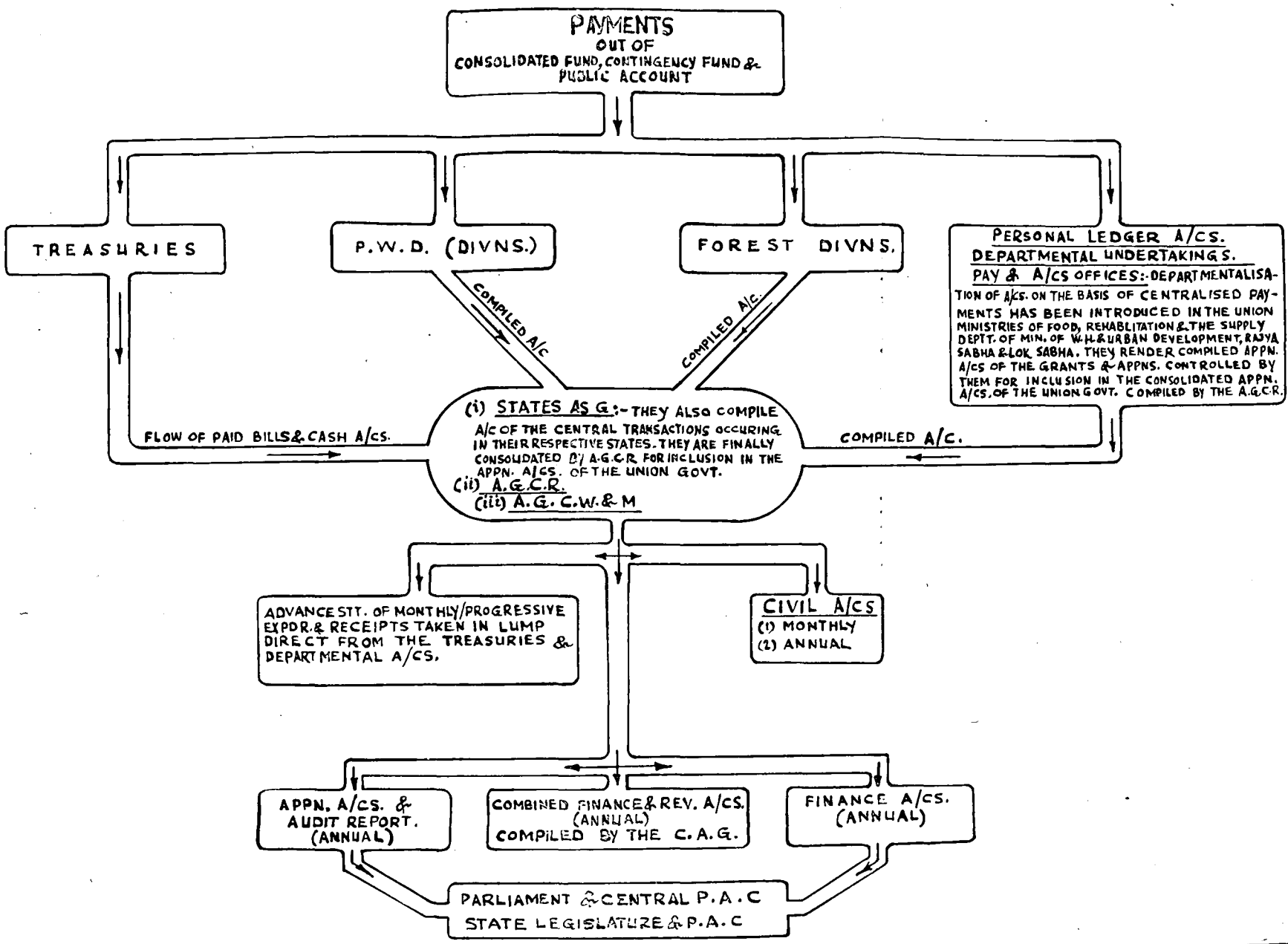
2.13. Each of the divisions of Parts I and III is made up of sections which are further sub-divided into major heads of accounts. The major heads in the Revenue and Capital Division of the Consolidated Fund accounts are numbered serially, Roman numerals being employed on the receipt side and Arabic numerals on the disbursement side. The main unit of classification of the accounts is the major head which is invariably divided into various minor heads, each of which may further accommodate a number of detailed heads. In some cases, the minor heads are first divided into sub-heads which are further sub-divided into detailed heads. The detailed heads and the minor heads of expenditure are so arranged in the accounts as to exhibit separately the expenditure under each primary unit of appropriation as prescribed by the Government. Whereas the basic principles and broad frame-work of accounts have remained unaltered for many years, the changes in the functions and objectives of the Government in the main sources of revenue and the avenues of public expenditure, have



received recognition in some re-arrangement and refinements of the classification pattern. After the Government of India Act, 1919, there were a total number of forty-two major heads under Revenue and sixty major heads under Expenditure met from Revenue together with Capital Expenditure not charged to Revenue. After the Government of India Act, 1935 was passed, the major heads under Revenue had gone up to fifty-three and the number of expenditure heads, both under Revenue and Capital, had increased to sixty-three, thus signifying the changes that had occurred in a period of about 15 years. The picture has undergone very substantial changes in recent years and in 1964, the number of major heads under Revenue Receipts had gone up to seventy, and the number of major heads under Revenue and Capital Expenditure has risen to as many as one hundred and thirty-four. The nomenclature and arrangement of Sections under which various major heads are grouped have also undergone some alterations during this period, particularly in 1961 and 1962.

2.14. Traditionally, the major heads of accounts have had a close correspondence with the various ministries and departments of the Government. In recent years this simple framework has not been able to withstand the vast expansion of governmental functions, particularly in the spheres of social and economic development and the picture today is somewhat confused and complex and does not facilitate a quick understanding of the underlying purposes and significance of public expenditure. To cite an illustration, some of the major heads of accounts are today dispersed over a number of Demands for Grants rendering it extremely cumbersome to comprehend the total significance of the expenditure booked under various heads. Thus, Annexure XI, in the Explanatory Memorandum of the Budget of the Central Government for 1966-67 shows that the major head on expenditure side, '19—General Administration', is dispersed over as many as 30 Demands. Similarly, the major head '27—Scientific Departments' occurs in 11 Demands and the major head '35—Industries' in 13 Demands. The other major heads which straddle over a large number of Demands are '26—Miscellaneous', '96—Capital Outlay on Industrial Development', and '124—Capital Outlay on Schemes of Government Trading'. This lack of synchronisation between the Demands for Grants and the major heads has resulted mainly from the tremendous increase of governmental activities in the field of economic and industrial development.

2.15. We have referred earlier to the changes in the accounting heads which were introduced in two instalments with effect from 1-4-1961 and 1-4-1962. It was felt by the Government that the accounting structure which had remained largely unchanged since 1935 had become outdated as a result of the rising tempo of developmental expenditure which called for extensive changes in the arrangements of sections and the major and minor heads of accounts. The changes that were eventually introduced



gave recognition to the shifting importance of various types of governmental activities and the need to present their financial results in a more meaningful fashion. By and large, the new pattern did not introduce any significant changes in the minor heads of accounts, although some important changes were effected in the nomenclature and arrangements of sections and major heads. New major heads were assigned to activities which had gained importance in recent years. Thus, Labour and Employment, Community Development, Overseas Communication Services and Administrative Expenditure on Parliament and State Legislatures were allotted new major heads under appropriate sections. The most important change in the sections was that the section 'Civil Administration' was split up in two sections, 'Administrative Services' and 'Social and Developmental Services, to emphasize the growth of expenditure on developmental activities as distinct from purely administrative services. Further, the scope of the section "Contribution and Miscellaneous Adjustments between the Central and State Governments" was widened by dropping the words 'between Central and State Governments' from its title and providing for major heads under it for transfer of tax revenue from the Centre to the State Governments and from the State Governments to the local bodies. The dividends from commercial undertakings and all the grants from the Centre to the States were also consolidated under two new major heads under this section. Important as these changes were, they still left considerable scope for further rationalisation of the accounting structure to bring it in tune with the requirements of the changing pattern and priorities of public expenditure and activities.

2.16. One of the important characteristics of the accounting structure in India is its uniformity as between the transactions of the Central and the State Governments. This notable feature is intended to facilitate comprehension and comparison of the enormous size and variety of the financial transactions both of the Central Government and the State Governments from one financial year to another. The elaborate and meticulous system of classification of Government transactions at different levels of details from section down to the detailed heads is also intended to facilitate effective financial control and periodical review of public receipts and payments by the administrative authorities. We shall examine elsewhere in our Report the manner in which the present system can be further rationalized and also made more effective in meeting the requirements for Parliamentary control and improved managerial practices.

## CHAPTER III

### REFORMS IN ORGANISATION AND SCOPE

3.1. We propose to examine in this Chapter some important issues relating to the question of the appropriate agency for maintenance and compilation of Government accounts. An accounting system has to be so devised as to meet the requirements of managerial efficiency over public administration as well as Parliamentary control over public finance. It is only in the light of these two basic considerations that the respective roles of the Comptroller and Auditor General, the Ministry of Finance and the administrative ministries in relation to Government accounts can be fruitfully appreciated, reviewed and analysed.

#### 1. SEPARATION OF ACCOUNTS FROM AUDIT

3.2. A notable and unique feature of Government accounts in India is the combination of the compilation of accounts and audit responsibilities in the office of the Comptroller and Auditor General in respect of not only the Union Government but also the State Governments. This special feature of the Indian system owes its origin to past traditions of a highly centralised form of Government under the British rule. So strong has been the hold of this historic system that despite all the far-reaching political changes in 1919 and 1935 and even under the Constitution of the Indian Republic, its essential framework has survived a series of powerful onslaughts from time to time. At present there are only two major organisations, the Defence and the Railways in respect of which the Comptroller and Auditor General has no responsibilities in the maintenance and compilation of accounts. In the case of Defence organisations, the accounts are maintained by a separate agency under the control of the Ministry of Finance and in the Railways, the accounts are the responsibility of an internal agency which forms an integral part of the Railway Administration. The accounting functions have also been partially separated from audit in the case of a few ministries and organisations since April, 1955 under a special scheme on an experimental basis. The salient features of the scheme are the pre-check and centralisation of all payments and the settlement of inter-departmental and inter-Government transactions by cheques or bank drafts and not through Exchange or Settlement Accounts. Its main objective is to make control over expenditure more effective and real as a result of pre-check of payments and ready availability of information on the current levels of expenditure in relation to Parliamentary appropriations. The scheme was initially introduced in the Department of Supply of the Ministry of Works, Housing & Supply and the Departments of Food and Rehabilitation and was later extended to the Lok Sabha and the Rajya Sabha.

3.3. The controversies which had arisen in the past on the merits and demerits of the combined system had been mainly concerned with considerations of economy in expenditure, implications of the advent of provincial autonomy and, more recently, with the respective roles of the Ministry of Finance and the Comptroller and Auditor General with regard to Government accounts. In the twenties, the case for separation of accounts from audit was mainly argued in the context of the introduction of provincial autonomy and the propriety of financial burden of the entire accounts organisation being borne by the Government of India. The experiment undertaken in U.P. for separation of accounts from audit was given up at the time of the great depression of the thirties. In this connection the then Auditor General remarked: "I can say confidently that the separation of accounts and audit has not left in U.P. any clear mark of improvement or greater efficiency, either in regard to audit or in regard to accounts and financial administration in general". In the 1950's the question became inextricably involved with a debate on the respective roles of the Ministry of Finance and of the Comptroller and Auditor General who was initially inclined to favour the separation of accounts from audit as a part of an overall programme of vesting the administrative ministries with full financial responsibilities; later he withdrew his support to this proposition on the ground that he was disappointed with the results of separation in one of the States and that for several reasons no beneficial results had accrued from the working of the experimental scheme in the Union Government.

3.4. We have observed in the previous Chapter that the main responsibility of the Audit and Accounts Department is the compilation of monthly and annual accounts from the data flowing to them and the preparation of the annual Appropriation and Finance Accounts. In examining the question of the separation of accounts from audit, one should not lose sight of the important point that having regard to the provisions of the Constitution, it is only this function of compiling Central accounts that can be transferred from the Comptroller and Auditor General to the Administrative Ministries and it is in this context that the merits or demerits of such a transfer should be evaluated.

3.5. The usual ground on which the transfer of accounts from Audit is canvassed and supported may be placed under the following categories:

(a) The present system under which the Accountant-General makes the final compilation of accounts results in inadequate control over voted grants and appropriations. If the monthly and annual compilation of accounts are made by the spending ministries and departments, they will be intimately aware of the flow of expenditure and will thus also be able to exercise better control over expenditure to ensure that excesses over Parliamentary grants and appropriations are avoided and the savings minimised. In this connection we have examined the Appropriation Accounts for the

year 1960-61 to 1965-66 and have compared the effectiveness of control over expenditure in this sense in the ministries and departments where the compilation of accounts is under their own control with the position obtaining in other ministries where the compilation is done by the Audit Department. The results of our analysis indicate that in the Railways, the Defence and in the civil departments where separate accounts organisations exist, the control over expenditure in relation to grants and appropriation had been no better than in other civil departments. The incidence of excesses and savings is more or less similar in both types of cases.

(b) Final compilation of the accounts within the administrative ministries will speed up the preparation of monthly and annual accounts and enable Appropriation Accounts being presented to Parliament earlier than at present.

The Accountants General in the States are required to compile their monthly accounts by the 25th of the following month but the Accountant General, Central Revenues is required to do so only by the 10th of the 2nd following month. The monthly accounts of the Accountant General, Central Revenues have to include the figures of Reserve Bank Deposits on behalf of the Railways and the P&T Department which are not available earlier than the 5th of the second following month when the monthly accounts of the Railways are closed. The accounts of the Defence Department are closed by the office of the following month while the accounts of civil departments where separate compilation organisations exist also are closed by the 25th of the following month. Since 1963-64 we have noted that the annual Appropriation accounts in separated Ministries are also not prepared earlier than the Central Civil Appropriation Accounts. The Central Civil Appropriation Accounts and Audit Report thereon are now submitted by the Comptroller and Auditor General sometime between February and April and in this respect the position is similar to that obtaining in the United Kingdom where the Heads of the Departments are also the Chief Accounting Officers.

(c) An essential concomitant of the departmentalisation of payments will be the centralisation of payments after complete pre-check. Complete pre-check is decidedly better than the treasury checks that are being exercised at present. With centralisation of payments, it will also be possible to watch the progress of expenditure under specific heads from day to day so as to effectively guard against expenditure being incurred in excess of Parliamentary grants and appropriations. However, under centralised payments all bills will have to be submitted sufficiently in advance of the dates when the payments fall due. For offices at long distances and with poor communications, the submission of the bills much in advance of date

of payment would mean that the claims will be sometimes in the nature of advance payments. In a small country with efficient communications and banking facilities, a centralised system of payment may be suitable but in a vast country like India where in many areas means of communication are still not very efficient, such a system is likely to cause serious dislocations and delays in payments to claimants.

The centralisation of payments will raise another problem. The cheque drawing powers of certain departments such as the Public Works Department and Forest Department have been granted on account of their special needs for making prompt payments to contractors etc. In the existing circumstances it will not be feasible to withdraw these powers and in consequence, the centralised system will lose the intended advantages of a speedier compilation of accounts as expenditure statements from the field authorities with cheque-drawing powers will have to be awaited for this purpose. A similar difficulty will arise in the case of payment of pensions where the decentralised system of payments at treasuries has obvious advantages from the viewpoint of the pensioners.

(d) Payment and accounting are essentially executive functions and the combined responsibility for these should squarely remain with the administrative department. A division of responsibility in this regard between the Audit and Accounts Department and the Administration tends to weaken the efficiency of the financial system. We recognise that the principle of executive responsibility for accounting is unexceptionable but it seems to us that the present system cannot be said to be really at variance with it. Payments are always initiated by the departments and the cash handed over by the treasury/bank after what is called the treasury check. The accounts for the amounts thus drawn are also maintained by the departmental officers who send a summary of these accounts to their controlling officer. The compilation of the monthly accounts by the Accountant General need not affect in any way the departmental responsibility for payments and accounting. The idea of making every Head of the Department also the Chief Accounting Officer is associated with the United Kingdom system. In France, however, the departments are responsible for initiating and settling the amounts of the claims and issue of pay orders but the checking of the claims and payments as well as preparing the accounts on the basis of payments are the responsibility of the Finance Ministry. The practice varies from country to country and it should not be presumed that any particular system has universal validity.

(e) It is wrong in principle that the authority responsible for auditing the accounts should also compile the accounts which he is called upon to certify. The present system, combining the two functions in the same authority runs counter to the concept of the independence of audit.

This is yet another statement which incorporates a perfectly sound principle but fails to take into account the factual position in depth in

concluding that the present system involves any infringement of this principle. Where the accounting organisation is directly subordinate to the Executive as in the case of a joint stock company, it is obviously necessary to provide for audit by an independent agency which is not associated with the account keeping functions. The position in the Government accounting system is not, however, analogous. The Accountant General who merely compiles the final accounts is not subordinate to the Executive, nor does he, in fact, control or direct the accounting set up within the administrative ministries for maintaining departmental records of payments and receipts. It is important to remember in this connection that the departmental authorities are required to maintain a parallel set of accounts for internal use and the Accountant General is primarily concerned with compiling the final accounts on the basis of the vouchers received after payments have been made. There is, therefore, no real anomaly in present accounting and audit functions of the Comptroller and Auditor General.

(f) It is realised that departmentalisation of accounts will involve increased expenditure. But this should not stand in the way of introducing a salutary reform. In any case, determined efforts can be made to keep the increase of expenditure to the minimum.

A centralised system of payments inevitably assumes that before the payments are made, pre-checks are to be exercised. The present checks exercised before payment in the treasury are merely routine checks. The checks in a centralised Accounting Office will be far more extensive and important. Thus, it will be necessary in a centralised system of payments to employ more men than in an Accountant General's office for the purpose of compilation of the accounts from vouchers. An idea of the additional costs involved in separating accounts from audit can also be obtained from a recent Report of a Working Group on Telecommunication Accounts set up by the P&T Board to examine the practical implications of the recommendation of a team of accounting consultants on the reorganisation of Telecommunication Accounts. The present cost of maintenance of accounts of the telecommunication operations of the P&T Department by the Accountant General, Posts and Telegraphs and other accounting functions discharged by him is about Rs. 32 lakhs per annum inclusive of pensionary charges. According to the estimates of two members of the working group, the extra cost in integration of accounts has been assessed at Rs. 41.08 lakhs per annum. Thus the total cost for integration of accounts with the Posts and Telegraphs Department has been assessed by two members of the working group at Rs. 73.08 lakhs per annum. (41.08 + 32). The working group has also recommended the installation of a concurrent internal check organisation as an essential concomitant of the assumption of accounting responsibilities by the Executive and has assessed the cost of this organisation at Rs. 16.07 lakhs per annum. Inclusive of this amount, the total cost for integration of accounts with the department will be of the



order of Rs. 89.15 lakhs per annum. The Ministry of Communications have, however, taken the view that the extra cost assessed at Rs. 41.08 lakhs per annum by the majority of the working group can be reduced to Rs. 17 lakhs per annum by certain adjustments in the staff composition for the implementation of the scheme and effecting other changes. They also feel that, to start with, a nucleus internal check organisation with peripatetic parties at a cost of Rs. 5 lakhs per annum will suffice. On this basis, the extra cost for integration of the telecommunication accounts with the department will be of the order of Rs. 22 lakhs per annum which amounts to almost 70 per cent of the present cost and the total cost will be about Rs. 54 lakhs per annum as against the assessment of Rs. 89.15 lakhs per annum by the majority of the working group.

3.6. We have carefully examined the various aspects of the case against the present combination of audit and accounts functions, with the Comptroller and Auditor General. We do not agree with the view that the responsibility for compiling accounts necessarily affects the objectivity or efficiency of Audit. On the other hand, there is some point in the argument that its association with the details of accounts from day to day is of considerable assistance to Audit in discharging its main responsibilities. There is no inherent conflict between the compilation of central accounts and the operations of an independent audit and such deficiencies as exist in the present system (for instance, the general inadequacy of internal accounting systems) may be attributed, as we have noted elsewhere, to factors other than the combination of the two functions in the agency of the Comptroller and Auditor General. It is important to note that even if the accounting functions were to be decentralised with the individual ministries, there will still be need for another agency to compile and consolidate central accounts incorporating data from individual units. One of the weighty considerations in favour of the present system is that it is economical. The alternative system in which Ministry has its own accounting organisation with a provision for pre-check and centralisation of payments will be, as analysed above, appreciably more expensive.

3.7. It is recognised, of course, that economy, by itself, should not be an overriding consideration, if the advantages of the change in the special circumstances of certain organisations are found to be significant. Thus, it has recently been decided by Government that the function of compilation of accounts for tele-communication services may be transferred to the Posts and Telegraphs Department in a phased programme over a period of five years.

3.8. We may now sum up our views on the question of separation of accounts from audit. We do not think there is any inherent conflict or disadvantage in the combination of the function of compilation of accounts with that of audit, nor do we think such deficiencies as exist in

the present system can be eliminated or mitigated only through the separation of accounts from audit without substantial changes in the institutional frame-work such as the treasury system of payments and receipts. We have reached the conclusion, on the other hand, that the present pattern has important advantages, notably, of economy and uniformity (which is of particular significance at the present journey). In our view, attention should, more fruitfully, be directed towards the simplification and improvement of the current procedures rather than towards the separation of accounts from audit on the basis of *a priori* considerations. In conformity with this conclusion, we have made certain recommendations, elsewhere in our report, to strengthen departmental accounting systems within the present frame-work and to eliminate the non-essential and dilatory procedures for the compilation of Central accounts.

3.9. While we do not see any urgent or compelling need to separate accounts from audit as a matter of general policy, we do recognise that where special circumstances justify, the question of transferring the responsibility for compilation of accounts to the administrative agency concerned may be examined on merits. Cases of this type are the organisations where the transactions are predominantly of a commercial nature, or where large and frequent transactions with the general public are involved and the payments can be conveniently centralised.

## 2. DEPARTMENTAL ACCOUNTS AND REPORTING SYSTEMS

3.10. It is only in recent years that there has been some recognition in Government of the importance of developing and establishing modern accounting systems within the administrative ministries, but the progress towards implementing this idea has so far been far from impressive. In a way, this is not a feature which is peculiar to India alone. In most other countries also the traditional and historical emphasis in budgetary and accounting procedures has been placed primarily, if not solely, on legality and accountability aspects and the potential contribution of the accounts to better management has received some recognition only in recent years. Of late, there has been a growing awareness of the benefits which can accrue from modern accounting techniques designed to produce current information for the use of management at all levels to assist them in planning and directing their activities. In India, there has been a partial and limited recognition of the need for subsidiary departmental accounts in certain fields to supplement the general accounts within the domain of the Comptroller and Auditor General. Thus, it has been the practice for many years to require the maintenance of commercial accounts for such governmental undertakings as are engaged in commercial-type activities. Also, detailed procedures have been laid down for the maintenance of subsidiary accounts within the Public Works and Forest Departments. But even in those areas where subsidiary accounts are required to be maintained, the

design of the supplementary accounts has been dictated not so much by managerial considerations as by the objective of presenting more informative data in support of the annual accounts.

3.11. It is axiomatic that a system of accounts should be so designed as to serve the twin objectives of accountability and performance. It is not necessary, and indeed it may not be possible, to aim at a single set of accounts to serve both the objectives. While it is obviously necessary that the accounting system should be fully integrated with the form in which the Budget is presented to and authorized by Parliament, there is need for much greater flexibility in the structure of accounts if they are to assist the Administration in better control over performance. It is possible to envisage a dual but integrated system of accounts in which the Appropriation Accounts employing a uniform pattern with a minimum of detail will continue to be kept by the Comptroller and Auditor General and subsidiary accounts to assist managerial performance can be organized within the administrative departments in such form and detail as will suit their individual needs. The lines on which appropriate internal systems should be developed and established can be determined only by a searching and sustained investigation of the relevant facts such as the scope and nature of the objectives of each department on an expert level. We can give here only some broad suggestion to equip the departments adequately to discharge their responsibilities, externally, to Parliament for better control over expenditure and, internally, for better control over performance.

#### *Accountability*

3.12. Under the present system of accounts in India the agencies responsible for control over expenditure in relation to grants and appropriation are the administrative ministries and departments. We have noted earlier that a decentralized system of payments through hundreds of treasuries and sub-treasuries dispersed all over the country does not admit of an effective external check over the flow of expenditure either at the point of payment or at the point of compilation of accounts. Even in those ministries and departments where accounts have been separated from Audit since 1955, it has not been possible, for various reasons, for the Pay and Accounts Office to assume responsibility for ensuring that expenditure does not exceed the sums authorized by Parliament. It follows that the only way of enforcing strict control over expenditure in relation to grants is to install an effective system of initial accounts within the administrative ministries and to ensure that, in actual practice, the system functions smoothly and effectively. For this purpose, it is necessary to provide for better supervision over the maintenance of initial accounts within the departments at all levels such as the disbursing officer, the controlling officer, the heads of department, and the ministries themselves. The existing procedures for the monthly reconciliation of departmental figures with the

figures compiled by the Accountant General have also to be enforced with the necessary zeal. We have been informed that the initial accounts within the administrative ministries are often allowed to run into avoidable delays, errors and omissions, with the result that the only set of accounts on which reliance can be placed for the purpose of control over expenditure is the compilation in the accounts offices. The system under which the monthly figures of expenditure are submitted by the drawing and disbursing officers to the controlling officers and the consolidation by the latter of those figures and their reconciliation with accounts office figures requires to be strengthened and followed rigidly. We have been informed that adequate importance is not attached to this important work by the controlling offices and departments. We, therefore, recommend that necessary steps may be taken in all administrative ministries, and in subordinate organisations to strengthen the system for maintenance of initial accounts (with such checks as may be considered essential) and of related reports with a view to facilitating proper control over expenditure in relation to Parliamentary Grants and Appropriations.

#### *Performance*

313. In order to satisfy the broad needs of the administrator, the following are the main elements which a system of Government accounts should embrace:

- (a) The accounts should provide a full disclosure of the financial results of an organisation or undertaking, including, to the extent possible, the costs of its programmes and activities;
- (b) The accounts and related procedures should be so designed as to provide adequate and timely information to management at all levels for proper planning and control of their activities;
- (c) The system should include effective procedures for internal audit and control of operations and programmes. In general, the aim of the accounting system should be to facilitate and provide, on a continuous basis, an appraisal and analysis of various programmes with a view to disclosing the efficiency with which they are being performed.

Judged from these standards, there is a general weakness of the accounting systems in India to provide sufficient data for the evaluation and control of performance to the administrative departments and agencies. In the limited areas, where the subsidiary accounts are kept, they have not been developed and are, therefore, somewhat deficient from the view-point of managerial consideration. Let us consider, for instance, the subsidiary accounts on commercial lines required to be maintained by departmental undertakings which have been declared as commercial or quasi-commercial. The object of these accounts is that "the financial results of the undertaking should be expressed in the normal commercial form, so that the cost of the service, or of the undertaking may be accurately known". As

the general accounts of government are maintained on cash basis, these commercial accounts which require the maintenance of all supplementary records for the preparation of the trading and the profit and loss accounts and the balance-sheet are kept on a proforma basis, separate from and supplementary to the main accounts. Nevertheless, they are as much subject to audit by the Comptroller and Auditor General as any other Government accounts. As on the 31st March, 1965, there were 34 departmental undertakings of a commercial or quasi-commercial nature. A consolidated *reshta* (Commercial), and there too the information is given only in a summary form relating to the previous year. Far from serving managerial needs, the proforma accounts of these undertakings reveal a number of shortcomings even from the viewpoint of the normal standards expected of them. Some of the organisations prepare neither the profit and loss accounts nor the balance-sheet, while there are others which prepare a profit and loss account but not the balance-sheet. It has been mentioned in the Audit Report (Commercial), 1966 that the proforma accounts of as many as nine undertakings for the financial year 1964-65 had not been received till March, 1966. It is obvious that much greater attention needs to be given to the maintenance of commercial accounts on a regular and scientific basis if they are to serve the purposes intended of them. Further, a thorough investigation is necessary to determine and establish suitable methods and procedures to provide more analytical data to serve managerial needs.

3.14. A number of departmental undertakings are at present required to maintain proforma commercial accounts. There are some 'non-commercial' schemes of a trading nature for which also proforma accounts are being maintained in addition to the main accounts which are incorporated in the Appropriation Accounts. However, in some cases of this type, the proforma accounts being maintained are incomplete in so far as they do not exhibit in full details the profit and loss account and the balance sheet in accordance with strict commercial practices. It is necessary that in these cases also, commercial accounts on accrual basis should be properly maintained to enable the Administrative authorities to exercise adequate control over their transactions and the efficiency with which their operations are being carried out.

3.15. A majority of the governmental operations are not covered by subsidiary or supplementary accounts in addition to the initial accounts kept within the departments to correspond with the records finally and formally maintained by the Comptroller and Auditor General. The need for adequate accounting and reporting systems as a tool of management is no less here than in the case of commercial and quasi-commercial undertakings. The nature and scope of the activities and programmes undertaken by Government have expanded vastly in recent years and investments on a

massive scale have been, and are being made by Government in developmental projects in accordance with the Five Year Plans for economic and social development. The general accounts at present maintained by the Comptroller and Auditor General are prepared only in financial terms and they serve only a limited purpose. They are of little assistance to the executive authorities at various levels or to the supervisory authorities in correlating financial accounts with physical achievements of the various programmes undertaken by Government. The control of expenditure is at present being exercised at the level of the disbursing officer, the controlling officer and the heads of departments. It will be necessary and desirable to devise accounting and reporting procedures which can produce a regular flow of information at all levels in such a form that physical achievements and their financial costs can be correlated directly without much difficulty. It is obvious that the primary responsibility for such accounting and reporting systems should be assumed by the administrative departments themselves and not by an external agency. Also, these accounts should be fully integrated with the Appropriation Accounts which serve the purpose of control over expenditure in relation to Parliamentary authorisation. The accounting system will have to be developed, wherever possible, on cost accounting principles, so as to identify work units of performance and bring out their costs. The system will have to be supported, wherever appropriate, by automatic data processing techniques, as timely information may not be made available through manual operations.

#### *Internal Audit and Control*

3.16. As a supplementary to an effective accounts organisation within the administrative departments, the institution of internal audit will also be necessary. It will be the main responsibility of internal audit to see that the entire accounting set-up is functioning efficiently and, in particular, the reporting system which relates the progress of expenditure to physical achievements is devised and maintained properly. An efficient organisation for internal audit will be of great value in relieving the statutory audit of the necessity of detailed checks on individual transactions and instead, in directing its primary focus on the financial system as well as the overall performance of administrative agencies who will have all the relevant data readily available to facilitate the audit of efficiency and performance.

In order that the internal audit organisation can do its work effectively, it is necessary to ensure that it is sufficiently independent, its observations and recommendations receive due consideration at the appropriate level and the scope of its functions is wide enough to cover all important areas. It would be desirable to make the internal auditor directly responsible to the head of the department and cases where his recommendations are not accepted, the orders of the head of department himself are obtained.

*Agency for Reforms*

3.17. It is obvious that the type of reforms outlined above will call for an expert and sustained investigation into the facts and circumstances of individual departments and organisations with a view to devising effective accounting systems within the framework discussed above. This is a massive task which would need the full co-operation of administrative ministries, the Ministry of Finance and the Comptroller and Auditor General. It may be useful in this connection to cite the example of "The Joint Financial Management Improvement Programme" which has been in operation in the United States since 1948 and in which the Comptroller General, the Secretary of the Treasury and the Director of the Bureau of the Budget jointly conduct a continuous programme for the improvement of the systems of financial management. Efforts under the joint programme are co-ordinated through a Steering Committee composed of a representative from each of the three agencies. In addition, each operating agency designates a representative to act as liaison with the Committee. In our view, it is a basic requirement of the drive towards establishing and improving effective accounting systems within the administrative departments that the initiative and leadership for a Government-wide programme should be specifically located and we suggest that the appropriate agency for this purpose would be the Ministry of Finance in association with the Comptroller and Auditor General. We also suggest that within each ministry and such of the subordinate organisations as may need it, separate accounting cells may be set up under the direction of an officer of appropriate status to ensure the efficient functioning of the existing set up to initiate studies and investigations to install suitable accounting systems to supplement the main accounts, to maintain an internal audit organisation and, generally, to act as liaison with the Ministry of Finance in a common endeavour towards improvement of accounting systems to see that regular reports regarding physical achievements from designated reporting officers are being received. The accounting cell should correlate these reports at the level of the head of department, or, if necessary, at the level of the controlling officers. The form and periodicity of these reports will have to be devised and settled, having regard to the nature of schemes and projects with which the departments deal. Effective measures will have to be taken to see that where proforma accounts of commercial and quasi-commercial transactions are required to be kept, there is no delay in the preparation of final statements. When called upon to do so, this cell should also assume responsibility for undertaking financial appraisal of schemes and projects. It will also be necessary to strengthen the accounting machinery available at the level of the controlling officer.

3.18. We understand that the Study Team on Budgetary Reforms, etc., has recommended the appointment of a Financial Adviser in each

administrative ministry. In this set-up it will be desirable and appropriate that the accounting functions within the ministries be also entrusted to the Internal Financial Adviser with proper assistance at subordinate levels.

### 3. EXCHEQUER CONTROL

3.19. It has sometimes been urged that for adequate Parliamentary control over expenditure, it is desirable and necessary that there should be a system of controlling issues out of the Consolidated Fund as is prevalent in the United Kingdom. It has also been pointed out that the Constitution itself envisages the introduction of a system of control over exchequer issues.

3.20. For a proper appreciation of this issue, it is necessary first to have a look at the system of Exchequer issues as prevalent in the United Kingdom. The procedure in brief is that after the grants are voted, the Treasury sends from time to time a formal requisition to the Comptroller and Auditor General authorising him to grant to the Treasury, on account of Ways and Means for the relevant year, credits on Exchequer Account at the Bank of England for a specified sum. The Comptroller & Auditor General verifies that the amount requisitioned is in accordance with the grants made by Parliament and he authorises the Bank of England to place the amount at the disposal of the Treasury. After the amount is so released, the Treasury directs the Bank to issue credits from the Exchequer Account to the Paymaster General on account of the department which is to spend the money. When the Bank has done so, it notifies the Comptroller and Auditor General of this amount and the destination of the sum so transferred. The Comptroller and Auditor General on receipt of that intimation sees that no issues are made by the Treasury and the Bank for any amount in excess of the grants made by Parliament. In each spending department, there is an accounting office, which makes all payments on behalf of it, generally by means of drafts on the Paymaster General, who is the general cashier for all departments. The Paymaster General, after making payment on behalf of a department, notes the payment in his record to see that the payments are not made in excess of the amounts placed at the credit of the department with him. Each department has a centralised accounts office, which authorises the payments on its behalf. The books of the accounting office will show at any particular moment the up-to-date position with regard to the grants and the sub-heads under it. It is the accounting office which is ultimately responsible for keeping a close watch over expenditure and seeing that the expenditure conforms to the pattern of the budget as passed by Parliament, subject of course, to such reappropriations as may have since been made. The essential steps in the process thus are (1) the Comptroller and Auditor General provides a check against any money being issued from the Consolidated Fund in excess of the total amounts authorised by Parliament, (ii) the Comptroller and Auditor General keeps a watch over the issue of credits to ensure that they are not in excess of the amounts



voted for them, (iii) the Paymaster General also keeps a check that in no department, the expenditure exceeds the credit issued in its favour by the Treasury and (iv) each accounting office is responsible for ensuring that the payments of bills and claims are restricted to the funds available under each sub-head.

3.21. The system of control over exchequer issues, are illustrated above, serves only to regulate the quantum of expenditure and not the quality of it. It merely ensures that no expenditure is incurred in excess of the amount voted by the Parliament, not that the expenditure would be incurred wisely. It has been well-recognised in the U.K. that the system of control over Exchequer Issues plays a rather insignificant role in the whole process of control of Parliament over expenditure. Hilton Young in his 'System of National Finance,\* sums up the position as follows:

"But now that the responsibility of the Executive to Parliament is established beyond question, the importance of this particular form of control is far less than it was, and our respect for an interesting relic of great historic controversies should not be allowed to mislead us into supposing that the system of checks on Exchequer Issues is of the smallest value in enforcing economy and preventing waste. It prevents the spender from getting possession of more money than Parliament has granted them, or for purposes other than those for which it was granted. But for preventing them from making wasteful use of the money once they have got it, it neither pretends to be nor is, of any use at all. It prevents money from being used outside the law in a way in which there is now-a-days little temptation to use it. It does not prevent money from being wasted within the law, and with the enormous estimates and ever growing financial activities of the modern state, it is that sort of preventive that is the urgent need of the hour."

3.22. We have also considered whether under the provisions of the Constitution it is obligatory to introduce a system of control over Exchequer Issues in India. The designation "Comptroller and Auditor General", it has sometimes been urged, itself indicates that this Constitutional authority should exercise the functions of controlling issues from the Exchequer as his counterpart does in the United Kingdom. Before 26.1.50, the Auditor General of India was not designated as the Comptroller and Auditor General of India. Nor did he exercise any functions relating to the issues from Exchequer. The draft Constitution also mentioned the authority as the "Auditor General of India". At a subsequent stage, however, the change in designation was made. The Constituent Assembly debates on this Article do not give any indication that the change of designation was intended

---

\*Second Edition, April 1924, p. 105.

necessarily to mean a change of the duties which the Comptroller and Auditor General will be called upon to perform. Shri T. T. Krishnamachari, introducing the amendment, observed as follows:

“The reason for this amendment is fairly simple. The function which the draft Constitution imposes on the Auditor General is not merely audit but also control over the expenses of Government. Undoubtedly, the term “Auditor General” has been all along used in the 1935 Act to include both these functions. But as it is quite possible that we might empower Parliament to enlarge the scope of the work of the Auditor General, it was thought fit that the nomenclature of the Auditor General should be such as to cover all the duties that devolve on him by virtue of the powers conferred on him by the Draft Constitution. The issue is fairly simple. It is merely a matter of a name which covers the duties now carried on by the Auditor General and will be carried on by him in the future. I hope that the House will find no difficulty in accepting this amendment.”

Apparently at the time when the amendment was introduced, it was not contemplated that there should necessarily be any change in the functions of the Auditor General of India because of the change in designation.

3.23. It may be noted that in the U.K., the basis of exchequer control is a centralised system of payments which are all concentrated in the Bank of England, London. The control over Exchequer issues presupposes a centralised system of payments for each ministry/department if the system is to operate smoothly. Centrally payments for each ministry or department will be difficult in our country, as has already been indicated earlier in this report. Even a modified system of centralised payments may involve large additional expenditure which, in the present circumstances, may not be considered worthwhile.

3.24. A question is sometimes raised whether it is not possible to introduce the system of Exchequer control over issues under a decentralised system of payment. In such a case, letters of credit will have to be issued in favour of each drawing officer of every department of Government in each district on all the treasuries in each State and the treasury officers will have to keep accounts to see that the drawals by each drawing officer do not exceed the amount indicated in the letters of credit in his behalf. It will involve a complex and expensive system which is likely to break down because of the additional workload in the treasuries and delays in communication. If the orders regarding the enhancement of the limits of letters of credit do not reach any treasury in time, serious difficulties can arise, as the treasury officer will refuse payment until he receives intimation regarding the enhancement of credit. Under the existing system, all the drawing and disbursing officers in each district know the allotments placed at their disposal and they have a responsibility for limiting the ex-

penditure to the allotments at their disposal. If each drawing and disbursing officer carries out his part of responsibility conscientiously, there should be no occasion for incurring expenditure in excess of the grant voted by Parliament/Legislature.

3.25. Though it is irregular to incur expenditure in excess of the grant, the Constitution itself envisages circumstances in which excesses may occur and it contains a definite provision for regularising such excesses. Article 115(1)(b) lays down that "the President shall, if any money has been spent on any service during a financial year in excess of the amount granted for that service and for that year, cause to be presented to the House of the People a demand for such excess." A similar provision has been made in the State field. The procedure is that excesses are pointed out by the Comptroller and Auditor General in his reports on the accounts of the Union and of the States and the Public Accounts Committee, after examining the reasons and circumstances leading to such excesses over the grants voted by the Parliament/Legislature, makes definite recommendations for regularising such excesses.

3.26. After examining the matter carefully in all its aspects, we have reached the conclusion that a system of exchequer control over issues from the Consolidated Fund of India is of academic interest and is not practicable in the context of our decentralised accounting and payment procedures. In any case, it is not of much significance from the point of view of Parliamentary control over expenditure.

#### 4. SEPARATION OF BALANCES OF THE CONSOLIDATED FUND, CONTINGENCY FUND AND THE PUBLIC ACCOUNT OF THE UNION/STATES

3.27. As noted in Chapter I, Government accounts in India are kept in three parts, Part I dealing with the transactions out of the Consolidated Fund, Part II dealing with those relating to the Contingency Fund and Part III relating to the Public Account. This pattern has been brought into vogue since the 1st April, 1950, both in the Union Government and the State Governments in compliance with specific provisions of the Constitution in this regard. Article 266 of the Constitution requires the formation of the Consolidated Fund of India and the Public Account as two distinct and separate entities for recording and maintaining the accounts of specified categories of receipts and expenditure. The Constitution further provides, in Article 267, for a Contingency Fund to enable the President to make temporary advances to Government for meeting unforeseen expenditure pending its authorisation by Parliament. The separate entity of the three categories of funds is emphasised in Article 283 which provides for rules regarding the custody, individually, of the Consolidated Fund, Contingency Fund and the Public Account.

The position under the Government of India Act, 1935 was, however, different. The "Revenues of the Federation" were defined as including all

revenues and public moneys raised or received by the Federation and "Revenues of the Province" as including all revenues and public moneys raised or received by a Province (Section 136). Section 151 provided for rules being made by the Governor General/Governor of a Province for purposes of:

- (i) securing that all moneys received on account of the revenues of the Federation or of the Province, as the case may be, were paid into the Public Account of the Federation or of the Province, and
- (ii) prescribing the procedure to be followed in respect of payment of the moneys into the Public Account, the withdrawal of moneys therefrom, the custody of moneys therein and any other matters connected therewith. The Central Treasury Rules/State Treasury Rules were framed under these provisions.

Thus, the Central Government and the Provincial Government had each of them a single fund into which all the receipts flowed and from which they drew money for all their expenditure. Parliamentary control over expenditure was secured by defining the area of expenditure for which Demands had to be presented to the Legislature for vote. Thereafter the sums voted by the Legislature and the non-voted expenditure which entered the estimates were duly authenticated by the Governor General/Governor for incurring the expenditure. There was no provision for a separate Consolidated Fund or a Public Account and there was no Appropriation Act.

3.28. As prior to 1.4.1950 there was one composite balance of the Union/State Governments, the head "Misc. Government Account" posed a serious problem in physically separating the balances. While the balances under the debt, deposit, suspense and remittance heads of account in the public account and those under debt and loans and advances in consolidated fund, with a few exceptions like exchange on remittance accounts. Reserve Bank deposits etc., and inter-State debt settlement are closed to balance and carried forward from year to year, the transactions under revenue and capital in the Consolidated Fund are closed to "Government" (that is Government Account). This head is also operated for rectification of errors in book-keeping under heads of account closing to balance and the balance under this head is increased or decreased proforma for adjustment of balances under debt, deposit and remittance heads, due to allocation between the States, etc. It is built-up of transactions relating to both the Consolidated Fund and the Public Account built up over a period of years and it would have been extremely difficult, if not impossible, to arrive at the balance relating to the Consolidated Fund and the Public Account as at the end of 31-3-1950 with a view to separating the cash balance on that date.

3.29. The Consolidated Fund, as already stated in Chapter I, includes all the transactions relating to the revenue of Government, all capital expenditure, receipts, public debt and specified types of loans and advances

On the other hand, the Public Accounts consists of transactions of the nature of debts incurred by Government other than those accountable in the Consolidated Fund; in addition, it includes deposit, suspense and remittance transactions. Instances of the type of transactions included in the Public Account are State Provident Fund accounts and Post Office Fund accounts.

3.30. The procedure for expenditure out of the Consolidated Fund has been laid down in the Constitution in Articles 112 to 117 and Demands for Grants have to be presented to the Lok Sabha for authorisation of such expenditure. However, for payments out of the Public Account, no demand is required to be presented to Parliament and actual requirements are, in practice, met from time to time as they arise. Broadly speaking, the moneys held in the Public Account do not really belong to Government as they have either to be paid back eventually to the claimants on whose behalf they are being held or have to be utilised by Government in an agreed or pre-determined manner. Nevertheless, the balances and the estimated receipts and disbursement in the Public Account are taken into account in determining the availability of resources of the Government.

It should be noted that the provisions in the Constitution relating to the Consolidated Fund, the Public Account and the Contingency Fund are similar in the Union and the State Governments.

3.31. Although the accounts of the Union and the States are being kept in three distinct parts since 1st April, 1950, a physical separation of cash balances in three parts has not been effected so far. Thus, there is a single cash balance of the Union/State Governments in respect of the three Funds taken together held in Government treasuries and by the Reserve Bank of India. This method of accounting enables the deficits in the Consolidated Fund being met by the balances in the Public Account without any formal act of borrowing by the Consolidated Fund from the Public Account. In other words, the expenditure which has been authorised by Parliament to be met from the Consolidated Fund is frequently financed out of the balances in the Public Account due to the insufficiency of cash balances available in the Consolidated Fund.

3.32. There can be little doubt that the Constitution envisages a segregation of the Consolidated Fund and the Public Account; for this reason alone, the separation of these Accounts including a physical separation of balances therein would seem to be desirable. We have given some thought to this issue and give below some of the considerations which seem to us relevant for this purpose:

- (a) If the balances in the Consolidated Fund, the Contingency Fund and the Public Account have to be separately calculated with effect from 1.4.1950, it will be necessary to determine the balances relating to the Consolidated Fund and Public Account as on 31.3.1950. In view of the procedures followed prior to 1.4.1950

outlined already, it will not be possible to calculate the initial balances in the Consolidated Fund and the Public Account as on 1.4.1950.

- (b) A separation of balances between the Consolidated Fund and the Public Account would tend to complicate the budgetary procedures in view of the fact that, as observed already, the balances in the Public Account are frequently being utilised under the present arrangements for meeting expenditure relating to the Consolidated Fund. If the balances are physically separated, the deficit in the Consolidated Fund will have to be met by borrowings from the Public Account which will have to be presented as 'Advances to the Consolidated Fund' in the Public Accounts section and as 'Debt from the Public Account' in the Consolidated Fund section. The size and timing of these adjusting transactions cannot possibly be foreseen at the time of the presentation of the Budget and it will, therefore be extremely difficult to make a provision for these adjustments in the Budget. From a practical point of view, a formal procedure for adjustment of balances between the Consolidated Fund and the Public Account does not seem to be necessary, if it is conceded that the Government acts as a banker in respect of moneys held in the public account. In this view of the matter, there should be no objection to the utilisation of the funds available in the Public Account for the purpose of meeting authorised expenditure relating to the Consolidated Fund, so long as there is an assurance that the commitments of the Government in respect of claims arising under the Public Account will be fully honoured.
- (c) A complete and functional segregation of the balances in the Consolidated Fund, the Contingency Fund and the Public Account does not seem to be practicable from day to day as it will be much too arduous for the treasury and the Reserve Bank to keep separate accounts from day to day. On several occasions, the receipts in the Consolidated Fund may fall short of requirements for payment and the surplus available in the Public Account may have to be utilised. In all such cases the Public Account can be balanced only by making an adjustment at the end of each month between Public Account and the Consolidated Fund.

3.33. Having regard to the above considerations, we are of the view that a complete separation of the cash balances of the Consolidated Fund, the Contingency Fund and the Public Account is likely to give rise to several difficulties without much advantage. The present system does not seem to involve any diminution of parliamentary control over public expenditure. It will be an advantage, however, if the monthly balances in the Consolidated Fund are separately calculated and exhibited in the accounts

for general information. In this way, the fact that the balances in the Public Account are being utilised for meeting expenditure authorised to be met from the Consolidated Fund will have been brought into clear focus. We understand that even now the Finance Accounts of the Union and the States are exhibiting the balances in respect of the Public Account and the Contingency Fund while giving a picture of the aggregate receipts and disbursements in the three accounts taken together. We also understand that there is no practical difficulty in the calculation of the monthly balance in the Consolidated Fund. The balances at the beginning of a year of the Public Account can be taken as a basis for calculating the opening cash balance in this account. The opening balance of the Consolidated Fund can then be easily calculated as the combined cash balance is available. The balances, thus calculated, may not be absolutely accurate in the sense that a part of transactions in the shape of write-off, etc., has not been distinctly allocated between the Consolidated Fund and the Public Account. We do not, however, think that too much importance should be attached to absolute accuracy in the matter of arriving at opening balances so as to block the way for carrying out a practical reform for a better presentation of the accounts.

3.34. It has been suggested that once the monthly accounts can indicate the notional cash balances under the three Funds—the Consolidated Fund, the Contingency Fund and the Public Account, there will arise the question of interest being charged to the Consolidated Fund for the utilisation of the balances in the Public Account. The Public Account consists of deposits bearing interest at varying rates as also deposits bearing no interest whatsoever. The interest payable on deposits and funds in the Public Account are taken into account in framing the budget and the amount payable in each year is debited to the Consolidated Fund and credited to the respective deposits and funds in the Public Account. In respect of deposits which bear no interest, their utilisation to meet the deficits in the Consolidated Fund would not normally necessitate the payment of interest on them. Moreover, it will not be possible to segregate the balances in respect of various categories of deposits in the Public Account or the allocation of the amounts utilised for meeting the deficit in the Consolidated Fund amongst these various categories of deposits. On practical considerations alone, we do not consider it a feasible proposition to make any changes in the existing procedure and to charge interest to the Consolidated Fund on the balances in the Public Account utilised from time to time for covering the deficit in it.

5. ACCOUNTING OF IMMOVABLE PROPERTIES

3.35. Immovable property belonging to Government may be classified broadly under land, buildings, improvement other than buildings such as roads, irrigation works (dams, canals, bridges, etc.) and other real property. Sums aggregating to hundreds of crores of rupees have by now been spent,

and further enormous sums are being spent annually, on the purchase or creation of various assets of the above categories by the Union and State Governments. The annual accounts compiled by the Comptroller and Auditor General do not exhibit the current valuation of the Government property and there is no single agency in the Government which has been charged with the responsibility for the compilation and maintenance of records in respect of fixed assets owned by Government. There are several reasons for this lack of interest in developing a centralised system for the accounting and evaluation of immovable property owned by Government. In the first place, no statutory obligation has been cast on Government either to maintain accounts, central and consolidated or present them to Parliament and State Legislatures. Also, the accounts in Government are being maintained on a cash basis reflecting the actual receipts and disbursement of Government; as there is no provision for the charging of depreciation as current expenditure, the question of computing the value of Government assets has not arisen.

3.36. We are aware that a number of executive authorities at various levels are required to maintain a record of the lands and buildings under their control together with the cost of acquisition or construction. In the Public Works, Forest and Revenue Department, detailed forms and procedures have been laid down for keeping the records of lands and buildings under the administrative control of the executive authorities. Suitable records to show the cost of construction of irrigation works are also being maintained by the Irrigation Department and the working results of irrigation and other related projects are exhibited in the proforma accounts known as the Administrative Accounts of Irrigation, Navigation, Embankment and Drainage Works prepared by the Audit Department. The broad purpose underlying the maintenance of records of immovable property by the various executive authorities is to enable and assist them in discharging their responsibilities for supervision over the construction and maintenance of the assets falling within their administrative control. There is no provision at present for the consolidation of the data regarding immovable property at one or more central points within the various Government agencies. Thus, it is not possible to obtain readily full information about the property owned by the individual ministries and departments and, consequently, for the Government as a whole.

3.37. The importance of the maintenance of a complete inventory of the immovable property held by the Government cannot be over-emphasised. There are several advantages which can be expected to flow from the ready availability of comprehensive records containing all relevant information about such properties. Such records can furnish useful and interesting information on the investments which have been made by Government in the past as against the expenditure incurred for current purposes. These records would also provide full information on the expenditures incurred and the care bestowed on the repair and maintenance of Government property. In



this way, they would also assist in a more economical and effective use of funds for the acquisition and maintenance of immovable property. These records would also be useful for developing more realistic estimates for the future requirements of capital expenditure on a long-term basis.

3.38. We have noted with interest the efforts which have been made in the United States Government in recent years for the development of systematic records relating to the valuation of immovable properties owned or leased by Government. The problems of devising and establishing a scientific and comprehensive system for the evaluation of Government properties has been receiving continuing attention in the United States ever since the inception of the 'Joint Financial Management Improvement Programme' in 1950. The compilation of the first inventory of Government properties situated within the United States was completed by the General Services Administration at the instance of the Senate in 1953 and an inventory of the properties located outside the United States was prepared in 1956. We understand that the information contained in these inventories has proved useful to the Federal Government in bringing about better control and management over the acquisition, disposal and maintenance of Government properties. This information has also been helpful to the various agencies in determining their financial needs for hiring, acquisition and maintenance of properties on a more realistic basis.

3.39. We suggest that the Union and State Governments may launch a programme for a systematic and comprehensive maintenance of the records of fixed assets belonging to the Government. As a first step towards this goal, the preparation of an inventory of the immovable properties held by Government as on 31.3.1967 may be taken in hand as early as possible. As the first attempt will be only a fact-finding survey, the data may be based on the book figures, i.e., those appearing in the accounts maintained by the various agencies supplemented, where necessary, by estimates of valuation. It will obviously be necessary to entrust the responsibility for the consolidation of data to a central agency which may, preferably, be located in any Ministry/Department of Finance. This central agency may also be entrusted with the responsibility for reviewing, amending and amplifying, in consultation with the Comptroller and Auditor General, the forms and statements in which the records of properties may be kept by the various executive agencies and reported to higher levels for central consolidation and review.

## CHAPTER IV

### REFORMS IN COMPILATION OF ACCOUNTS

#### 1. ORGANISATION OF TREASURIES

4.1. The treasuries are the pivot of the payment and accounting system in India. All the transactions of receipts and payments relating to the civil departments both in the Union and the State Governments are routed through them and the process of compilation of accounts is initiated at this level. In recent years the vast expansion in the size of the public expenditure has imposed increasing strains upon the entire accounting organisation including the treasuries and some of the failings of the accounting system are attributable to the inadequacies, at various levels in the hierarchy of treasury organisation, to cope with the growing demands upon them. In particular, the functioning of the treasuries in most of the States has not been satisfactory. There are frequent complaints of delays in the submission of statements and accounts by the treasuries to the Accountants General, several and persistent instances of misclassification and incomplete and inaccurate accounts. The administrative control of all except a few treasuries rests with the State Governments and the responsibility and authority for effecting improvements in their organisation can be exercised only at the State level. We attach great importance to a thorough and effective reorganisation of the treasuries to improve substantially the base of the accounting structure in India and facilitate a speedy and accurate compilation of accounts at higher levels.

4.2. We have not had the opportunity of a first-hand examination of the working of the treasury system in the various States. However, we have had access to some special studies of the system and to the information and materials available in the office of the Comptroller and Auditor General, the Accountant General, Central Revenues and on this basis have formed an impression that the deficiencies in the working of the treasuries are attributable largely to weaknesses in the organisational structure. Typically, the treasuries are said to be staffed inadequately both with regard to the strength and technical efficiency of the personnel and the arrangements for effective review and supervision of their working are not satisfactory. In view of the difference in structure and the varying standards of efficiency of the treasuries in the various States, it is hardly possible to lay down a detailed prescription of uniform applicability in all the States. However, we have endeavoured to formulate some broad and guiding principles which seem to possess general validity and commend them to the States for their consideration; some modifications may, of course, be necessary to suit their individual requirements. Essentially, the measures for reorganisations should

begin at proper staffing and the training of the personnel at various levels employed at the treasuries. We are giving below an outline of some of the basic and primary considerations in this regard.

#### 4.3. (i) *Adequacy of Staff*

Standards of staffing and norms of work should be prescribed for determining the requirements of treasuries so as to remove the shortage of staff to cope with the growing volume of work. Adequate staff should be provided in the treasuries in accordance with the prescribed norms so that efficiency can be maintained at the desired levels. It should be ensured that there is proper balance in the strength of staff at various levels.

#### (ii) *Recruitment and Training*

The principles for recruitment to various levels of the treasury staff should be settled and prescribed after careful examination with a view to providing suitable opportunities for promotion at various levels as also a reasonable scope for direct recruitment at certain levels by open and competitive recruitment. Thus lower division clerks may be recruited directly and the posts at higher levels, i.e., upper division clerks, accountant, assistant treasury officer and treasury officer may generally be filled by promotion on a seniority-cum-merit basis. Promotion to the upper division clerical scale is to be made only after the passing of the prescribed departmental examinations and putting in a minimum period of service in the lower division scale. A proportion of the posts at the level of U.D.C's, assistant treasury officers and treasury officers may be reserved for direct recruits.

More intensive arrangements should be made for the training of staff and this should include training for a short period in the office of the Accountant General. The course of training should be carefully devised so as to cover a knowledge of the General Service Rules, Treasury Rules and other financial and accounting rules relevant for work in the treasuries. The staff recruited in the treasuries should be posted for work only after successfully completing a short period of training which may last for about three months. A detailed syllabus for this training can be drawn up in consultation with the Accountants General who can also arrange for deputation of persons to impart the necessary training. Suitable incentives by way of advanced increments, etc., may be provided for those who qualify in the prescribed departmental examinations. The passing of examination within the prescribed number of chances may also be made a condition of their confirmation. The syllabus for training and the standard of departmental examination will be different for lower division clerks, directly recruited upper division clerks, but persons promoted to the upper division cadre are not to appear again at the departmental examination prescribed for them.

#### (iii) *Promotion Prospects*

Traditionally, the treasury staff has been part and parcel of the general revenue staff in the districts and the States. In some of the States, a separate

cadre for treasury and accounting services has already been created. We consider it a matter of importance that separate cadres both for the gazetted and non-gazetted should be established in all the States with a view to providing sufficient avenues for promotion to the staff at various levels within the specialised accounting organisation. A situation in which the treasury staff have to look for promotion in the revenue establishments naturally fails to promote and develop sufficient interest, capacity and loyalty in the staff for the specialised type of work in the treasuries. Sufficient number of posts of accountants, assistant treasury officer and the treasury officer should be filled by promotion to provide adequate avenues for promotion to the personnel at various levels. At these three levels the cadres should be 'State' cadres and not localised district cadres.

(iv) *Supervision of Treasuries*

It is necessary to provide for continuous and effective review of the working of the treasuries. In some States, a Directorate of Treasuries has been established for administrative control over the treasuries with a special wing for conducting inspections on a regular basis. We consider that this practice may be followed in all the States. Special care may be taken to ensure that the posts in the Directorate of Treasuries are manned by the personnel possessing specialised training and experience.

4.4. Once a separate Directorate of Treasuries has been brought into existence, it should also be given a specific responsibility for establishing an effective organisation within the treasuries for the purpose of carrying out internal checks on a continuous basis. With these arrangements, lapses in the working of the treasuries will be brought to the notice of the treasury officers without delay from day to day and remedial action can be taken by them to ensure that the same type of mistakes do not continue to recur for any length of time. It will be one of the specific functions of the Directorate of Treasuries to examine and improve the effectiveness of the system of internal checks within the treasuries.

4.5. At present, there is a duality of control over the treasuries. The administrative control over the treasuries rests with the State Governments but, functionally, the treasuries are subject to supervision and direction from the Accountants General. If the above proposals for reorganisation of the treasuries fail either to win acceptance from the State Governments or to bring about the desired improvements in the functioning of the treasuries, the feasibility of transferring administrative control over the treasuries to the Accountant General in each State may have to be considered in due course.

## 2. EXCHANGE AND SETTLEMENT ACCOUNTS

4.6. In Chapter II on the general system of Accounts, it has been noted that there are two main streams of initial accounts which flow to the Office of the Accountant General for further compilation, one from the treasuries and the other, from the departments whose transactions appear in the

treasury accounts only in lump and who maintain their own initial accounts. In addition to these two sources of information, the Accountant General also receives intimation of transactions relating to his accounts circle from other Accounts Officers. These transactions have also to be incorporated by him into the final compilations. Such transactions are intimated and transferred through the medium of either the exchange accounts or the settlement accounts.

4.7. The Exchange Accounts are operated only for the passing of central civil transactions occurring in one accounts circle but adjustable in a different accounts circle. This procedure has to be adopted, mainly, due to the centralisation of audit and accounting transactions of some departments of the Union Government only in specified accounts circles. Experience has shown that serious delays often occur in the final adjustment of the transactions included in the Exchange Accounts under appropriate heads of account and in a number of instances the transaction relating to one year are adjusted only in subsequent years. It has been observed that the operation of Exchange Accounts often involve protracted correspondence between the Accountants General concerned before the transactions are adjusted to the final heads of accounts. In a number of cases the points of doubt relating to the supporting details cannot be resolved even after prolonged exchange of letters and some intractable items may have to be written off by transfer to the head Miscellaneous Government Account.

4.8. Whereas the device of exchange accounts is utilised for adjusting central transactions between different accounts circles, the transactions which are initially taken against the balances of a State other than the one against which they are eventually adjustable are passed on to the Accountant General concerned through the medium of settlement accounts. These accounts are designated as Settlement Accounts to signify that the monetary settlements in regard to such transactions are effected through Central Accounts Section in the accounts maintained by the Reserve Bank. The settlement accounts are also utilised for transfer of transactions initially recorded in the books of a Civil Accounts Officer, but adjustable against Railways and also the transactions initially arising in the accounts of the Railways, but adjustable in the books of Civil, Defence and P. & T. Accounts Officers. As in the case of exchange accounts the cumbersome procedure involved in the adjustment of inter-State transactions through settlement accounts result in enormous amount remaining unadjusted in the annual accounts for appreciable periods.

4.9. It has been suggested that a practical way to eliminate the delays involved in the final adjustment of transactions transferred from one account circle to another through exchange or settlement accounts is to introduce, to the extent possible, a system of payments by cash or through bank drafts. We are in agreement with this general proposition; in our view, the following are some of the specific items or transactions suitable for the introduction for improved procedures:

(a) *Exchange Accounts*

(i) As a general rule the Accountant General, in whose circle the transactions arise, should be made responsible for the final accounting as well as audit thereof. At present, in a number of cases the transactions arising in one accounts circle are passed on to another circle for final audit and adjustment.

(ii) If, for some valid reasons, it is not practicable to decentralise the budget provision, the Accountant General in whose circle the transactions arise may finally account for them in the central section of his books and also audit them. After closure of the monthly accounts, he should send monthly statements showing the payments brought to account in his books during and upto the month, by sub-heads of appropriation to the Accountant General in whose circle the budget provision is centralised for conducting the appropriation audit. Where, however, the proposed decentralisation is not a practical proposition (e.g., the Survey of India, the Geological Survey of India, etc.) due to frequent shifts in the location of departmental survey parties, the procedure followed by the Geological Survey of India, viz., settlement of claims through demand drafts by the departmental headquarters office may be adopted to avoid the operation of Exchange Accounts.

(iii) Ordinarily the accounts in respect of contributions to and advances from Provident Fund as also of payment and recoveries of other advances to Government servants are maintained by the same Accounts Officers, even though the Government Officers concerned may have been transferred to a different accounts circle. It is suggested that in such cases the recoveries towards G.P. Fund, etc., adjustable in the books of other Accounts Officers may be settled by means of demand draft instead of through exchange accounts.

(iv) Receipts on account of collections of subscriptions to certain non-Government family pension funds which at present are passed through the exchange accounts may be remitted by the Accountant General in whose books they appear originally, by means of demand draft.

(v) Petty payments, say, upto Rs. 200, in respect of supplies made or services rendered be made by the receiving departments to the supplying departments either in cash/cheque if both the departments are located at the same station and through bank draft/cheque where they are located at different places.

The exchange accounts may, however, have to be kept for the limited purpose of routing transactions on account of cheques drawn by a central departmental officer at a treasury outside the jurisdiction of the Accountant General to whom he renders compiled account. e.g., C.P.W.D. cheques. I.R.L.A. cheques, etc. However, such case will not be many.

(b) *The Settlement Accounts*

(i) All infrequent or occasional payments, i.e., final payments of G.P. Fund, payment to contractors or other parties, etc., to be made at places outside the State in which claims originate should be arranged through a bank draft and not through the Accounts Officer in whose jurisdiction the place of payments falls.

(ii) Pay and allowances of staff (both gazetted and non-gazetted) of a State functioning in another State (excluding deputationists) should be remitted by bank draft every month instead of through the Accountant General of the State in which the staff is working.

## 3. STRUCTURE OF SUB-HEADS

4.10. The first and the foremost objective of the accounting system in India is to satisfy the requirements of Parliamentary control over public receipts and expenditure and for this purpose there exists complete coordination between the details of the accounting structure and the contents of the Budget including the demands for grants for various administrative organisations. It is obvious that the degree of itemised detail in the accounts is bound to reflect faithfully all the constituent elements of the demands for grants. It is, therefore, not possible to simplify the accounting structure in terms of categories broader than the details presented to the Parliament in the demands for grants. It follows that the simplification of the budget and the accounts are inter-dependent issues and both have to be simultaneously reviewed and amended.

4.11. The central accounts which are compiled in the various accounts offices today contain a degree of detail which goes even beyond the requirements of control over appropriations authorised by Parliament. Essentially, appropriation audit has to be conducted with reference to the provisions under each grant or appropriation as a whole. This is because the Government are free to transfer funds from one object to another within the same grant without having to seek Parliamentary authorisation. It is also the function of Audit in India to carry out audit against the provision under each primary unit of appropriation to enable the Ministry of Finance to review the actual performance of the various administrative units in relation to the financial powers delegated to them. Each demand for grant has necessarily to be broken down into details in terms of primary units of appropriation which have been defined and prescribed by the Ministry of Finance. It seems necessary in the present circumstances that the central accounts being compiled in the accounts offices should contain details down to the level of primary units of appropriation. However, in actual practice, the primary units are further broken up into detailed heads of accounts with a view either to furnishing statistical data on certain categories of expenditure such as travelling allowance, dearness allowance, etc., or to provide information for preparation of the budget estimates and for more effective control over expenditure. The departmental officers are required to indicate in the bills presented to the treasury the classification down to the detailed head and in the office of the Accountant General, the accounts

are compiled and consolidated, similarly, by the detailed head of accounts appearing in the statements furnished to them by the treasury or the departmental offices. Under these arrangements, the central accounts are cluttered up with far too many details than what is necessary for the purpose of appropriation audit.

4.12. In view of the facts stated above, the effort for simplification of the structure of central accounts may be directed along two approaches. The degree of detail in the presentation of the budget and the demands for grants may be kept at the broadest level consistent with Parliamentary control, and secondly, all details subsidiary to the primary units of appropriation may be eliminated from the central accounts. The following paragraphs contain some of the specific proposals we wish to make in this regard.

4.13. The pattern of primary units of appropriation prescribed by the Ministry of Finance was designed many years ago and provides for minute details with regard to certain items of expenditure. This pattern needs to be reviewed and re-arranged so as to eliminate, to the extent possible, such details as are not essential either for purposes of financial control or for accountability to Parliament. The expenditure on staff is at present spread over a number of primary units, such as 'Pay of Officers', 'Pay of Establishment' and 'Allowances and Honoraria'. In our view, a more appropriate arrangement would be to exhibit all such items of expenditure in the budget as well as in the accounts under only one sub-head 'Establishment Charges'. It also seems desirable to split up some of the important items of expenditure which are at present being classified under the omnibus sub-head, 'Other Charges'. It seems to us appropriate to include only such contingent charges as are normally incurred in the day-to-day running of an office under a separate sub-head under the title, 'Other Charges'. It may be more appropriate to entitle this sub-head as 'Contingencies' instead of other charges, other important items such as scholarships, grants-in-aid, petty works and large purchases of equipment and materials may be provided for under separate sub-heads.

4.14. The budget and the corresponding accounts should contain details only down to the level of primary units of appropriation. For instance, the detailed heads of 'office contingencies' such as 'maintenance of vehicles', 'service postage and telegram charges' need not be included in the budget or in the central accounts. However, all such details should continue to be recorded in the departmental accounts which will be maintained within the administrative departments. While the budget and central accounts to be compiled in the accounts offices, should, in our view, be presented only in terms of broad categories, the supplementary details should continue to be recorded in the departmental accounts for purposes of internal control. It has been suggested to us that, ideally, the budgetary accounts should contain no more details than the major and minor heads of Accounts and all the supplementary details including the primary units of



appropriation should be exhibited only in the departmental accounts. It is true that for the purposes of review at the national level, the budgetary accounts need contain only information classified under broad heads and further details, which are relevant for purposes of administrative controls, can be included in the departmental accounts. The principle of this proposition is unexceptionable, but we would prefer to proceed towards the goal in gradual stages allowing sufficient time to strengthen the accounting set-up within the administrative departments.

4.15. At present, the detailed break-up of establishment and contingent expenditure is included in the demands for grants separately in respect of each scheme, however, small it may be. We would suggest that small schemes, i.e., schemes costing less than rupees one lakh in the case of State schemes, and rupees five lakhs in the case of Central schemes need not contain a detailed break up of their total expenditure.

4.16. At present separate sub-heads are provided in the demands for grants for expenditure in respect of individual schemes. Thus, if a number of technical schools are opened, in some State the expenditure under each school is being separately exhibited in the budgetary accounts. We recommend that in all such cases, the expenditure may be exhibited only under one group head in the demands for grants and the corresponding accounts. Thus, the expenditure on a number of technical schools should be exhibited only under one sub-head, 'Industrial and Technical Institutions'. Similarly, there are large number of Plan schemes for which separate sub-heads are being provided in the State budgets. Here, also we recommend that schemes of a similar nature or schemes involving only small financial expenditure may be brought together under suitable sub-heads with a view to reducing the number of existing sub-heads and detailed heads. If these suggestions are implemented, the budget documents will become more compact and comprehensible and the process of the compilation of accounts much simpler.

## CHAPTER V

### REFORMS IN CLASSIFICATION

#### 1. FUNCTIONAL CLASSIFICATION

5.1. One of the prime objectives of a system of classification of Government accounts is to facilitate the formulation, authorisation and the execution of the budget. The manner, in which numerous items of receipts and expenditure of Government are grouped and presented, plays an important part in determining the character and quality of the decisions at various stages in the budgetary process. Conversely, the nature and scope of these decisions would tend to govern the manner in which the aggregates of receipts and expenditure are grouped. It is desirable that the classification system should endeavour to direct and focus attention on the major issues involved in the budgetary process. Broadly speaking, the budget accounts should be so compiled as to depict to the extent practicable, the total expenditure of Government on its basic functions, programmes and activities. If properly designed, such a system, apart from providing meaningful data to facilitate budgetary analysis and decisions, can greatly assist a purposeful implementation of the budgetary programmes and a better evaluation of executive performance by the legislature.

5.2. A brief account of the present system for recording transactions has already been given in Chapter II. The basic pattern is to record all transactions under prescribed major heads which are further subdivided, in stages, into minor heads and sub-heads. The major heads are themselves grouped under various sections and the aggregate figures of receipts and expenditure, arranged under sections and related major heads are presented in the Annual Financial Statement to be laid before Parliament under Article 112(1) of the Constitution. All the estimates relating to expenditure which have to be submitted to the Lok Sabha and the State Legislatures are to be presented in the form of Demands for Grants. The general practice is to present a separate demand to cover the individual requirements of each administrative service. Thus, a ministry presents a demand for its own expenditure and separate demand for each of the major organisations under its administrative control. The demands for grant, thus, follow substantially the organisational pattern of the Government. A link between the Annual Financial Statement and the demands for grants is provided by the major heads of accounts which constitute the essential framework for both types of statements. At one time there was close correspondence between the Annual Financial Statement and the Demands for Grants as, in many cases, the set-up of ministries and departments of the Government also corresponded to the various heads of accounts. Thus, the expenditure of the Ministry of Education was co-extensive with the expen-

diture booked under the major head '28—Education'. In the course of time, the organisational pattern has undergone many changes whereas the heads of accounts have remained relatively static. We have already referred to this factual lack of coordination between the major heads of accounts and the demands for grants in Chapter II where we have given some instances in which a single head of account figures in a large number of demands for grants. We do not, however, think it as practical or important to aim at complete identity between the heads of accounts and the demands for grants.

At present, heads of accounts only partially reflect the broad functions and purposes of governmental expenditure. A greater degree of functional classification would provide more meaningful information on the broad purposes served by governmental expenditure, irrespective of the organisation making the expenditure; it will present budget data in an aggregate form to summarise public expenditure in respect of each major function or purpose such as education, health, agriculture or industry. Immediate or short-term purpose should be distinguished in this context from long-term policy objectives and it is only the former category of short-term objectives or functions that will be relevant for the purpose of a functional classification of Government expenditure. There can be no uniform pattern of functional classification equally suitable for all countries and governments. A meaningful pattern can be evolved only in the light of the institutional framework and the scale of priorities for various programmes relevant to each individual country.

5.3. The question of a review of the existing major heads has been briefly considered in the report of a Working Group on Performance Budgeting constituted by the Administrative Reforms Commission's Study Team on Budgetary Reforms, etc. We have had some discussions with this working group in connection with the changes in the accounting and reporting system that would be necessary with the adoption of performance budgeting and the views expressed in this Chapter are generally based on the data and analysis furnished by them.

5.4. The present pattern of classification of budget heads retains a strong affinity to the organisational set-up, although, in part, it does give recognition to the functional categories. Essentially, the present pattern is a combination of the functional and organisational categories. Since the summary accounts in the Annual Financial Statement are presented in terms of major heads, it will be desirable that the structure of major heads should be so devised as to bring out clearly the various types of governmental services and activities. It is realised that changes in the classification of accounts, if introduced all at once on a wide scale, may upset normal routine and create some confusion in the maintenance and presentation of accounts. This practical aspect will also have to be borne in mind. Nevertheless, it will be useful, in our view, to make further progress with

reorganising the major heads on the lines of a broad functional classification. An opportunity should be taken simultaneously to establish a rapport between the accounts heads and the major heads of development adopted for the purpose of the Five Year Plans. This is a major exercise and can appropriately be undertaken by the Union Ministry of Finance with the association of the Planning Commission and the Comptroller and Auditor General who indeed, has the primary responsibility for determining the structure of Government accounts subject to the approval of the President.

5.5. Pending a thorough review of the structure of major heads, it seems feasible to introduce some minor rearrangements within the existing framework with a view to providing more informative and meaningful data in tune with the changing pattern of governmental expenditure.

(i) There are three major heads which are intended to provide for 'miscellaneous' activities of Government. These are '26—Miscellaneous Department' under Section C—Administrative Services, '39—Miscellaneous, Social and Developmental Services', and '71—Miscellaneous' under Section I—Miscellaneous. The underlying idea of a Miscellaneous Head is to enable a provision being made for activities which cannot be appropriately categorised under the existing heads. At present the number of demands for which provision is made under 'Miscellaneous Heads is too large and covers activities which can quite legitimately be placed under a separate major head and others which can be classified under some of the existing heads with which they have a close affinity. An outstanding example is foreign trade for which there is no major head with the result that the entire expenditure of the Ministry of Commerce relating foreign trade is provided under miscellaneous heads. Similarly, the Central Water and Power Commission, the Electricity Power Board and the Indian Dairy Department figure as minor heads under the major head '39 -Miscellaneous Social and Developmental Organisations'; these organisations could appropriately be placed under other major heads with which they have a direct affinity. Further, head '68—Stationery and Printing' and the head 70—Forests appearing under Section 'I—Miscellaneous' can be grouped under other sections

(ii) Some of the activities which have assumed importance now do not have a separate major head assigned to them. For instance, the entire expenditure of the Ministries of Petroleum & Chemicals and of Steel, Mines and Metals is exhibited under major heads which simultaneously cover a number of different, though related, activities. Similarly, Family Planning, Fisheries and Tourism have not been assigned separate major heads.

(iii) The major heads from No. 27 to 39 under Section—"Social and Developmental Services" can appropriately be divided into two Sections one dealing with the Social Services and the other with the Economic Services.

(iv) The number of major heads can be reduced by a merger of some allied major heads. Thus, there is no need for two separate major heads

'29—Medical' and '30—Public Health', even though both are largely covered by a common demand on Medical and Public Health Services. Similarly, major head '31—Agriculture', '32—Rural Development' and '33—Animal Husbandry' can also be combined under one major head only.

## 2. ACCOUNTING AND REPORTING FOR PERFORMANCE BUDGETING

5.6. In the previous Section, we have dealt with the broad concept of functional classification, as a form of budget presentation, designed to provide, at the national level, information on aggregates of expenditure on major functions or purposes of Government. Such an approach can, however, be extended to various levels of organisational units and with various degrees of refinement. At the most general level, only broad categories such as agriculture, industry, public health, transport, etc., can be exhibited. This is the type of classification which is broadly reflected in the pattern of major heads of accounts adopted in India. The compilation of data under major heads of accounts is mainly useful in providing information about the broad purposes or functions of Government; it does not identify either the specific programmes of Government or their relative costs. It is only a detailed analysis and breakdown of governmental functions in terms of the specific programmes, activities and projects of each ministry or department that can serve either as a basis for conscious and well-informed choice between programmes of varying priorities or as an instrument of control over managerial efficiency. At a point where functional classification is extended to an analysis of the overall and subsidiary objectives and programmes of each ministry or department and suitable yardsticks of performance for these programmes have been devised, the concept of functional classification becomes almost synonymous with that of performance budgeting.

5.7. One of the prime requisites of the introduction of performance budgeting is a complete integration of budgetary and accounting classifications and the progress in its practical application will hinge substantially on the degree to which a parallel and well co-ordinated accounting structure can be developed to provide timely and current data for the appraisal of performance of various programmes and activities.

5.8. In an ideal scheme of performance budgeting, it may seem desirable that all the components of a programme should be provided in the accounts at one place and the control over the programme, as a whole and all its components, should be concentrated in a single organisation. However, there are other weighty factors, such as institutional background, administrative considerations and technical efficiency which militate against radical rearrangement of the existing organisational pattern of the accounting system. In any case, the concept of performance budgeting does not impose any rigid or inflexible pattern or conditions and the process of conversion of the traditional budget into a performance budget can be initiated within the broad framework of the existing organisational and accounting systems. The major elements in the process are, firstly, a meaningful

analysis of the programmes, activities and projects of each ministry or department; secondly, the installation of appropriate accounting and financial systems; and thirdly, the determination of suitable measures of performance for each programme, activity or project. It is obvious that this is a long-range project which can develop fully only in a gradual process of evolution over a period of several years. Considering the magnitude and complexity of the task involved, the Study Team on Budgetary Reforms, etc., has recommended the introduction of performance budgeting in a phased manner and have suggested that priority of attention may be given to departments and organisations which are in direct charge of programmes and activities involving large expenditure.

5.9. At our instance, the Working Group on Performance Budgeting constituted by this Study Team has examined the accounting structure relating to agricultural programmes and activities of Government at the Central and State levels, and has suggested certain changes in it to achieve better harmony with diverse programmes of agricultural development and to assist in establishing an adequate reporting system. After analysing the agricultural programmes and activities of the Central Government and the State Governments of Maharashtra, Madras and West Bengal, the Working Group have evolved a new pattern of minor heads of accounts under the major head 'Agriculture' which will accommodate in a more rational and informative way the entire range of programmes and activities undertaken by Government in the field of agricultural development. It is to be particularly noted that this exercise is characterized by a practical approach to evolve an accounting structure which can faithfully reflect the nature and significance of current programmes in contrast with the existing practice of accommodating expenditure on multifarious programmes within a rigid and pre-determined framework of minor heads. It has been observed that under the present arrangements, identical programmes are reflected under different minor heads in the accounts of different State Governments. In Maharashtra, for example, the schemes for the multiplication and distribution of improved seeds are classified under the minor head "Subordinate and Expert Staff", but in Madras identical schemes are provided under a different minor head, namely, "Agricultural Demonstration and Propaganda". Further, some of the minor heads are utilized to cover a varied mixture of activities and projects without any apparent inter-connection between them. Thus, the minor head "Agricultural Experiments and Research" is often overloaded with such diverse activities as improvement of vegetables, development of food production, plant protection schemes, seed multiplication farms and intensive agricultural district programmes. It is obvious that the proliferation of minor heads has been the product of a variety of *ad hoc* considerations unaided by any logical or conceptual framework. There are minor heads to-day which cover the entire expenditure of an administrative agency, others which cover expenditure on specific schemes and still others which reflect only certain objects or types of expenditure.

There are also some omnibus categories of minor heads such as development schemes which cover, as in Madras, all the schemes in the current Plan or as in West Bengal, the current Plan schemes as well as the committed expenditure on Plan schemes implemented in the previous Plans. In this situation, the first and the foremost requirement for the introduction of performance budgeting in selected areas would be to recast the minor heads to establish a closer link with the specific programmes and activities of the concerned organisation. This is all the more necessary, as the age-old structure of minor heads has never been subjected to a thorough and systematic review. Even in 1961 and 1962, when certain changes were made in the classification of major heads, the minor heads were left undisturbed. We consider it desirable that a logical framework for review of the existing pattern of minor heads should be broadly enunciated. A minor head should correspond to a broad-based programme of the organisation concerned with the expenditure under the related major head. Expenditure on identical programmes or segments of a single programme incurred by different organisations may be exhibited under different major heads, but the minor heads should bear an identical nomenclature so as to facilitate the compilation of the aggregate costs of a programme which for practical reasons may have to be entrusted to more than one executing agencies. The scope and nomenclature of the minor heads should be so determined as to be able to accommodate all the current and potential schemes or projects within the broad category of programmes represented by these minor heads. Further sub-divisions under the minor heads may be arranged under 'Group-Heads' to reflect homogeneous activities or, in appropriate circumstances, the organisational units responsible for allied activities. The group heads may be further broken down into sub-Group Heads for each individual scheme or project and, finally, into sub-heads represented by the primary units of appropriation as prescribed by Government.

5.10. As mentioned above, the working group has carried out a sample review of the existing structure of minor heads under the major head—'31 Agriculture' and after consultation with senior officers of the Audit and Accounts Department as well as of the Departments of Finance and Agriculture in three States, has evolved a new pattern which serves to reflect, more adequately, the nature and scope of the entire range of the agricultural programmes and activities of both the Central and State Governments. The proposed changes have been illustrated in two Annexures A and B at pages 49 to 53. Annexure A sets out the proposed minor heads against the existing pattern as well as the various group heads which will be covered under each of the proposed minor heads. Annexure B illustrates a detailed pattern of group heads, sub-group heads and primary units of appropriation in relation to one minor head "Seed Programmes". The list of sub-heads takes into account certain changes in the structure of primary units of appropriation on the lines of our recommendations elsewhere in this Report.

5.11. It will be observed that the entire range of agricultural programmes and activities has been classified and presented in a more informative and analytical manner. It may be noted that we have suggested the deletion of a few minor heads and addition of some new heads to depict programmes and activities which have now assumed considerable importance. The total number of minor heads has, however, been reduced to 18 in place of the existing number of 24.

5.12. It seems quite clear that some modification of the structure of accounts is inevitable to pave the way for the introduction of performance budgeting. Nevertheless, there are a few important considerations and limitations which have a direct bearing on this question and should, therefore, be given due importance in devising and implementing changes in the accounting structure. In the first place, it is imperative that the proposed modification should conform to the constitutional requirements with regard to presentation of the budget for approval by the Legislature and should, in no way, result in whittling down legislative control. This would mean that the budget heads should be so integrated with the account heads that there are no obstacles in the way of appropriation audit. Secondly, it is to be borne in mind that the heads of accounts are dealt by a vast multitude of officials including lower division clerks in the departmental offices, treasuries and accounts offices and it is essential that these heads are not changed frequently so as to avoid widespread confusion in the classification and compilation of accounts. To the maximum extent feasible, the programmes and activities may be so selected and their terminology so devised that most of them can be accommodated within the present pattern of classification. In this way, the changes which are considered inevitable can be kept to the minimum without affecting, in any way, the objective in view. Similarly, the heads of development adopted for the purpose of Plan expenditure having been evolved only recently, these can, with suitable changes, be brought in line with the account heads with such minimum modifications as may be considered absolutely necessary. We believe that in this way it is possible to build up a working correlation between the development heads and account heads within the broad framework of the existing pattern of accounts and in conformity with the principles of functional classification. This is evident from the results of our analysis of major head '31—Agriculture'. Thirdly, the reorganisation of minor heads on the lines of performance budgeting should not have the effect of loading the budget accounts with excessive detail. Already the present system is considered to be too complex and unwieldy by many and one of the important problems before us is how to simplify the present structure of central accounts. The introduction of performance budgeting should not take us in the opposite direction of presenting data on performance etc. in every detail.

5.13. Having regard to the considerations stated above, it is not only desirable but essential that we should proceed cautiously in this matter. A



beginning should be made with one or two heads which concern development activities of considerable national importance where the end products can lend themselves to physical measurements and a well-organized reporting and accounting system can be established. On these considerations, it would be worthwhile to experiment initially in the field of Public Works, Agriculture and Family Planning. In the Public Works Department, there is a reasonably efficient internal accounting organisation and the end-products are easily measurable. Agriculture and Family Planning are two fields where the achievement of desired results, through the expenditure that is being incurred on them, is of crucial importance for our national well-being. As already stated, it is necessary that there should be any whittling down of accountability to the Legislature as envisaged in the Constitution. It is also clear from the above that performance budgeting can be started only as an experimental measure in a few departments and the question of extending it to other fields considered on the basis of experience. Since, except for one or two departments, the entire budget will have to be presented to the Legislature in the present form, it is necessary that the budget in respect of the departments, where performance budgeting is attempted as an experimental measure, should continue to be presented in the usual form in addition to the supplementary documents incorporating the budget in the new form.

5.14. A revision of the structure of accounts to bring it more in tune with the present activities and programmes of Government in various fields is a vital step in making more purposeful the use of accounts as a tool of the management, but the process of accounting reforms needs to be carried forward to install improved systems of reporting on the progress of various programmes from time to time. The technique of performance budgeting cannot yield the maximum benefit unless it is supported by a well-integrated reporting system which links up, on a continuing basis, the financial expenditure with the physical achievements of various programmes. It will be necessary to carry out an extensive research into the character and scope of the programmes and activities of the selected organisation and develop appropriate yardsticks or units for the measurement of performance. It will, no doubt, be easier to do this in respect of programmes which are clearly measurable and where the unit cost accounting has been or can be easily developed. But a variety of accounting and reporting devices can possibly be adapted to changing circumstances in order to obtain broad facts relating to performance in all types of programmes including non-measurable activities. In certain fields of developmental activities, such as agricultural programmes and public works, some sort of a system for review and appraisal of performance already exists at various levels in certain States. For instance, in Maharashtra there is a well-established procedure for systematic review, at the divisional level, to correlate the in-puts and out-puts in respect of each crop and in relation to each block. Apart from the varying degrees of efficiency, a general limitation of the current systems of progress reporting

is that they cover only Plan schemes and consequently leave out of account a substantial area of State activities. We have recommended elsewhere in our Report that the accounting structure within the departmental organisations needs to be appreciably strengthened with the establishment of internal accounting cells. We trust that these cells will devise suitable systems of reporting and appraisal for these areas of State activities also. With the decision to introduce performance budgeting in a phased manner, it will become necessary to establish improved accounting and reporting systems within such organisations as are initially selected for the introduction of the new technique. A decision to introduce performance budgeting in selected areas will, therefore, need to be followed up not only by an assessment of the accompanying changes in the accounting structure, but also by the development of an efficient system of internal reporting and auditing, including the establishment of suitable norms of performance.

ANNEXURE A

*Proposed pattern of Minor Heads and Group Heads thereunder:  
Department of Agriculture: Major Head "31—Agriculture"*

Existing Minor Heads	Proposed Minor Heads	Group-heads under under minor heads (Sub-activities or groups of schemes or units)	Remarks
1	2	3	4
1. Direction ..	Direction ..	Directorate .	
2. Superintendence..	Superintendence ..	Supervisory Units	
3. Subordinate and Expert Staff.(i)*	..	..	(i)*Will be deleted. The expenditure now booked under this minor head varies from State to State and can be accommodated under the proposed minor head with reference to the programme or activity on which they are engaged or under superintendence.
4. Experimental Farms.	Agricultural Farms	State Commercial Farms, Seed Multiplication Farms Seed Distribution, Other Agricultural Farms.	
5. Agricultural Demonstration and Propaganda including Public Exhibitions and Fairs.	Extension and Training.	Agricultural Information Services, Demonstration and Propaganda, Exhibitions and Fairs, Crop Competition and Other Incentive Schemes, Training, Improved Agricultural Practices.	
..	Intensive Agricultural Programmes (ii)*	Intensive Agricultural Area Programmes. Intensive Cultivation Schemes. High Yielding Varieties Programmes.	(ii)* New Minor Head for Intensive Agricultural Programmes which are now under "Agricultural Demonstration etc."
..	Manures and Fertilizers (iii)*.	Compost Development Programmes, Local Manural Resources, Green Manures, Chemical Fertilizers.	(iii)* New Minor Head considering the importance of manures and fertilizers—At present accommodated under Agricultural Demonstrations, etc.

## ANNEXURE A—contd.

1	2	3	4
6. Agricultural Experiments and Research.	Ex- and Agricultural Experiments and Research. Indian Council of Agricultural Research.	Agricultural Research Schemes. Agricultural Research Centres and Institutions, Soil Survey and Testing, Others.	Re-
7. Agricultural Education.	Agricultural Education.	Agricultural Colleges. Agricultural Schools Training.	
8. Agricultural Engineering.	Agricultural Engineering.	Agricultural Machinery and Implements.	
9. Boring Operations (iv)*.		Tube Wells and Artesian Wells Installation of Pumping Sets on Wells and Rivers. Boring Operations Tractor Hiring Schemes Engineering Workshops, Others.	(iv)* Will be deleted and provided for under Agricultural Engineering.
10. Botanical and Other Public Gardens.	Botanical and other Public Gardens.		
11. Indian Council of Agricultural Research (v)*.	..	..	(v)* Retained as minor head against Srl. No. 6 above.
12. Schemes for the Improvement of Agricultural Marketing in India.	Agricultural Marketing.	Mar- Agricultural Marketing, Gardening and Testing, Inspection and Quality Control.	
13. Special Rural Upliftment Schemes (vi)*.	..	..	(vi)* This minor head is operated only in U.P. and Tripura. Hence proposed for deletion.
..	Minor Irrigation (vii)*.	Construction and Deepening of Wells Repairs to Wells & Tanks Other Minor Irrigation Schemes Subsidy.	(vii)* New Minor Head will appear under the respective Minor Head, if minor irrigation schemes are entrusted to a department other than Agricultural Department.

## ANNEXURE A—contd.

1	2	3	4
14. Payments from the Fund for relief of groundnut cultivation (viii)*.	..	..	(viii)* Will be deleted and appear as a sub-head under 'Development of Commercial Crops etc. Oil Seeds'.
15. Block grant for transfer to the Deposit Account of grants for the relief of groundnut cultivators (ix)*.	..	..	(ix)* Will be deleted and appear as a sub-head under 'Development of Commercial Crops etc. Oil Seeds'.
16. Cane development and regulation of Sugar Industry (x)*	..	..	(x)* Will be deleted and appear as a sub-head under Development of Commercial Crops etc.
..	Plant Protection and Quarantine (xi)*.	Plant Protection and Control of Pests Aerial Spraying Others.	(xi)* New minor Head. At present appears under Agricultural Experiment & Research Subordinate and Expert Staff or other minor heads.
..	Land Development (xii)*.	Soil Conservation Land Reclamation and Development Schemes Tractor Ploughing Ayacut Development Schemes. Other Schemes.	(xii)* New minor head—At present diffused in other places.
..	Development of Commercial Crops & Horticulture. (xiii)*.	Cotton, Sugar Cane, Millets, Coconuts, Oil Seeds, Tobacco, Cashew, Arecanut, Cocos, Other Plantations, Vegetables, Orchards and Fruits.	(xiii)* New Minor Head.
17. Colonisation Schemes.	Colonisation Schemes	Rehabilitation of Landless Labour Others.	
18. Transfers to the Agricultural Improvement Fund (xiv)*.	..	..	(xiv)* Not operated at all. No balance in the Fund, hence deleted.
19. Expenditure on Agricultural Improvement (xv)*.	..	..	(xv)* Not operated at all. No Balance in the Fund, hence deleted.
20. Miscellaneous	.. Miscellaneous	.. Agricultural Statistics Other Services.	

ANNEXURE A—*contd.*

1	2	3	4
21. Grants-in-aid. Contributions (xvi)*	Grants to Panchaya- ti Raj Institutions (xvii)*	Direction and Super- intendence Agricul- tural Farms, Extension and Training, Intensive Agricultural Pro- grammes, Manures and Fertilizers Agricultural Educa- tion, Agricultural Engineering, Agri- cultural Marketing, Minor Irrigation Plant Protection and Quarantine, Land Development, Development of Commercial Crops and Horticulture. Colonisation Schemes, Miscellan- eous.	(xvi)* This is proposed to be deleted and accommo- dated as a sub head under the relevant minor and group-head with re- ference to the schemes or activity for which grants in-aid are given.
			(xvii)* This minor head will not appear if the proposal to open a major head 'Grants to Pancha- yati Raj Institutions' now under consideration of the Ministry of Fi- nance is accepted.
22. Fisheries (xviii)*	..	..	(xviii)* Proposed to have this as a separate major head.
23. Other Charges	..	..	
24. Charges in England	Charges in England	..	

## ANNEXURE 'B'

*Proposed Pattern of Minor and Subordinate Heads—(Major Head—31' Agriculture'—Minor Head—'Agricultural Farms'.*

Minor Head	Group Heads	Sub-Group Heads	Sub-Heads
(1)	2	3	4
Agricultural Farms	Seed Multiplication Farms.	Taluka Seed Multiplication Farms.	Establishment Charges, Other Charges, Grants-in-aid and Contributions, Stores and Materials etc. etc.
Agricultural Farms	Seed Distribution	Scheme for production and distribution of nuclear seeds of important strains of important food grains in Maharashtra State.	Establishment Charges, Other Charges, Grants-in-aid, and Contributions, Stores and Materials etc. etc.

## CHAPTER VI

### REFORMS IN PROCEDURES

#### 1. MECHANISATION IN GOVERNMENT ACCOUNTING

6.1. Automation or mechanisation is normally characterised by introduction of electronic calculating and data processing machinery in a factory or in an administrative department. It is the governmental sector in developed countries like the U.S.A., the U.K. and France which first utilised the punched-card system to solve record keeping problems. For almost three quarters of a century now, the punched-card has been extensively used to assist managerial performance and control. The advent of electronics brought substantial changes in data processing machines and methods. Equally important however, have been the changes in the whole concept of data processing marked by its progress from merely an accounting tool to a complex technique for advanced management and operational control. With continuing improvements in computer programming techniques, data processing machines can now help to evaluate, in advance, overall plans which affect product scheduling, inventory management, capital investment and other fundamentals of business management. The computer has already proved its efficacy and has come to stay as an important aid for decision-making at the highest levels.

6.2. In India, only a few organisations such as the Ministries of Railways and Defence, the Life Insurance Corporation, the Telecommunication wing of the Posts and Telegraphs Department and some public sector undertakings have replaced, to a limited extent, certain repetitive processes of manual work by mechanisation. No practical steps have yet been taken to introduce modern data processing techniques in the compilation of various accounts in the offices of civil Accounts General in the Indian Audit and Accounts Department.

In Railways, the documentation, check and accounting of the immense volume of traffic transactions and compilation of a variety of statistical information necessary for rate making and other managerial decisions have been rationalised largely through the mechanisation and integration of accounts and statistics with the help of the punched-card system. As a consequence the work in the accounts offices has also been considerably streamlined. The manual apportionment of the earnings on interchanged goods and passenger traffic vis-a-vis zonal railways has been replaced by machines and the check of the printed series of the passenger traffic tickets has been transferred to punched-cards. A beginning with the mechanisation of Stores Accounts has also been made on one of the Railways and it is proposed to extend the system progressively to other Railways. An integrated machine process has also been evolved to link wagons for which



payments have been made on the basis of despatch from the collieries with the wagons received by loco sheds and for more effective coal accounting. Certain phases of work have been mechanised in the major workshops and the scope of mechanised accounting is being extended to zonal railways and computers have already been installed at the major units of production e.g. Chittaranjan, Varanasi and Perambur. All these measures are said to have led to appreciable improvements in efficiency and substantial economy in staff and cost.

6.3. Mechanisation has also been introduced, though on a modest scale, in Defence Accounts at the centres located at Meerut, Calcutta, Bombay, Kanpur, Jabalpur and Kirkee. The following items of work are dealt with on the I.C.T. machines installed in these accounting centres:

- (i) *Compilation of accounts of the receipts and expenditure of Army, Navy and Air Force*—A separate compilation is printed for each section of a controller's office and shows the amount compiled under each head of Account during the month.
- (ii) *Book compilation of R.D. & R. Heads*—A separate book compilation of R. D. & R. Heads is printed monthly for each Controller's office showing the current and progressive figures under each R.D. & R. Head.
- (iii) *Consolidated compilation of all-India Defence Services Receipts and Charges*—The consolidated compilation of all-India Defence Services Receipts and Charges shows the current and progressive figures under each detailed head, minor sub-main and major head of account.
- (iv) *Consolidated compilation of R.D. & R. Heads*—This compilation shows the progressive figures in respect of each Controller and under each R.D. & R. Head.
- (v) *Analysis of all-India Defence Services Receipts and Expenditure by Controllers*—An analysis of the consolidated all-India compilation of Defence Services, receipts and charges is prepared to show the current & progressive figures separately.

6.4. At the instance of the Study Team, a sample survey has been conducted by the Secretary in association with the I.B.M. organisation to assess, whether and to what extent the treasury accounts received in the office of the Accountant General can be analysed and compiled with the help of data processing machines. In this exercise the study was confined to classification and compilation of accounts relating to pay bills in the office of the Accountant General, Central Revenues. The manual procedure of recording pay bills in vogue at present, requires that on receipt of the paybill vouchers from the treasuries for payments made against each voucher to individuals (for gazetted officers) or to group of individuals

(for non-gazetted officers), data is transcribed on to a large spread-sheet register. The first page of this register indicates different earning heads (pay, dearness allowance, city compensatory allowance, house rent allowance, etc.) total deductions and the net amount paid; the subsequent pages give details of deductions in separate columns under each individual head and the totals for each column are struck manually. Balances are carried forward to compile 'up-to-date figures'. A number of columns in this register have necessarily to be left blank as every bill incorporates some but not all the deductions.

The mechanised system envisages that from the source documents (in this case, paybill vouchers) separate cards will be punched for each employee of the gazetted cadre and consolidated cards for the non-gazetted staff (against one paybill voucher). There will be three categories of cards; a name card, an earnings card and a deductions card. After verification and check for accuracy, all the cards will be sorted out and classified into different homogeneous categories, say, in terms of the relevant department/ministry, and the major head of account and within the major-head in terms of each minor head and sub-head. The order or sequence of the cards can be rearranged to suit the requirements of the various statements or reports. The accounting machine will simultaneously print, in a meaningful, alphabetical and numerical order, statements totalling the columnal or summary information on a separate card which, when used along with the next month's report, will provide the 'year-to-date' figures automatically. To indicate each deduction by separate classifications, another run through the accounting machine will be required. This print will also give the totals of deductions as may be required. Similar to the earnings report, it will automatically punch a card to give a summary total of different categories of deductions. This can be used for compiling the 'year-to-date' figures.

6.5. It has been argued before us that at present the number of sub-heads and minor heads is very large and any digit system of classification is likely to introduce complications. Even after the adoption of our recommendations in Chapter IV regarding the curtailing of the sub-heads, the number of major, minor and detailed heads to be dealt within the civil government accounts will not be appreciably reduced. It is important and necessary to ascertain whether the machines which are being manufactured in India can accommodate all the transactions which will require to be classified under such a large number of heads. Otherwise, we will be confronted with the difficult problem of finding foreign exchange resources for the import of equipment.

The Programme Evaluation Organisation (Planning Commission) have set up a computer centre, where the data processing facilities offered by the electronic computer, together with the orthodox mechanical tabulation system, are available for the use of all Government departments as well as

educational and research institutions. The computer centre has the full complement of programmes and other technical personnel and is in a position to offer all kinds of technical assistance including programmes and also its space capacity on the electronic computer and other tabulation machines for the benefit of the users. This organisation can easily be utilised for experimental studies.

6.6. The following are some important areas where a lot of routine type of manual work can be profitably replaced by data processing machines:

(i) The Rent Wing of the Directorate of Estates covering operations from the day a request for allotment is received till the date of vacation and realization of final bills.

(ii) The individual running ledger accounting system being followed in A.G.C.R. in respect of payments of salary etc. to the officers of the Indian Audit and Accounts Department and the Ministry of Information and Broadcasting. We have suggested elsewhere that this system should be progressively extended to cover other Central Government officers who are subject to frequent transfers from one account circle to another.

(iii) Already in some offices the provident fund accounts, especially with the enormous increase in the number of accounts after the introduction of compulsory G.P. Fund scheme in 1960, are being posted with the help of machines which are somewhat obsolete. The machine posting system has been found to be more efficient and economical. It has the advantages of increased speed, positive simplification, and neater accounts.

6.7. We have taken note of the advantages which can be expected to accrue from the introduction of mechanised processes in the accounting system. However, it seems to us necessary that this question should be studied, in all its aspects, in greater detail and depth before any positive conclusion can be reached. The experience and achievements of some other countries such as France and Sweden, which are known to have made notable progress in mechanising Government accounts may be specially relevant in this connection. However, apart from purely technical considerations regarding the adaptability of mechanised process to the varied aspects of Government accounting in India, the general question of the repercussions of mechanisation on the employment potential of the accounting system has also to be carefully considered. We believe that the feasibility of introducing mechanised processes in the compilation of general accounts in the offices of the Accountants General or even certain limited areas, such as those indicated above is a matter for detailed examination by an expert committee. We recommend that a special committee may be constituted for this purpose and the representatives of the Comptroller and Auditor General, Ministry of Finance and other Ministries

## 2. PAYMENT TO GOVERNMENT SERVANTS

A. *Salaries and Allowances*

6.8. Under the existing system, the following three agencies are involved in the process of payments of gazetted officers' bills:

- (i) Administrative authority which sanctions posts, fixes scales of pay, sanctions leave and issues posting orders;
- (ii) Accounts Officer who, on receipt of necessary information regarding the creation of posts, posting, sanction to leave etc., issues an authorisation to the treasury officer for payment; and
- (iii) The treasury officer who makes the payment on receipt of authorisation from the Accounts Officer and presentation of bills by the gazetted officer.

6.9. It has been a long-standing point of criticism against the present system that it often entails serious hardship to gazetted officers on account of delays in the payment of their salaries and other legitimate dues. Such delays are known to occur at all or any of the three stages mentioned above. In particular, the transfer of an officer from one audit circle to another usually results in considerable delay in the payment of salary etc. at the new place. Administrative instructions have, of course, been issued from time to time to ensure the smooth functioning of the system as a whole and the avoidance of unnecessary delays in dealing with the claims of Government officers. In addition, certain experimental measures have been taken to simplify the procedures and to reduce the number of stages involved in the process. We believe that an effective way of reducing the details in the payments to gazetted officers would be to eliminate the need for action by three separate agencies; and the sanction of the concerned administrative authority being obviously indispensable, a practical and lasting solution to the problem lies only in combining the functions of the accounts officer and the treasury officer into a single agency. We propose to examine here a two-fold scheme in which the intervention of either the treasury officer or the accounts officer is eliminated.

(i) *Individual Running Ledger Account System*

6.10. Under this system, payment of all claims of gazetted officers is centralized in one audit officer, who keeps a running account for each officer, works out his entitlement to pay and allowances including T.A. etc. and makes payments to him through cheques issued in favour of his bankers. In this process, the General Provident Fund account is also centralized with the same audit officer. This system is already being operated on the Defence side for some years and has recently been introduced for the officers of the Indian Audit and Accounts Department and of the Ministry of Information and Broadcasting. The advantages of the system are particularly striking in the case of officers who are liable to frequent

transfers from one audit circle to another as it ensures a quick payment of salaries etc. to gazetted officers, an accurate maintenance of P.F. Accounts, and eliminates the treasury from the field. We, therefore, recommend that the I.R.L.A. system may be extended to cover all gazetted officers of the Central Government in such departments as Income-tax, Customs, Central Excise, Central Public Works and Survey of India where officers are frequently transferred from one audit circle to another. We are aware that this system will entail some increase in expenditure on account of the fact that the savings on staff etc. in the treasuries will be only fractional and will not wholly compensate for the additional expenditure on staff in the audit office where accounts will be centralized. But in our view, the benefits accruing from the scheme will far outweigh the relatively small increase in expenditure.

(ii) *Transfer of responsibility for the gazetted officers' bills to the head of the office*

Under the present system, the pay and allowances of non-gazetted officers are drawn from the treasury by the head of the office in the establishment bills and disbursed to them by him. He also maintains the service cards, leave accounts and accounts of various advances to the non-gazetted employees. It has been suggested that the same procedure may be followed in the case of gazetted officers so that in their case also there will be no need for issue of authorization etc. by the Accounts Officer. This procedure has also been introduced, as an experimental measure, in respect of section officers of the Ministry of Irrigation and Power and the Ministry of Health and Family Planning. We have been informed that the scheme has already been adopted by the states of Rajasthan, Madhya Pradesh and Manipur in respect of certain categories of gazetted officers and in other states similar proposals are now under consideration. It should be noted that the scheme is, in no way, derogatory to the status of the gazetted officers as the notification regarding their appointment etc. will continue to be published in the Gazette as at present. The risk of over-payments due to arrears, fixation of pay etc. by the departmental officers, can be easily guarded against by more elaborate post-audit of the claims, centrally as well as locally. The introduction of the scheme will result in appreciable savings in the office of the Accountant General and at the treasuries whereas there will be only a nominal increase of work-load in the departmental offices spread over a number of points. This system of entrusting the responsibility for the gazetted officers' bills also to the head of the offices will be not only more efficient but also less expensive than the present system and we recommend its general adoption in the case of lower ranks of gazetted officers, who are not liable to transfer from one audit circle to another.

B. *Provident Fund Accounts*

6.11. The problems of accurate maintenance of the account of subscription to and withdrawal from the provident fund of Government

employees and avoidance of delay in the final payment of provident fund deposits do not admit of an easy and fool-proof solution. With the introduction of the compulsory provident fund schemes by the Union Government and most of the State Governments, there has been a phenomenal rise in the number of accounts to be maintained in the accounts offices. The liberalisation of certain provisions regarding grant of advances to government employees from their provident fund has further increased the work-load in these offices. Apart from lapses in compliance with the prescribed rules and instructions, the most important cause of delay in the final payment of the provident fund arises from the missing credits in the accounts. Although the available balance in accordance with the official account is now paid without awaiting the settlement of missing credits, the payment of the residual balance, after adjustment of the missing credits, is often delayed. As in the case of delays in the final settlement, the inaccuracies in the current maintenance of the provident fund account mainly arise from the failure of the accounts maintained by the Accountant General to reflect fully and completely the contributions made by the subscriber. We understand that the phenomenon of missing credits in the provident fund accounts is attributable to a variety of reasons of which the more common and important ones are the following:

- (i) Failure to indicate the name of the subscriber or his account number in the general provident fund schedule accompanying the salary bills, etc.
- (ii) Loss of general provident fund schedules in transmission from the treasury to the Accountant General and in the Accountant General office from the audit section to the general provident fund section.
- (iii) Lack of prompt response from the departmental officers and the subscribers to requests for furnishing the detailed particulars etc.
- (iv) In the case of officers transferred from one accounts circle to another, discrepancies due to:
  - (a) transmission of G.P.F. credits through exchange or settlement accounts-without complete details;
  - (b) mis-classifications at the treasury and the audit offices;
  - (c) delay in transfer of G.P.F. account from the old account circle to the new circle in cases where this is necessary;
  - (d) in the case of officers on foreign service, delays in the remittance of subscription, bank drafts and their proper accounting.

6.12. We have been given to understand that a number of measures have been taken by the Comptroller and Auditor General to ensure the accurate maintenance of provident fund accounts and their expeditious

settlement. These measures include procedural improvements in the preparation of Provident fund schedule and in particular the furnishing of correct account numbers in these schedules. In order to check the accuracy of the account every year, an annual statement of G.P. fund, indicating the months in which the credits are missing, is furnished to the subscribers who are required to confirm the statement and furnish particulars of missing entries to enable the Accountant General to investigate and settle the discrepancy, if any. It is important to ensure that the various measures adopted for ensuring accuracy in the Provident fund accounts are vigorously implemented and are further reviewed and strengthened from time to time to eliminate all weaknesses and failures in the system.

6.13. It has been suggested to us that one of the effective ways to minimise the delays and discrepancies in the settlement of Provident fund accounts would be the introduction of pass-book to be maintained by each subscriber. Under this scheme, a gazetted officer would himself make entries in the pass-book, forward it to the treasury officer with his monthly salary bill for attestation and entry of the date of encashment of the bill. The pass-book will be periodically reconciled with the ledger in the Accountant General's office. In the case of non-gazetted officers, the entries will, of course, be made and attested by the head of the office after proper verification. The pass-book system has already been introduced in seven or eight states with an option to both gazetted and non-gazetted subscribers to accept the new procedure. The Government of India have not accepted the proposal on the ground that the details of credit and debit in the provident fund account are already being furnished to the subscriber every year for verification and reconciliation and the introduction of the pass-book scheme will unnecessarily increase the work-load in the administrative departments as well as the treasuries. We feel that the new scheme which has already been introduced in a number of States has important advantages, particularly, from the view-point of the subscriber and its working in the states should be carefully reviewed after a year or two to assess its full implications and to ascertain to what extent it has, in actual practice, succeeded in ensuring a proper and accurate maintenance of Provident fund accounts. If the findings in this regard are favourable, the scheme should be extended to cover all employees of the Central and the State Governments.

6.14. It has been observed that the problem of missing credits arises more frequently in the accounts of officers who are liable to frequent transfers from one accounts circle to another. We have recommended earlier in this Chapter the adoption of the individual running ledger account system of payments in the case of gazetted officers who are liable to frequent transfers. With the introduction of this scheme, the problem of missing credits in the accounts of such officers will have been completely resolved, as all the accounts will be centralised in one audit office which

will also be responsible for the preparation of the monthly salary bills including the prescribed schedules for subscriptions to the general provident fund. As an alternative to the introduction of the I.R.L.A. system, we would recommend the centralisation of general provident fund accounts of officers subject to frequent transfers between different accounts circles. This system is already in vogue in the case of officers in the Departments of Income Tax, Central Excise and Customs and can certainly be extended with advantage to other departments. We further recommend that in order to eliminate the omissions and delays involved in the operation of exchange and settlement accounts, the remittance of G.P.F. credits may be effected through bank-drafts. Thus, the Accountant General, in whose jurisdiction the officer draws his pay, will send a bank-draft for the amount of credit to the accounts office where centralised G.P. Fund is being maintained. This is a reiteration of a suggestion which we have earlier made in dealing with the problems arising from the operation of exchange and settlement accounts.

6.15. The following measures are also recommended for the elimination of delays in the payment of provident fund dues to the dependents of a deceased employee:

1. Heads of offices/departments should themselves initiate action to obtain the application for final settlement of G.P. Fund from the nominees of the deceased employees, and
2. They should notify the event of death direct to the provident fund section in the office of the Accountant General concerned to enable action being taken for prompt completion and immediate settlement of the account after the receipt of the application for final payment.

#### *C. Elimination of delays in payment of pensions*

6.16. Another area of vexatious delays to which our attention has been drawn is the finalisation and payment of pensions. Prolonged delays are often said to occur in this regard, bringing in their wake great hardship and frustration to the retired officials. Generally, the main reasons for delays in the payment of pensions are the late submission of pension papers by the pensioners and their administrative superiors, incomplete preparation of pension papers due mainly to the meticulous requirements and the complexity of the rules, and the multiplicity of officers to whom references have to be made to verify previous service.

6.17. Pension may be divided broadly into 'Service Pensions' and 'other pensions'. A 'service pension' is granted to an official in consideration of a specific service rendered by him and is determined with reference to the nature of service and the rules prescribed for this purpose. 'Other pensions' are those granted to individuals for considerations other than those of service rendered to Government, e.g., 'political pensions'. Here we propose to concern ourselves only with the former category which is further subdivided



as 'Ordinary Pension' and 'Extraordinary Pensions'. Ordinary pensions are granted to Government servants on retirement from service in consideration of their qualifying service and are tenable for life. Extraordinary pensions are granted to dependents of persons in civil employ who die, or to the officials who are injured in such circumstances as render the grant justifiable. An extraordinary pension can be drawn in addition to any ordinary civil pension or gratuity, otherwise admissible under the rules. The rules under which the grant of pension is regulated are:

*Ordinary pension*

- (i) Civil Service Regulations;
- (ii) Liberalized Pension Rules, 1950;
- (iii) Central Subordinate Inferior Service Gratuity, Pension and Retirement Rules of 1936;
- (iv) All India Services Death-cum-Retirement Gratuity and Pension Rules;
- (v) Superior Civil Service Rules;
- (vi) Civil Pensions (Computation) Rules.

*Extraordinary Pension*

- (i) Extraordinary Pension Rules of the C.S.R.'s.
- (ii) Central Services Extraordinary Pension Rules.
- (iii) Superior Service Extraordinary Pension Rules.

6.18. The two main determinants for calculations of pension under the existing pension rules, as contained in the Civil Service Regulations are: (i) the length of "qualifying service", and (ii) the amount and nature of the emoluments drawn during the last three years of a Government servant's career. The operative rules for the calculation of qualifying service contain detailed prescriptions regarding the nature of service that will count towards qualifying service, and the circumstances which will entail the forfeiture of past service. All kinds of leave, except extraordinary leave without pay and allowances, count as service for pension. The procedure, in short, is to determine qualifying service on the basis of "the gross service" less 'deductions' plus 'additions' in accordance with prescribed rules.

The term "average emoluments" means the average calculated on the basis of the emoluments received during the last three years of a person's service. The various categories of pay, such as substantive pay, personal pay and special pay and conditions, which govern their being included within the meaning of the "average emoluments", have been laid down in the rules.

6.19. For a qualifying service of less than ten years, a service gratuity not exceeding one half month's emoluments for each completed six monthly periods of service is granted to a Government servant on retirement. In special cases and under orders of the Government of India, a

gratuity not exceeding twelve months' emoluments may be allowed. For a qualifying service of not less than ten years, a pension based on the length of "qualifying service" and the "average emoluments" as explained above, is granted to the claimant.

Based on the recommendations of the Central Pay Commission, 1947, the Government of India introduced, with effect from 1-4-1950, the Liberalized Pension Rules, which have been amended further from time to time. A lump sum payment known as "death-cum-retirement gratuity" in addition to the recurring monthly pension, and family pension to the widow and the dependent children of the Government servants dying in harness or shortly after retirement are the notable features of these rules.

Under the existing rules, a Government servant can get a part of his pension commuted for a lump sum payment subject to various conditions and in the manner provided in the Civil Pensions (Commutation) Rules. The maximum portion of pension that can be commuted under the Liberalized Pension Rules is one-third only.

6.20. All retiring Government servants are required under the rules to submit applications for pension in the prescribed form. The rules provide that the initiation and processing of pension cases need not await the receipt of formal application from the retiring officer but the pension or/and gratuity cannot be formally sanctioned until the receipt of the application. In view of the complex and restrictive principles which are involved in the determination of qualifying service and the nature of emoluments which count for pension, their detailed documentation and close verification has become unavoidable. Service book is the record which contains the necessary details of the service and emoluments in respect of non-gazetted staff while the service card and the gazetted audit register maintained in the Accountant General's office contain similar information in respect of the gazetted officers. Under the prescribed rules, each incident in a non-gazetted Government servant's career is to be clearly recorded in his service book and attested by the head of office and, in addition, entries made during a year have to be verified once again against original records. Further, the rules require that every retiring officer must clear his dues to Government before the date of retirement and to satisfy this condition, no demand certificates have to be arranged from a number of sources, e.g., the Directorate of Estates and local bodies. The administrative authority concerned is required to take up the work of initiating and processing the pension cases twelve to eighteen months before the date of retirement of the Government servant and to ensure that all formalities are complete well before actual date of retirement, so as to enable the pensioner to receive his pension on the due date. However, it is common knowledge that more often than not, the finalisation and payment of pension are considerably delayed.

6.21. Attempts have been made from time to time in the past to locate and remove the causes for delay by amending or simplifying the prescribed procedures. In 1958, the Staff Reorganisation Unit (now the Staff Inspection Unit) of the Ministry of Finance conducted useful studies and suggested a number of reforms. The Comptroller and Auditor General of India has also been making certain proposals to the Government of India for streamlining the procedures governing the settlement and payment of pension. In pursuance of the various proposals and recommendations received from time to time, a number of procedural reforms have already been introduced by the Government of India. Some of these are listed below:

- (i) Location of specific responsibility with the heads of departments and ministries to ensure that action on pension cases is initiated twelve to eighteen months before retirement.
- (ii) Release of pension/gratuity after obtaining a surety or by taking suitable cash deposit or withholding a suitable portion of gratuity, pending issue of no demand certificate.
- (iii) Recording of the fact regarding recovery of leave and pension contributions by the Accountant General, whenever a Government servant reverts from foreign service.
- (iv) Last pay certificate for the release of anticipatory pension.

6.22. A committee was set up in early 1965 by the Administrative Reforms Department, Ministry of Home Affairs, for a systematic and comprehensive study of the rules and procedures governing the sanction of pension. The report of this Study (October 1965) is stated to be still under the consideration of the Government of India. Some of the important recommendations made by this Committee are enumerated as under:

- (i) Extraordinary leave should count in full as 'qualifying service' for pension and gratuity.
- (ii) Interruption in service upto a period of one year should automatically be condoned.
- (iii) All emoluments defined as pay under the Fundamental Rules should be included in the term 'emoluments' for the purpose of calculating pension and gratuity.
- (iv) The system of annual verification of service books of non-gazetted officers should be dispensed with.
- (v) The responsibility for initiating and processing the pension cases of gazetted officers should rest entirely with the concerned Accountant General.
- (vi) The responsibility for finally sanctioning the pension and gratuity of non-gazetted officers should rest with the administrative authority concerned, subject to test audit by the Accountant General at suitable intervals.

6.23. The following proposals which have *inter alia* emanated from the Comptroller and Auditor General are also understood to be under the consideration of the Government of India;

- (i) In the case of non-gazetted officers, the heads of office, in which they are serving at the time of retirement, may be authorized to draw and disburse the full pension worked out by them and sanctioned by the competent authority for a period of six months from the date of retirement and 75 per cent of the death-cum-retirement gratuity, subject to adjustment being made before issue of final payment authority by the Accountant General.
- (ii) Where convenient, pensions may be paid by money orders at Government cost through the post offices.
- (iii) Pension sanctioning authority need not furnish certain particulars in the application form for sanctioning family pension in the case of gazetted officers as the particulars will be available with the Accountant General and their collection by the departments may result in delay.
- (iv) Heads of offices should review annually the nominations for pension/gratuity in respect of all non-gazetted officers in their offices and take steps to see that they are filled properly. Provisional payments of family pensions to families of non-gazetted government servants may be made by heads of offices pending adjustment on the determination of family pension due by the Accountant General.

6.24. It has been suggested to us that calculation of pension can be further simplified if the base is taken as the average of the emoluments of twelve months immediately before retirement instead of thirty-six months as at present. It has been pointed out that the proposal is not likely to result in any significant increase in the quantum of pension due to Class I officers for which there is maximum limit or the Class IV officers. There may be some increase only in the case of pension due to Class II and III officers. The Government of Kerala have recently changed the pension rules to adopt the basis contained in this proposal.

In our view, the foregoing proposals, many of which are stated to be already under the consideration of the Government of India, would go a long way in simplifying the existing system for the sanction and payment of pensions, ridding it of many procedural and other avoidable delays, and removing the legitimate grievances of the pensioners in this regard. We, therefore, commend these proposals to Government for their earnest consideration.

### 3. TRANSACTIONS WITH PUBLIC

6.25. It is a common complaint from the general public that the present system and procedures for payments to and receipt from Govern-

ment are unnecessarily cumbersome and complicated. Some suggestions for the simplification of these procedures have been made from time to time and certain modifications have been introduced in the system. However, by and large, the structure has remained unchanged in its essentials. This stability can be attributed mainly to the fundamental requirements of the existing accounting and payment system. We propose to examine here some of the more prominent suggestions for simplification of the treasury procedures which regulate public transactions with Government both in respect of payments and receipts of money.

### *Payments to the public*

6.26. Under the present procedures, the focal point for transactions of payments and receipts in relation to civil departments is the treasury. For the purpose of making payments to the public, the departmental officers withdraw money from the treasury either by submitting bills or, in specified cases, by drawing cheques upon the treasury. Payments to the public are made in cash, or by endorsing the cheques or bills to be presented to the treasury. It has been stated that the procedure of presenting bills for encashment at the treasury takes considerable time and causes inconvenience to the public. In the case of banking treasuries, i.e. where the banks act as the agents of the treasury for receiving and making payments, another stage intervenes for the encashment of bills which have first to be presented and passed at the treasury and then encashed at the bank. It has sometime been proposed that these dilatory procedures can be avoided by a simple system under which a departmental officer obtains money from the bank or the treasury by cheques and makes payments to the claimants directly without the intervention of the treasury officer. As a corollary, the departmental officer will himself compile the accounts for direct submission to the Accountant General. It has been suggested, in this connection, that cheque drawing powers need not be granted to each drawing and disbursing officer, if that would mean an unwieldy proliferation in their numbers; the drawing and disbursing officers can be formed into groups so that there will be only one officer and one allotment for the group as a whole and the authorised officer will provide necessary funds to the members of the group in the form of an imprest. The following are the main points which have been urged in support of this proposal:

- (i) Frequent trips to the treasury, drawal of abstract bills and retention of permanent advance will not be necessary. Money can be utilised for any public purpose and payments can be made more speedily.
- (ii) It will reduce work-load in the bank and the treasury.
- (iii) Compiled accounts will render accounting easier in Accountant General's office. As abstract bills will not be drawn, the number of items held under objection will be reduced.

6.27. We have given careful consideration to the proposal for grant of cheque-drawing powers to the drawing and disbursing officer either individually or in groups. We feel that there will be several difficulties in adopting this proposal as a matter of general policy. It is obvious, in the first place, that the proposal will result in a vast increase in the number of points at which large sums of government money will be handled, thus increasing substantially the risk of misappropriations. Secondly, the compilation of monthly accounts by a very large number of drawing officers is likely to adversely affect the speedy and accurate compilation of accounts by the Accountant General. It has been pointed out that as against 20 to 50 treasuries in each State, the number of drawing officers, even after grouping, will be large ranging from 4000 to 10,000 in each State. There will thus be an enormous number of points where the cash will be handled and initial accounts will be compiled under the proposed system. A third difficulty will be that the linking of the cheques drawn and encashed by a very large number of officers will be extremely difficult and accounting discrepancies will be constant headache.

6.28.\* We are appreciative of the advantages of cheque drawing powers being exercised in those departments where the volume of transactions in regard to payments to the public is specially large. It will be desirable that in the case of such departments, the system of personal ledger accounts which is already operative in certain departments may be made applicable. Under this system the officers who are authorised to operate personal ledger accounts are given the power to draw cheques upto specified limits for the purpose of making payments to the public. A wider use of this system will extend the benefits of cheques drawing system to those areas where there is special need for it while the basic system of operations through the treasury will continue.

6.29. We have already stressed the importance of strengthening the organisation of the treasuries with a view to improving their efficiency. We feel that improved efficiency of the treasuries combined with the introduction of the system of personal ledger accounts in selected areas will substantially remove the causes of delay in the procedures of government payments to the public. The need will, however, remain for administrative measures to ensure that the claims of the public are not unnecessarily delayed in the preliminary stages leading to the delay in presentation of the bills to the treasury.

6.30. It has sometimes been urged that the procedures for grant of refund to the public in various organisations such as the Railways, Income-tax Department and the Courts of law etc., are dilatory and vexatious and are in need of a thorough and systematic review. It has been suggested, in particular, that the need for a cumbersome and time-consuming routine should be eliminated in respect of refunds of small amounts which should be settled with the least possible delay and preferably, in cash across the

counter. The principle that refunds should be granted with the least delay and inconvenience is unexceptionable and should receive due recognition in all Government departments and organisations. The extent to which the procedure can be simplified in the individual organisations can be determined only after detailed investigations which may have to be undertaken as a special study. The subject is of considerable importance from the view point of the general public and we would recommend that special studies may be instituted in the organisations concerned for a review and simplification of procedures regarding the grant of refunds to the public.

### *Receipts from public*

6.31. Complaint has sometimes been made that the procedures which regulate the payment of government dues by the public are no less irksome and time-consuming than those which govern recoveries from government. The counterpart of the bill which is presented to the treasury for making withdrawals is a memorandum or a chalan which must accompany all payments of government dues into the treasury or the bank. The chalan contains all the relevant details such as the name of the remitter, the particulars of the remittance and the head of account concerned. Ordinarily, a chalan has to be obtained from the treasury, and, if the departmental officer is located at the same place, it has also to be signed by the departmental officer to whose account the money is to be credited. In such cases, a person has first to go to the treasury to collect blank copies of the chalan, then go to the departmental officer for his signatures and thereafter to the bank or the treasury for depositing money. If the treasury and the departmental officer are located at different places, the rules permit the chalan to be signed by the treasury officer instead of the departmental officer. It has been urged that this multi-stage procedure is unnecessary and in this connection two suggestions for its simplifications have been made to the Study Team.

- (i) All Government departments should receive money when paid in cash or crossed cheques, postal orders or money orders. Crossed cheques should be directly endorsed to the treasury and deposited there by the department; and
- (ii) the requirement for signatures of the treasury officer and/or the departmental officer on the chalan prior to its presentation and acceptance at the bank or the treasury should be removed.

6.32. We have carefully considered the matter in the light of the current procedure including the permissive provisions which already exist for relaxation of rules in certain special circumstances. Thus, notwithstanding the general principle which disapproves all direct receipt of money by the departmental officer, exceptions have been permitted in the case of payments receivable by a number of departments such as Defence, Railways, Post and Telegraph, Public Works, Forest and Customs. It

should be possible, within the framework of the existing system, to widen the field of direct receipts by the departmental officers. We feel, however, that introduction of a general system of direct receipts in all departments would neither be necessary nor free from risks. Apart from increasing the risk of misappropriations, there will be a substantial increase of work-load on various officers. One of the advantages of the remittance of money into the treasury is that the receipts are immediately accounted for, whereas in the alternative system of receipts by the departmental officer, there is a danger of time-lag between receipt and accounting of money.

6.33. As regards the second suggestion, the importance of obtaining the signature of the departmental officer lies in the fact that this ensures the accuracy of the initial classification and other entries recorded in the chalan. In view of the varied nature of receipts and the multiplicity of the heads of accounts, it will not be feasible, as a general rule, to leave these details to be filled by the person tendering the money. Nevertheless, in certain circumstances the requirement of prior signature of the departmental officer has already been relaxed. Thus, the signatures of the departmental officer are not necessary when he and the treasury are located at different places nor is this requirement essential in the case of income-tax receipts. In the circumstances, we are of the view that if necessary, the rules may be further relaxed in suitable circumstances and in limited areas. There is no need for a general dispensation of the requirement for the prior signature of the departmental officer on the chalan for depositing money into the bank or treasury.

6.34. It is important to examine the extent to which administrative arrangements can be improved, within the framework of the present system, to streamline the procedures. We would like to make two suggestions in this regard. First, the chalan for depositing money should be made available in the departmental offices so that the depositor may not have to go to the treasury, in the first instance, merely to collect the chalan and bring it back to the departmental officer; secondly, arrangements may be made for deputing a member of the treasury staff to sit in the local branch of the bank to carry out the necessary verification at the bank premises and save the depositor avoidable inconvenience of the journey to the treasury for this purpose.



---

---

**PART TWO**

**ROLE OF AUDIT**

---

---

## CHAPTER VII

### APPROACH AND OBJECTIVES

7.1. The role of audit has an undisputed and crucial importance in the machinery of financial administration of modern Governments which operate under a democratic system. It is only through the institution of independent audit that Parliamentary control over public expenditure can become really effective in ensuring that the funds granted by Parliament are utilised by Government only for approved purposes and with due regard to considerations of economy and efficiency. It is, therefore, necessary that the scope and authority of audit should be commensurate with the range and character of their duties and responsibilities. At the same time, it is also necessary to ensure that the audit methods and procedures serve to assist administration in achieving economy and efficiency in the discharge of financial responsibilities. Having regard to the broad objectives of the Administrative Reforms Commission, we have focused our attention more on the latter aspect of the role of audit in its impact on administration in various fields than on the details of methods and procedures of work within the Audit Department. We have examined the present scope of audit and its application to new areas and fields in the light of the present-day needs. We have also examined the methods and procedures of audit with a view to suggesting measures to enable audit to play the role not merely of a fault-finding critic but also of a helpful guide with a positive and constructive approach to the maintenance and development of a sound system of financial control within Government organisations. This would require a shift of emphasis from the detection of individual and isolated lapses of a technical nature in themselves to the larger and more vital question of improving the methods and procedures of the system itself so as to prevent their recurrence.

7.2. In Part Two of our Report, we have examined the general system of audit and some of its special features, with particular reference to the statutory position of the Comptroller and Auditor General. We have underlined the need for an early enactment of the legislation envisaged in Article 149 of the Constitution to govern the powers and functions of the Comptroller and Auditor General and have recommended that audit should be extended to certain new fields, such as accounts of non-Government agencies in respect of their contracts with Government concluded through negotiation and not on the basis of open competition. In the next Chapter on Audit and Administration, we have examined the impact on administration of the methods and techniques of audit processes culminating in the presentation of the annual Audit Report by the Comptroller and Auditor General. We have been rather struck by the chronic and distress-

ing feature of an enormous number of audit objections and inspection reports pending with the various ministries and have reasons to believe that the root cause of the trouble lies, on the one hand, in the operation of stringent rules and regulations and on the other, in the absence of an effective system of internal audit within the administrative ministries. The present system seems to impose an excessive burden on audit for routine checking of minor irregularities relating to individual payments through audit of vouchers, etc. and does not enable sufficient attention being given to matters of real importance, such as the efficiency and effectiveness of the organisation and methods of financial control. Every now and then one hears fears being expressed that the system, as it operates, tends to drive administration, with varying degrees of success, to seek conformity with antiquated rules and regulations and to aim at achieving formal rectitude rather than operational success. We have made several suggestions to promote better harmony and develop more fruitful co-operation between audit and administration.

7.3. Chapters X and XI go on to examine, in some detail, the present position of audit in a few specific areas, namely, developmental expenditure, revenue receipts, panchayats and co-operative societies, and the public sector undertakings. We have devoted our closer attention to these areas in view of their intrinsic importance as also of the lively interest that currently exists with regard to their relationship with audit. Here, as elsewhere, the keynote of our approach is the assumption of a more positive role by audit and its orientation to harmonise with the changing patterns of the vast and growing expansion of government activities into new fields in respect of Government's accountability to Parliament not only in the narrow sense of regularity and propriety of expenditure but also in a more comprehensive sense. Part Three of the Report contains a summary of conclusions and recommendations on the role of audit as well as on reforms in accounts.

## CHAPTER VIII

### ORGANISATION AND SCOPE OF AUDIT

8.1. In modern Governments, the enforcement of accountability on the part of the Executive for implementing the budget as authorized by the Legislature is almost universally ensured by the institution of audit or inspection by an agency not directly connected with or interested in the administrative operations of the Government. A report or review by this agency is normally placed before the Legislature for its information and appraisal. Thus, in the United Kingdom, the Comptroller and Auditor General has been functioning for a little over hundred years since the creation of this post under the Exchequer and Audit Department Act, 1866. He is an officer independent of the executive with full powers to audit and examine the accounts for the discharge of his statutory duties and to report on his findings. In the U.S.A., the corresponding office of the Comptroller General, in its present form, came into existence more recently, after the Budget and Accounting Act, 1921 which placed him at the head of the General Accounting Office as an agency of the Congress to check and report on the financial management of the Government. In India, the institution of the Comptroller and Auditor General, with a history of over hundred years behind it, assumed some of its typical characteristics only after the Government of India Act, 1919 when the post of Auditor General received statutory recognition for the first time. The Government of India Act, 1935 further emphasised its independent and elevated position. The Constitution of 1950 bestows upon the Comptroller and Auditor General a status which is, in some ways, unique in comparison with the position of corresponding dignitaries in other countries. He is now, along with the judges of the Supreme Court, an officer of the Constitution and not, as in the U.S.A. or the U.K.; the creation of an Act of the Legislature. Further, he holds equal jurisdiction over the Governments of the Union and the States, in contrast with the position in other federal constitutions where the states normally have their own Auditor General.

#### *Duties and powers of Comptroller and Auditor General*

8.2. The duties and powers of the Comptroller and Auditor General have been defined in Article 149 of the Constitution as follows:

#### *Article 149*

The Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the 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 Parliament and, until provision 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.

The provision for the audit report is contained in Article 151 in the following terms:

*Article 151*

- (1) The reports of the Comptroller and Auditor General of India relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament.
- (2) The reports of the Comptroller and Auditor General of India relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State.

8.3. The legislation envisaged in Article 149 relating to the duties and powers of the Comptroller and Auditor General has not yet been enacted by Parliament with the result that Government of India (Audit & Accounts) Order, 1936, as adapted, continues to govern these duties and powers. Under Para 13 of the said Order, it is the duty of the Comptroller and Auditor General to audit all expenditure from the revenues of the Union and State Governments, other financial transactions of Government such as those relating to debt, deposits and advances, and all commercial accounts required to be maintained by Government departments. With regard to Government expenditure, the Comptroller and Auditor General is required

“...to ascertain whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it.”

Further, the Comptroller and Auditor General may, with the approval of, and shall if so required by, the President or the Governor of any State, audit the receipts of Government and the accounts of stores and stocks maintained by Government.

8.4. It is worth noting that while the jurisdiction and powers of the Supreme Court have been specified in the Constitution itself, the duties and powers of the Comptroller and Auditor General of India have been left to be prescribed by Parliament. The desirability of a comprehensive legislation by Parliament to prescribe the duties and powers of the Comptroller and Auditor General has been stressed, off and on, by various authorities including the Public Accounts Committee. The present

situation is unsatisfactory for several reasons. In the first place, the areas which may be governed by the Comptroller and Auditor General's audit are restricted to those defined in the Audit and Accounts Order, 1936, with the result that certain important Government activities which have been expanding fast in the wake of our Plans for economic development continue to remain outside the statutory jurisdiction of Audit. Also, the compulsion of circumstances has led in some instances, such as the audit of local bodies and non-Government bodies receiving grants-in-aid from Government, to the cumbersome and improvised device of the Comptroller and Auditor General's audit by consent. We are aware that the nature and scope of audit has been undergoing a certain change of emphasis to keep pace with the changing patterns of Government activities; it seems desirable, however, to take formal cognisance of the changed circumstances and make specific and suitable provisions in this regard in an Act of Parliament. We are dealing later in this Chapter with the question of extending the scope of the Comptroller and Auditor General's audit to a few specific areas. We recommend that necessary steps may be taken by Government, as expeditiously as possible, to promote Parliamentary enactment to prescribe the duties and powers of the Comptroller and Auditor General as envisaged in Article 149 of the Constitution.

#### *Annual Reports*

8.5. The Comptroller and Auditor General is required to prepare annually the following annual accounts and reports, for the Union and the State Governments in accordance with the provisions in the Audit and Accounts Order, 1936 read with Article 149 of the Constitution :

- (i) Appropriation Accounts (except in the case of Railways and Defence);
- (ii) Finance Accounts;
- (iii) Audit Report.

The Audit Report on the accounts of the Central Government is presented in separate volumes as indicated below:

- (i) Audit Report (Civil).
- (ii) Audit Report (Civil) on Revenue Receipts.
- (iii) Audit Report (Defence).
- (iv) Audit Report (Railways).
- (v) Audit Report (Posts & Telegraphs).
- (vi) Audit Report (Commercial).

It is necessary that the appropriation accounts and the audit reports thereon should be made available to Parliament as expeditiously as possible after the close of the year to which they relate. It would be a distinct advantage if these reports could be presented to Parliament a few weeks

in advance of the budget debate. Thus the appropriation accounts for the year 1965-66 and the audit reports thereon should ordinarily be presented to Parliament before the end of February, 1967.

8.6. There were some complaints in the past that these reports are presented to Parliament/State Legislatures after long delays. However, in recent years there has been a distinct improvement in the prompt submission of the appropriation accounts and the audit reports with regard to the accounts of the Central Government. With regard to the States, however, the position is, on the whole, unsatisfactory and serious delays have occurred in the presentation of the audit report etc. by some State Governments to their Legislature. It has been suggested to us, that as in the U.K., a statutory provision may be made requiring the Comptroller and Auditor General to submit these annual reports to the Governments of the Union and the States by a prescribed date and similarly require the Government to place them before the Parliament/State Legislature within a prescribed time. It has also been brought to our notice that at present there is often a time-lag of some months in the presentation of finance accounts after the appropriation accounts. It is desirable that the finance accounts should be submitted along with the appropriation accounts and the audit report, especially because the points of interest arising from the finance accounts are also mentioned in the audit report.

8.7. We attach great importance to eliminating all avoidable delays in the preparation and transmission of annual accounts and audit reports to Parliament and the State Legislatures. We are not in favour, however, of prescribing any statutory dates for the submission of the reports either by the Comptroller and Auditor General or by Government to the Legislatures. It should be possible, in our view, to achieve the same objective in a less formal and rigid way. We, therefore, recommend that:

- (i) The dates for the submission of the appropriation accounts, the finance accounts and the audit reports by the Comptroller and Auditor General may be settled between the Comptroller and Auditor General and the Union and State Governments; as the case may be;
- (ii) The finance accounts may be submitted simultaneously with the appropriation accounts and the audit report; and
- (iii) The Central and the State Governments may consider the issue of executive orders for placing the annual reports on the table of the House within a prescribed period after their receipt from the Comptroller and Auditor General. This period may perhaps be limited to a week if the Parliament/State Legislature is in session.

*Administrative Annual Report by the Comptroller and Auditor General*

8.8. There is no arrangement at present for a comprehensive report on the activities of the Comptroller and Auditor General. An administrative review of this type will serve, in our view, a very useful purpose in making both Parliament and the public aware of the organisation and activities of this important organ of public administration headed by the Comptroller and Auditor General. It may be mentioned that the Comptroller General of the United States is required to submit to the Congress, under a provision in the Budget and Accounting Act of 1921, an annual report on the activities of the General Accounting Office. We recommend that the Comptroller and Auditor General of India may submit to the President an annual report on the activities of the Audit Department to be laid before Parliament.

*Loans to non-Government Bodies*

8.9. We will now consider the feasibility of extending the scope of Comptroller and Auditor General's audit to ascertain new areas not already covered by it.

In recent years, the Governments, both at the Centre and the States, have found it necessary to give substantial grants-in-aid and loans, for specified purposes, to various bodies or authorities having separate legal entities. These grants and loans come out of the Consolidated Fund and it seems to us appropriate that the Legislature should have the right to be informed of these amounts having been properly utilised for the intended purposes. The only effective way to meet this requirement is to provide for an independent audit by the Comptroller and Auditor General of these institutions. To a certain extent, this objective is already being met in so far as the accounts of all Government companies and a number of statutory corporations are already being subjected to the Comptroller and Auditor General's audit by virtue of a provision in this regard in the relevant Acts of Parliament. Also, with regard to grants-in-aid to non-Government bodies, there is already an understanding between the Government of India and the Comptroller and Auditor General that grants-in-aid in excess of Rs. one lakh per annum (recurring) and Rs. 5 lakhs (non-recurring) should normally be conditional upon the accounts of the institutions receiving the grants being open for test-check by the Comptroller and Auditor General in his discretion. Similar arrangements with lower monetary limits exist in the State field also. However, the present arrangements leave out of the purview of audit substantial sums invested in, or advanced by Government to, industrial and commercial concerns which neither fall under the category of Government companies nor are such statutory corporations in respect of which a provision for audit by the Comptroller and Auditor General has been made by an Act of Parliament. We consider it necessary that a provision should exist for a discretionary audit, by the Comptroller and Auditor General directly or under



his guidance through professional auditors, of such bodies and authorities as have received substantial investments and/or loans from Government above a limit to be prescribed by Government in consultation with the Comptroller and Auditor General. We, therefore, recommend that a suitable provision in this regard may be made in the Parliamentary enactment envisaged in Article 149 of the Constitution. When loans are involved, the scope of this audit should be restricted only to verifying the utilisation of loans for the prescribed purposes. Pending this enactment, the existing procedure with regard to permissive and discretionary audit by the Comptroller and Auditor General in the case of grant-in-aid may continue.

*Contracts Negotiated without open tenders*

8.10. With the expansion of its activities to new fields, it has often become necessary for Government to enter into deals or arrangements, contractual and otherwise, in which traditional safeguards are not always available. Thus, Government have been called upon to invest large sums in certain concerns or advance substantial loans to them, one of the terms of agreement being that the Government would have the right to purchase a percentage of the products to be manufactured by these concerns at agreed prices. Similarly, situations have arisen in the past—and may conceivably arise in future, in which contracts for supplies and services have to be concluded by Government by negotiation as competitive bidding procedures are either impracticable or inappropriate. In these circumstances, the problem is how to ensure that the contracted prices are fair and reasonable. Normally, the prices in such contracts have to be based on actual or estimated cost of production and the information on cost must, therefore, be sound and realistic to provide a basis for negotiation. The trend towards negotiated contracts with all its problems is not something peculiar to India. In many countries, such as the U.K. and the U.S.A., negotiated contracts for supplies of the value of enormous amounts have come to be accepted as inevitable where new types of services and products have to be procured for Government. A number of cases are known to have occurred in other countries where the negotiated contracts have resulted in fabulous profits being made by the contractors. In the U.S.A., the General Accounting Office has the statutory authority to examine all relevant books, documents and records of any contractor, or any of his sub-contractors, engaged in performing contracts relating to specified fields and negotiated without advertising. Indeed, the audit of negotiated contracts constitutes an important part of the work of the General Accounting Office because of their extensive use and the vast sums involved in them. We recommend that a provision may be made in the proposed legislation envisaged in Article 149 of the Constitution to vest the Comptroller and Auditor General with the right and authority to examine the accounts of contractors and sub-contractors where prices have been settled

without recourse to open competition. This provision may be made applicable only to the contracts of substantial value to be prescribed by Government. As a corollary, it may be necessary to incorporate a permissive clause in the terms of all such contracts.

8.11. In view of the facts and circumstances narrated above, we consider it a matter of great importance and urgency that the power and functions of the Comptroller and Auditor General should be laid down fully and clearly in an Act of Parliament, as envisaged in Article 149 of the Constitution. To reiterate some of the suggestions above, specific provisions should be made in this Act to authorise the Comptroller and Auditor General to audit, subject to suitable limits and conditions, the accounts of non-Government bodies and authorities which have received, from Government, assistance in the shape of substantial investments/loans and grants-in-aid, and of contractors in respect of large contracts settled with Government through direct negotiations and not through open competitive bids.

## CHAPTER IX

### AUDIT AND ADMINISTRATION

9.1. The approach and strategy of Audit have sometimes been subjected, in certain quarters, to rather disparaging comments. Although a certain measure of dissatisfaction with the audit is understandable in view of the probing nature of their duties and functions, it is probably true that much of this criticism springs from lack of proper appreciation of the legitimate role of audit. The variety of complaints range all the way from the audit's pedestrian preoccupation with technical and isolated lapses of minor significance to its paralysing impact on the initiative and judgement of the executive authorities. On their side, audit do not always receive necessary cooperation from the administration in carrying out their normal functions of enquiry and scrutiny. It has been pointed out in this connection that a heavy back-log of audit objections and inspection reports is pending with various ministries for years. Such enormous delays tend to frustrate the very purpose of audit and give rise to a feeling that the administration do not attach due importance to the task of developing a sense of financial discipline within the administrative agencies. It seems necessary and desirable to enquire into the circumstances in which a situation of mutual distrust and apathy has been allowed to develop and jeopardize harmonious relations between the audit and the administration. We propose to attempt here a general analysis of the nature and scope of audit inspections, its methods and techniques with a view to locating areas in which a re-orientation of procedures and attitudes can bring about more purposeful cooperation between audit authorities and Government agencies, and greater efficiency and effectiveness in the operation of financial controls.

#### I. NATURE AND METHODS OF AUDIT

9.2. The nature and concept of audit in relation to Government accounts and activities are not easy to define in comprehensive terms. This type of audit is clearly distinguishable from the professional or commercial audit in that it is not confined to the verification and certification of the financial statements reflecting the activities of the concern or agency under audit. Its scope is much wider and its frontiers are continuously advancing into new areas. Perhaps a good way to describe the nature of Government audit would be to analyse the variety of functions and objectives intended to be served by it at different stages and in different situations. For the sake of convenience, Government audit may be viewed as comprising four stages or categories, all or some of which may be covered in a single process.

- (a) *Appropriation Audit*: This is the primary and traditional function of audit in relation to Government accounts. Its object is

to ascertain whether the moneys spent by Government have been applied to the purposes and within the limits set by the grants and appropriations authorised by Parliament; the expenditure in excess of the provisions is regarded as unauthorised until regularised by Parliament.

- (b) *Regularity Audit*: This is again one of the typical and conventional forms of audit in Government; it is concerned with ensuring that the various rules and regulations, whether prescribed statutorily or administratively, are fully adhered to by Government agencies.
- (c) *Propriety Audit*: This is a function which has been evolving only gradually in recent years; it includes within its scope an examination of the propriety of executive actions even where their legality is not in question. It is generally recognised now that this type of audit which looks beyond the formality of the expenditure to its 'wisdom, faithfulness and economy' is of equal, if not greater, importance.
- (d) *Efficiency Audit*: The extension of audit beyond the scrutiny of individual transactions in search of fraud, waste or extravagance to an examination of the efficiency with which the agency or authority under audit is discharging its financial responsibilities is of very recent origin. Its full significance and varied implications are still in the process of being debated, analysed and defined. This is so not only in India but also in other countries, the crux of the problem being the feasibility of entrusting to an external agency the appraisal of efficiency of Government agencies—a function which can be regarded as their own internal responsibility.

9.3. It may be mentioned that appropriation and regularity audit are the statutory duties of the Comptroller and Auditor General who has been charged with a specific responsibility to examine these two aspects of Government transactions. The other two types of audit concerning propriety and efficiency are more or less discretionary in nature in the sense that it is left largely to the Comptroller and Auditor General to determine whether and to what extent he should extend his audit into these fields. Elsewhere in this report we will be considering, in some detail, the types of problems and issues which are relevant to the concept of efficiency audit of Government agencies. It seems to us important, however, to mention here that it is the operation of the propriety and efficiency audit which raises delicate issues of the relationship of audit with administration and it is in this field that the operations of audit are specially prone to react adversely on the performance of the executive. We consider this aspect of crucial importance in relation to the audit of public undertakings on account of the apprehension that a rigid and stereotyped scrutiny of contracts for supplies and services is likely to have a dampening effect on

the initiative and enterprise of these undertakings. We have, therefore, suggested in a later chapter that every endeavour should be made by audit to discuss with the administrative authorities and settle finally in consultation with them the various types of objections and irregularities arising from scrutiny of contracts for works, supplies and services executed by public undertakings.

9.4. The two broad techniques employed by audit are usually categorised as the 'Central Audit' and 'Local Audit and Inspection'. The Central Audit is conducted in the audit offices with reference to the multitude of vouchers and statements received from the treasuries or from certain departmental accounting officers. The initial checking in the audit offices is done by upper division clerks who constitute the lowest level of auditors. The objections noted by them are recorded in a register and communicated to the drawing and disbursing officers either by the S.A.S. accountant who directly supervises this work or by the next higher officer in the hierarchy, namely, an assistant accounts officer. By far the more significant part of the audit operations relates to local audit and inspection conducted in the offices of Government agencies and most of the objections which eventually materialise into draft paras for the audit report are raised in the course of local inspections. The general procedure for the processing of objections is similar in the two cases, with the notable difference that in the local audit a large number of routine objections are settled through personal discussion and a lot of correspondence which generally ensues in pursuance of objections arising from Central Audit, is eliminated in this way. In view of the more important nature of the audit queries raised in the course of inspection reports, only senior officers of the rank of deputy accountant general and above usually correspond with the administrative authorities on these matters.

## 2. AUDIT OBJECTIONS

9.5. A striking illustration of the lack of proper coordination between audit and Administration is provided by the heavy arrears of audit objections and inspection reports pending with various ministries. The problem has assumed such magnitude that a separate chapter is now being included in the annual audit report to deal exclusively with the outstanding objections. It may be observed from the data provided in the Audit Report (Civil), 1967, that at the end of the financial year 1965-66, 67,000 objections relating to the transactions of an aggregate value of nearly 63 crores of rupees were outstanding against the central ministries, excluding the Railways, Defence and the Posts and Telegraphs Departments. Out of these, over 16,000 had been raised prior to April, 1963. In addition, about 30,000 items (some of them dating back to 15 years and more) are outstanding in the inspection reports of the central (civil) ministries. It is out of these audit objections that the annual audit report of the Comptroller and

Auditor General emerges after a selective process. The procedures for raising and settling these objections are of vital importance in setting the tone for mutual attitudes and relations between the audit and the administration.

9.6. We understand that the Public Accounts Committee, the Ministry of Finance, administrative ministries and the audit department have all been equally concerned at the heavy and growing burden of outstanding audit objections. The measures that have so far been adopted to reduce the backlog has been directed towards concentrating responsibility in specified officials, suggesting formal procedures for periodical review of the progress in eliminating or reducing pending objections, prescribing the preparation of six-monthly lists of outstanding objections and the maintenance of control registers and, in the last resort, periodical discussions between the Finance Ministry, the administrative ministries and the audit. In some ministries notable progress has been achieved in reducing the pendency through the efforts of special ad-hoc committees which have included the representatives of audit. Despite all these measures, we regret to note that the progress towards a positive solution of this vexed and long-standing problem cannot be considered satisfactory. Apparently, more radical steps need to be taken by the audit and the administration in a cooperative endeavour to improve the situation which seems something peculiar to India as in other countries such as the U.K. and the U.S.A. the audit reports do not make any mention of pending audit objections, and it may, therefore, be presumed that this type of problem does not exist there in the same acute form.

9.7. We have carefully considered this problem of ever-mounting arrears of audit objections. The following are some of the suggestions which, in our opinion, would be helpful in arresting and, in the course of time, reversing the present trend.

(a) *Decentralisation of Audit*

A large number of objections are raised in central audit on technical points such as missing documents and vouchers, routine confirmation of particulars such as the purpose of journeys undertaken in connection with travelling allowance bills and other similar matters. The conduct of audit operations at a few central points requires the transmission of a vast volume of documents and vouchers from the administrative offices and the treasuries to the audit offices. The flow of paper work gets further swollen by the numerous queries raised by the audit and the replies from the administrative agencies. It seems to us that it will be advantageous if audit can be conducted, to the maximum extent possible, at the site of operation in the administrative agencies instead of being concentrated at distant points in the audit offices. This arrangement will not only save a lot of paper work but also facilitate the settlement of a large number of objections on the spot and prevent their running into arrears. In this connection, our attention has been drawn to the remarkable results achieved in the U.S.A. after

a shift from the 'desk audit' to 'site audit' authorised by the Budget and Accounting Procedures Act, 1950. Under this approach, financial documents and vouchers are retained by the executive agencies and the audit is performed by the General Accounting Office personnel on the site; the amount of detailed examination in this process is dependent upon the adequacy of the internal systems of control and the importance of the deficiencies noticed during audit. This improved system has been gradually extended to all Federal agencies in the U.S.A. and is reported to have resulted in more effective audit, speedier follow-up action, and enormous savings in paper-work. We consider it desirable that the Ministry of Finance, in cooperation with the Comptroller and Auditor General, should initiate special studies to determine suitable areas and categories of transaction which may be reviewed by the audit at the site of the administrative officers and agencies. An early beginning may be made in respect of such items of expenditure as contingent charges, which obviously seem to be amenable to decentralized audit, and the new procedure may be progressively extended to other areas which may be considered suitable for this purpose.

(b) *Enhanced Delegation of Powers*

Certain powers have been delegated by the Union Government and the State Governments to audit officers of various ranks to forego recovery of irregular expenditure and also to write off irrecoverable expenditure under objection. These powers have been recently reviewed and enhanced, but even now they are much too meagre as will be seen from the following table relating to transactions of the Union Government:—

*Ceilings for powers to forego recovery by Audit officers*

	Absolute powers	Conditional* Powers
	Rs.	Rs.
Accountant General/Controller of Accounts in Bihar and Kerala .. .. .	100	200†
Sr. Dy. Acctt. General .. .. .	75	150†
Dy. Acctt. General .. .. .	50	100†
Other Gazetted Officers .. .. .	10	10+25

\*These powers can be exercised only in respect of non-recurrent items where objections are based on the insufficiency of the sanction or the proof of payment.

†These limits apply also to powers to write off irrecoverable expenditure.

It will be observed that no powers have been given to non-gazetted officers e.g. S.A.S. accountants and upper division clerks, who are primarily concerned with the detection of irregularities and raising of objections. Thus the auditors who initiate the process have no discretion at all to overlook an objection, even if it relates only to a petty amount or merely a technical deficiency. We recommend that a review may be undertaken by the Ministry of Finance, in consultation with the Comptroller and Auditor General, with a view to examining and enhancing the powers delegated to audit officers, at various levels, of waiving the recovery of irregular expendi-

ture. The desirability of delegating certain powers of waiving audit objections of a technical nature, irrespective of their monetary value, may also be considered.

(c) *Classification of objections*

9.8. At present, all outstanding audit objections, regardless of their nature and importance, are intimated to the concerned ministries in a single half-yearly statement. In our view, it will assist in a quicker disposal of objections and the promotion of better understanding between audit and administration if before presentation to the ministries, the lists of objections are analysed and classified in separate categories to indicate the nature and importance of the entries. We suggest the following pattern of classification for this purpose :

- (a) Important objections which either involve large sums of money or arise from faulty procedures likely to give rise to recurrent lapses.
- (b) *Intractable objections which arise from factors beyond the control of administrative agencies:* Here would be included, for instance, items which are pending for want of agreement with foreign governments.
- (c) *Substantive objections regarding financial irregularities:* This category would include instances of non-recovery of over-payments, advances pending recovery and items in which sanctions to write off losses etc. are not available.
- (d) *Technical objections which merely need regularisation by the competent authority and do not involve any recovery:* Instances of this type are want of sanction to estimates, excess over sanctioned estimates, want of detailed contingent bills etc., want of agreements, and want of stamped acknowledgements.
- (e) *Other objections:* We would also recommend that to facilitate necessary action being taken promptly, the agency or authority on whose part action is required, may be specified against each objection. In this way, it will be possible to know at a glance whether action to settle the pending objections is required to be taken by the Ministry of Finance, the administrative ministry, the heads of departments, the controlling officers or the drawing and disbursing officers.
- (d) *Overlapping Objections:* At present the objections are raised with reference to the nature of a lapse and not the transaction as a whole. In other words, a number of objections can be raised in respect of different deficiencies relating to a single transaction with the result that the monetary value of objections comes to be exaggerated and the process of settling the various objections relating to a single transaction suffers from lack of coordination. It is suggested that the current procedures may be revised to



eliminate the multiplying effect of overlapping audit objections relating to a single transaction and facilitate their examination and settlement.

- (e) *Internal Audit*: The large number of audit objections being raised from year to year seems to indicate that there is insufficient understanding, and laxity in application, of the various rules and regulations within the executive agencies. We have stressed elsewhere in our report the imperative necessity of strengthening the internal financial controls of executive agencies and towards this end, have recommended the installation of an effective system of internal audit. We would reiterate this recommendation here and add that it should be one of the primary functions of internal audit to tone up the financial management of executive agencies with a view to eliminating such irregularities as are likely to give rise to audit objections.
- (f) *Training*: There is no doubt that the number of audit objections can be substantially reduced if the executive officers at various levels and, particularly, the drawing and disbursing officers possess a thorough knowledge and understanding of the financial rules and regulations pertinent to their job. We recommend that suitable training facilities in financial administration may be provided for executive officers at various levels and check-lists of important points with regard to various types of transactions may be prepared and distributed among the officers and staff. Simultaneously, laxity in following prescribed rules and regulations should be viewed with pronounced disfavour so as to attract suitable disciplinary action.
- (g) *Modification of Rules and Regulations*: It has been suggested that a number of rules and regulations, both financial and administrative, are outmoded and out of step with the type of responsibilities which the executive agencies are being called upon to assume now-a-days. The audit department has been mainly concerned with the detection of deviation from the prescribed rules and regulations and not with an appraisal of these rules with a view to suggesting suitable changes to bring them in line with the present-day needs. We would suggest that the rules and regulations, particularly those which give rise to recurrent audit objections, may be subjected to a thorough review in a joint and continuing programme of reform to be undertaken by the audit and the administrative ministries. It seems axiomatic that the aim should be to devise ways and means to prevent the recurrence of irregularities and not merely to take recourse to *ad hoc* measures to grapple with the mounting arrears of audit objections. We consider it desirable that whenever *ad hoc* committees are set up to deal with the clearance of

outstanding objections, they may be specially asked to suggest measures for preventing the recurrence of audit objections in future.

### 3. PERSPECTIVES OF AUDIT

9.9. We have stated earlier that apart from the specific and statutory duties of the Comptroller and Auditor General with regard to the appropriation and regularity types of audit, a wider concept of his responsibilities has taken him along new avenues of examining and reporting upon the broader aspects of economy and efficiency in public administration. Although this discretionary role of the Comptroller and Auditor General is yet in the early stages of evolution, it constitutes perhaps the most important element of his duties and functions. We consider it desirable that this new element in the Comptroller and Auditor General's role should be further developed and expanded. It is necessary for this purpose that there should exist between the audit and the administration an atmosphere of harmony and cooperation based upon a clear recognition and appreciation of their respective roles which are, in several ways, complementary to each other.

9.10. It has been pointed out to us that, as a rule, the zeal of audit is directed so pointedly towards the detection of lapses and irregularities that they are apt to view and present individual errors and omissions without taking note of the surrounding circumstances in which the relevant decisions had been taken by the executive authorities. Thus, audit have been commonly accused of judging matters more by the exercise of hindsight than by an adequate appreciation of the conditions and environments which governed the situation at the crucial time. Also, the objectives and achievements of schemes as a whole are, it is complained, often disregarded while the searchlight is relentlessly focussed on isolated instances of irregularities. It has been further urged before us that, typically, the audit have assumed their role to be that of throwing brick-bats and not of offering bouquets. We are unable to find any compelling reasons to support this restrictive view of the functions of audit. It is of interest to note in this connection that in the U.S.A., the Comptroller General often comments on even those cases where either no irregularity or deficiency has been noticed by audit or commendable standards of efficiency have been found to exist. We would commend this practice to the Comptroller and Auditor General in India and suggest, in particular, that instances of waste, extravagance or other irregularities occurring in the audit report should be presented in the background of all the relevant circumstances of the case including wherever appropriate, the aims and objectives of the related activities.

9.11. There are some instances in which losses are suffered and subsidies are given by the Government as a matter of deliberate policy to further certain objectives of social and economic development. It is desirable that in such cases the losses attributable to administrative shortcomings may be

distinguished from those which are inevitable in the circumstances of the case. To illustrate, the bulk of the loss arising from trading in foodgrains may mainly be the result of a deliberate policy to subsidise the sale of foodgrains and is distinguishable from the loss resulting from administrative lapses. It is desirable that in the case of this type appearing in the audit report, full details of the inevitable losses should also be furnished in the report, so as not to cast an unfair and undeserved reflection on administrative performance.

#### 4. AUDIT IN AID OF ADMINISTRATION

9.12. It is partly because of historical tradition that in India the audits have remained rather aloof from the administration and have come to be associated with fault-finding as an end in itself. On their side, the administrative authorities have been prone to regard audit as a nuisance, if not a veritable impediment. They have not always been willing to respond to, even helpful suggestions of audit to improve the methods and standards of financial management. We feel that too much stress has been laid in the past on the objectivity and independence of audit with the unfortunate result that the attention of audit has not been directed sufficiently towards playing a more positive and constructive role lest this should be construed as unwarranted intrusion into the field of administrative responsibility. We have suggested elsewhere in this Report that certain types of irregularities coming to the notice of audit should be settled, to the utmost extent, in consultation with the administrative ministries and should not be included in the audit report. We feel that this principle should be given a wider and more extensive application and recommend that, as far as possible, cases in which administration have taken remedial and prevent measures to the satisfaction of audit may not be included in the audit report. It is not our intention, however, to fetter or circumscribe the discretion of the Comptroller and Auditor General in regard to the matters to be mentioned in the audit report.

9.13. It is a significant corollary of the extension of audit to an assessment of the efficiency of Government agencies that audit should use their strategic position to locate shortcomings and complexities in the system of financial control and management and commend to Government suitable steps to make it simpler and more effective. This might seem somewhat of an innovation in India but in other countries, notably, in the U.S.A., France and Germany, it is one of the important functions of audit authorities to make positive suggestions for improving the efficiency and effectiveness of Government agencies. It may be mentioned that in the U.S.A. the Comptroller General gives considerable assistance to the administrative agencies for improvement of their financial management, and a number of reports are addressed by him only to the various administrative agencies and not to the Congress. It is recognised that the Comptroller and Auditor General in

India has no constitutional responsibility for sending reports exclusively, to the administrative agencies, departments and ministries or suggest to them measures for improving their financial management. However, we do not think, he is under any legal or constitutional constraint not to adopt this practice. We, therefore, recommend that the Comptroller and Auditor General may take a more positive interest in detecting and eradicating weaknesses in the system of financial control and management employed within Government agencies and send periodical reports and recommendations to the Government in this regard as and when necessary.

## CHAPTER X

### AUDIT OF SPECIAL AREAS AND AGENCIES

#### 1. AUDIT OF DEVELOPMENTAL EXPENDITURE

10.1. The size and complexity of Government expenditure and the purposes for which it is being incurred have been undergoing radical changes since 1947. The implementation of the Five Year Plans has necessitated the expansion of Government activities into a variety of programmes and projects designed to promote the economic and social development of the country. All these development programmes and welfare activities are being undertaken by the Government not only directly but also through new agencies, such as Government companies and statutory corporations. As audit is the principal agency for ensuring the accountability of Government to the Legislature in respect of public expenditure, the need has arisen for a fresh reorientation of the audit processes and techniques to facilitate a purposeful review of the enormous expenditure being incurred by the Government on new projects of economic and social development. The traditional and conventional audit checks against regularity and propriety serve an essential purpose and would, no doubt, continue to be employed by audit. However, it is widely recognised that an assessment of efficiency, economy and effectiveness with which large sums of money are being spent by Government in developmental programmes is of equal, if not greater, importance. This would ensure the accountability of Government in a more comprehensive and meaningful manner.

10.2. The importance and implications of the audit of the efficiency of Government undertakings have received recognition only after the second World War. The line of demarcation between the respective responsibilities of the audit and the administration in this field has not yet been clearly established. We have not had the opportunity of direct access to authentic documents and other sources of detailed information about the nature and extent of audit operations in this field in other countries. Such materials as we have been able to procure have enabled us to observe that the practice seems to vary from country to country. In the U.S.A., the General Accounting Office attaches great importance to an examination of the effectiveness, efficiency and economy with which programmes and activities are being conducted in Government agencies. The result is a comprehensive type of audit in which the audit are expected to investigate all the relevant facts and make recommendations for effective and efficient operations of Government agencies, including changes in organisations and methods, where necessary. In France, there is an official body, called the Central Committee of Enquiry into the Cost and Efficiency of the Public Services which functions under the chairmanship of the Premier President of the Cour des

Comptes thus establishing a close link between the two organisations. In the Federal Republic of Germany, a single independent functionary, namely, the Federal Commissioner for Efficiency in the Administration combines in himself three inter-connected roles as the chief auditor of government expenditure, commissioner of administrative efficiency and supervisor of personnel management for the federal civil services. However, the association of audit with the assessment of efficiency has not taken root in the United Kingdom where the general trend of thinking is that this would involve audit in administrative responsibilities and even impair the objectivity and independence of its role.

10.3. We have been informed that the Comptroller and Auditor General of India has recently initiated steps to develop necessary techniques for the efficiency audit of various activities of Government of which developmental programmes form an important part. The general aim is to scrutinise expenditure incurred on important programmes and projects with a view to ascertaining whether they have been executed economically and their operations are producing the results expected of them. The following are some of the typical questions which interest audit in this connection:

- Whether technical estimates, detailed programmes and cost schedules have been prepared and, if so, whether there are any deviations from the initial estimates,  
Whether there have been any serious delays due to unsound planning, lack of coordination and inefficient handling of work which have resulted in increase of cost, loss of revenue or adverse repercussions on connected schemes,
- Whether there has been any wasteful expenditure or substantial loss,  
Whether there has been any waste or loss as a result of the facilities, on which expenditure has been incurred, proving unnecessary or remaining unutilised.  
Whether the cost and performance compare well with the results of similar schemes elsewhere in the public sector.
- Whether physical targets have been achieved within the anticipated time, the returns as anticipated are actually accruing and the over-all purposes and objectives of the scheme have been fulfilled.

10.4. We understand that the new technique of efficiency-cum-performance audit has already been employed by audit to a few developmental schemes and projects of the Central as well as State Governments. We consider it desirable that the Comptroller and Auditor General should take all necessary steps to strengthen and develop necessary competence and expertise for efficiency-cum-performance audit to cover, progressively, a larger number of important schemes and projects. It will be useful if audit operations are made applicable not only to schemes which have already been completed but also to current schemes so as to locate possible deficiencies which can be rectified in time.

10.5. We have been informed that the accounting records and performance data maintained within the executive agencies are often so incomplete and uncoordinated that considerable difficulty is experienced by audit in carrying out efficiency-cum-performance studies in the absence of ready access to the relevant statistics. We think it should be one of the important functions of audit to examine the adequacy of the accounting organisation and procedures within the executive agencies and suggest suitable measures for improvement and reform wherever necessary. We have already indicated in Part One of our report the necessity of establishing well-equipped accounting cells within the major executive agencies and have emphasized, further, the importance of financial reviews of important projects and schemes being undertaken by the executive agencies themselves. We understand that in one of the States, it is a standard practice for the executive agencies to submit financial reports to the Government as well as to the audit in respect of all Plan schemes costing over Rs. 10 lakhs. We consider it important that all the Government departments and agencies should be required and equipped to conduct reviews for appraisal of all their major plans and programmes on a regular and current basis. We would like to reiterate that the Comptroller and Auditor General's audit should be regarded as complementary to and not as a substitute for internal controls within the executing agencies; indeed, the utility and quality of audit reviews would be greatly enhanced by the existence of systematic arrangements within the executive agencies to evaluate the progress and performance of its projects from time to time.

## 2. AUDIT OF REVENUE RECEIPTS

10.6. As we have stated in Chapter VIII, the audit of revenue receipts can be undertaken by the Comptroller and Auditor General only with the approval, or at the instance, of the Government. Although the audit of customs receipts is being conducted since the 1st May, 1924, it is only recently that the scope of audit has been extended to cover the receipts from some other taxes. The tax receipts which are at present subject to audit are the following:

### *Union Government\**

Customs receipts

Income-Tax receipts

Central Excise Duties

Sales Tax receipts of the Delhi Administration

### *State Governments*

Sales Tax Receipts (except in West Bengal)

Motor Vehicle Tax in Orissa only

State Excise Duty in Madhya Pradesh only.

---

\*In May 1967 approval of the President has been given to the extension of audit to estate duty, wealth tax and gift tax.

Receipts in respect of mines of the Department of Mines and Geology in Bihar only.

Electricity duty and receipts from consolidation of holdings, in U.P. only.

10.7. It is a common practice in many countries to provide for the statutory audit of all receipts of Government without making it conditional upon the consent or approval of executive authorities.

In the U.K., it is the statutory obligation of the Comptroller and Auditor General to audit all the receipts of government and he does not have to obtain the approval of government before any receipts are taken up by him for audit. The extent and nature of this audit is similar to that of revenue audit in India. In both countries the Comptroller and Auditor General has not only to ascertain that adequate rules and regulations have been framed to secure an effective check on the assessment, collection and allocation of revenue but also to see that such regulations are being duly followed in practice. He is further entitled to conduct such examination as he may consider necessary to test the correctness of the sums brought to account in respect of revenue receipts. For this purpose, he possesses the right of free access to the books of accounts and other documents. Similar provisions and procedures are understood to have been adopted in Canada, Ceylon and some other Commonwealth countries. In the U.S.A. also, the Comptroller General is required to investigate all matters relating to federal receipts under a statutory provision in this regard in Section 312 of the Budget and Accounting Act, 1921. While reporting on these investigations, he is also required to make recommendations concerning the legislation which, in his opinion, might be necessary to facilitate the prompt and accurate rendition and settlement of accounts and concerning such other matters relating to the receipts, as he may consider relevant. He, too, has free access to all files, books of accounts and other documents to enable him to discharge these obligations.

10.8. We are of the view that all revenue receipts of the Central Government as well as of the State Governments should be subjected to audit by the Comptroller and Auditor General. A decision has recently been taken by the Government of India to extend the scope of audit to wealth tax, gift tax and estate duty. We have recommended earlier that an Act to prescribe the duties and powers of the Comptroller and Auditor General, as envisaged in Article 149 of the Constitution, may be passed by Parliament as early as may be deemed feasible. We suggest that a specific provision may be made in the proposed enactment for audit of all revenue receipts of the Union Government as well as of the State Governments by the Comptroller and Auditor General.

#### *Nature and Purpose of Audit*

10.9. The objectives of the audit of receipts as agreed to between the Comptroller and Auditor General and the Central Govt. are to examine:

- (a) that adequate regulations and procedures have been framed by



Government to secure an effective check on assessment, collection and proper allocation of taxes and duties;

- (b) that the regulations and procedures are actually being carried out by the authorities concerned with a reasonable degree of efficiency in accordance with the law framed by Parliament or the Legislature imposing, the levy; and
- (c) that adequate safeguards exist against fraud in the matter of collection of revenue and payment of refunds.

For this purpose, cases of assessment are test-checked by the Comptroller and Auditor General and the results of his examination of these cases are communicated to Parliament/the Legislature through the audit reports.

10.10. There is a feeling in certain quarters that in the course of performing the audit of income-tax receipts, there is a tendency on the part of audit personnel to comment on assessments in such a manner as to fetter the judicious exercise of discretion vested statutorily with the income-tax authorities. It has also been alleged sometimes that the audit authorities go to the extent of issuing directions to the income-tax officer to make assessments in a particular manner. We have been informed that the audit are not in a position to issue any directions to the I.T.O.\* as to how or in what manner an assessment should be done. The audit are not, in fact, concerned with the pending assessments at all; they are concerned only with pointing out if, in their view, any mistakes have occurred in the assessments that have already been completed. It is for the I.T.O. to set matters right by adopting such legal course as may be open to him. If the I.T.O. rectifies the assessment, audit includes it in the audit Report under the head "Cases Rectified or being rectified by the Department of Revenue". Where it is not possible to rectify the mistake because of any statutory limitations, the cases are separately reported as cases where rectification is not possible. Where the I.T.O. does not agree with the view taken by the audit, it is open to audit to take up the matter with the higher authorities, namely the commissioner of income tax or the Central Board of Direct Taxes, requesting for further consideration of the issue in consultation, if necessary, with their legal advisers. At no stage are any directions issued to Revenue Authorities; only the bare facts are stated with the conclusions drawn by audit. If the Board or the commissioner of Income tax accept audit's view, it is left to them to issue the necessary directions to get the matter rectified in accordance with the statute. If the Board does not accept the audit's view and the audit still feel that their views require to be brought to the notice of the Public Accounts Committee, the matter is included in the audit report, setting out the respective points of view of the audit and the Government.

10.11. It has frequently been urged that the operation of revenue audit has led to the rather undesirable consequence of generating a certain

---

\*Income Tax Officer.

sense of fear amongst officers of the Income-Tax Department who, it is said, are becoming increasingly hesitant in using their discretionary powers in favour of the assessee even in deserving cases. It has also been pointed out that considerable friction exists between the audit and the revenue department in certain areas. We have carefully examined the merits of this contention and have referred, in this connection, to the nature of the comments which appear in the Audit Reports (Revenue). We have also consulted some knowledgeable persons in this regard. In conclusion, we find it hard to understand why audit activities, in themselves, should have a deleterious effect on the initiative and judiciousness of fairly senior officers of the revenue department. It is possible, and indeed likely, that much of the dissatisfaction with the working of audit arises really from the nature and severity of the follow-up action taken by the administrative authorities themselves. It is understood that till recently, it was the usual practice in the Income-Tax Department to call for explanations of the officers concerned with regard to all kinds of errors, major and minor, which had been detected by the audit authorities. Throughout this process, attention was focused mainly on the facts and features of the individual acts of omission and commission, isolated from the surrounding circumstances or the overall performance of which the impugned items may form sometimes only a small part. The mere fact that formal explanations were required to be furnished in respect of each error detected by the audit was sufficient to give rise to a feeling of frustration in the minds of the officers concerned. It has been brought to our notice that the departmental practice with regard to the follow-up action on mistakes reported by the audit has been reviewed recently and the revised procedures contemplate the exercise of discretion and judgement in calling for explanations for the various types of mistakes pointed by the audit. We believe that this is a prudent departure from the past procedures and express the hope that the improved procedures will go a long way in reassuring the revenue officials that *bona fide* mistakes and errors of judgement on their part will not be viewed with undue severity, in isolation from the background of their general performance.

10.12. Another source of friction between the audit and the revenue department is the occasional divergence of opinion between two agencies with regard to the interpretation of the statute and other rules and regulations. There is a point of view that nothing should be done to corrode the responsibility of the administrative officers with regard to interpretations of the statute. On the other hand, it is generally recognised that it is one of the responsibilities of audit to examine whether the legal provisions are properly complied with and all legitimate dues are realised by Government. We have been informed that, as a rule, the mistakes pointed out by revenue audit are based on the interpretations of law enunciated by the various High Courts and the Supreme Court. It is also well understood that the audit department should not, in any way, substitute itself for the revenue

authorities in the performance of their statutory duties. However, cases do sometimes arise in which the audit wish to be satisfied that the plain meaning of the statute, as seen by them, has been followed in cases where authoritative judicial guidance is not available. It is in such cases that difficulties arise in reaching agreement on the disputed points. It is desirable that doubts and differences in such cases should be resolved through consultations between audit and the revenue department in association, if necessary, with the Ministry of Law and in a spirit of understanding and appreciation of their complementary roles in pursuit of common objective.

The large number of mistakes detected by Audit from year to year seem to suggest that certain weaknesses still exist in the systems of internal control and over the processes of assessment and collection. We suggest that Audit should give special attention to the examination of the adequacy of the set-up for internal audit and other regulations and procedures to secure an effective check on proper assessment of various taxes.

### 3. AUDIT OF THE PANCHAYATI RAJ INSTITUTIONS AND CO-OPERATIVE SOCIETIES

#### *Panchayati Raj Institutions*

10.13. Of late, the Panchayati Raj Institutions have assumed great importance in the context of our Five Year Plans. As on the 31st March, 1965, there were 2,12,424 Panchayats, 3,495 Samitis and 250 Parishads. It will be observed from the table below that enormous sums are being spent by Government by way of grants and loans on the establishment and running of these Institutions.

Year							Amount (Rs. in lakhs)	Percentage of the expenditure to the Plan outlay
1961-62	..	..	..	..	..	..	8,389	18.89
1962-63	..	..	..	..	..	..	14,401	27.03
1963-64	..	..	..	..	..	..	17,312	27.37
1964-65	..	..	..	..	..	..	19,405	25.35

(The information for 1965-66 is not yet available).

Besides, getting grants and loans from Government, these institutions are empowered to levy certain taxes and cesses. They also usually have a share in some of the local taxes and cesses realised by the State Governments. According to one study, the grants and loans constitute about 90 per cent. or more of the total income of these institutions.

10.14. Two study teams set-up by the Central Government have already examined and reported upon the various aspects of the budgetary accounting and audit systems of these institutions. A study group on Budgeting and Accounting Procedures of Panchayati Raj Institutions was formed in October, 1962 and its report was published in June, 1963.\* Among the recommendations made by this study group, the important ones relate to the enunciation of common basic principles to be followed in the prepara-

\*It consisted, besides the Chairman, Shri M. Ramakrishnayya, Additional Development Commissioner Government of Orissa, 14 members, being officials of the Planning Commission, the Audit Department, State Governments and the Union Ministries of Finance and Community Development & Cooperation.

tion of budgets and maintenance of accounts, the adoption of uniform proforma for the annual budget, the simplification of reports and returns to be submitted to the Government and the desirability of test checks of the accounts of Panchayati Raj bodies being conducted by the State Accountant General. A Study Team on Audit of Accounts of Panchayati Raj Bodies was set up in June, 1964 by a Resolution, dated the 27th June, 1964 of the Government of India, Ministry of Community Development and Cooperation\*. The report of the study team was submitted to Government in March, 1965. This study team undertook a detailed examination of the actual working of the system of audit of Panchayati Raj institutions and with a view to ensuring soundness and propriety in their financial transactions suggested a number of measures such as the appointment of full-time secretaries for panchayats, the expansion of facilities available in the training institutions, the formation of a separate cadre for the accounts personnel, the fixation of quantum of audit, and the submission of annual accounts to the State Legislature.

It is understood that many of the suggestions made by these expert committees have already been accepted by the Central and State Governments and some others are under examination at various levels. We are in broad agreement with the approach and conclusions of the two Committees, and to avoid repetition, we do not propose to go over the same ground in this Report.

However, we have considered it appropriate to deal here with two important aspects of the audit system which seem to call for special attention.

#### *Multiplicity of Audit*

10.15. The cumulative effect of the various measures which have been taken from time to time to make audit more effective and fruitful has been that the audit arrangements of the Panchayati Raj institutions have become too detailed, over-lapping and burdensome. The accounts of these institutions are at present subjected to the following four audits:

- (a) Internal Audit;
- (b) External Audit, usually carried out by the Examiner of Local Fund Accounts;
- (c) Grants-in-aid audit by the Comptroller and Auditor General (This is subject to certain monetary limits in the different States and is rarely attracted in the audit of Gram Panchayats.)
- (d) Test audit by the Comptroller and Auditor General of the accounts of Samitis and Parishads only including the audit of grants-in-aid.

---

\*The Study Team comprised Shri R. K. Khanna, Additional Deputy Comptroller and Auditor General, as Chairman and two members, Shri J. C. Luther from the Ministry of Finance and Shri K. K. Uppal, from the Ministry of Community Development and Cooperation.

The Study Team set up in 1964 recommended that the main purpose of internal audit should be to educate the accounting staff employed in the institutions and that the fault finding bias of this audit should be discarded. We are in complete accord with these views. In the interest of the growth and proper functioning of these institutions, we are of the view that if the external audit done by the Examiner is adequately strengthened, it might be possible to reduce the incidence of, if not dispense with the need for, the audit required to be conducted by the Comptroller and Auditor General. At present, the Examiner of Local Fund Accounts is a State Govt. officer without adequate seniority and it is doubtful if the audit operations under his leadership can always be conducted with complete independence and requisite objectivity. If the Examiner is given the ranking (and all that goes with it) of a major 'head of department' and the post is held by an officer on deputation, in consultation with the Comptroller and Auditor General, the audit performed by the Examiner's staff would become more adequate and more purposive. When this stage is reached, it may be possible for the Comptroller and Auditor General to utilise the services of the Examiner for the conduct of audit operations on his behalf subject to such directives as he may like to issue to him.

It may be mentioned that the audit of grants-in-aid sanctioned to local bodies is already being done by the Comptroller and Auditor General on the basis of the utilisation certificates furnished to him by the Examiner after auditing the accounts of the local bodies.

To sum up, we would recommend that the post of the Examiner of Local Funds Accounts may be accorded sufficiently high status and may be manned by senior officers taken on deputation from the Indian Audit and Accounts Department. In due course, the Comptroller and Auditor General may consider the desirability of issuing suitable directives to the Examiners with regard to the discharge, on his behalf, of the audit duties entrusted to them.

#### *Submission of Annual Accounts to State Legislatures*

10.16. On the recommendations of the Study Team on Audit of Accounts of Panchayati Raj Bodies (1965), a consolidated finance accounts along with an audit review by the Examiner on the working of the Panchayati Raj institutions is required to be submitted to the State Legislature at the end of each financial year. The consolidated accounts are required to mention the following data, in particular:

- (i) the number of institutions of each type,
- (ii) funds placed at the disposal of these institutions,
- (iii) the number of units which have not finalised their accounts,
- (iv) the number of units for which audit could not be taken up,
- (v) the number and broad category of objections pending settlement, and

- (vi) the efforts directed towards their clearance to enable the Legislature to pronounce on the efficacy of the arrangement and to suggest, if necessary, measures to tone it up.

We feel that the utility of the accounts would be greatly enhanced if some additional information is furnished in these accounts. We would suggest the following supplementary items for being included in the consolidated Finance accounts:

- (a) A detailed review showing (categorywise) the various schemes executed during the financial year, schemes not executed, with reasons for the delays and shortfalls, if any, in achieving the targets set for the different schemes.
- (b) Efforts made for the levy and realisation of taxes and cesses under the respective pieces of legislation, amount of arrears, if any, on this account and the 'age' of such arrears.

With the addition of the above information, consolidated accounts will focus attention more directly on performance in terms of both the financial and the physical targets of the Panchayati Raj institutions and thus stimulate better utilisation of the funds entrusted to them.

#### *Cooperative Societies*

10.17. The development of cooperative societies and institutions as agencies for carrying out a variety of schemes and programmes for economic and social development has been an important objective of our Five Year Plans. As a result, the number of societies of varied types has grown tremendously particularly in the last two decades. Government have been making massive investments for providing share capital loans, subsidies, etc., to these societies. The Draft Fourth Plan provides for an outlay of Rs. 206 crores on various cooperative schemes as against an estimated outlay of Rs. 76.77 crores in the Third Plan. It is imperative that the accounting and audit arrangements of these societies should be so devised and operated that the huge expenditure being incurred on them is duly accounted for to the Legislature and the executive authorities are able to exercise proper control over the expenditure on the execution of various schemes. We have examined the existing audit and accounting arrangements pertaining to the cooperative societies in this context and our views and suggestions in this regard are given below:

#### *Audit by the Registrar, Co-operative Societies*

10.18. The Cooperative Societies Acts in the States generally vest the responsibility for the audit of cooperative societies in the Registrar, Co-operative Societies and the Registrar is assisted by audit staff forming an integral part of the Cooperative Department. In Uttar Pradesh, however, the Registrar is no longer responsible for the audit of cooperative societies and this work has been entrusted to a Chief Audit Officer functioning under the control of the Finance Department.

*Audit of Cooperative Societies*

10.19. By now, a number of committees and authorities have examined the question of prescribing adequate audit arrangements for cooperative societies. The views expressed by these committees are at variance with each other in important aspects. It is generally recognised that objectivity and independence of audit must be guaranteed in any case, but there is a difference of opinion as to the organisational pattern which will be most appropriate to satisfy this requirement. The question whether objectivity and independence are compatible with the location of audit within the Cooperative Department was examined by the Committee on Cooperative Administration constituted by the Government of India in April, 1963 under the Chairmanship of Shri Vaikunth L. Mehta. This Committee came to the conclusion that there would be a danger of objectivity being impaired only if the same persons were entrusted with the task of the supervision as well as the audit of cooperative societies. In their view, such a situation can be easily obviated by creating a separate audit wing within the Cooperative Department and subordinate to the Registrar. The Committee observed that such an arrangement will ensure not only the independence of audit, but also staffing the audit wing by persons with the right background and the requisite experience. Summing up their observations, the Committee remarked as follows:

“While objectivity and independence of Audit are important, the purposefulness of Audit is no less important. All these can be secured by keeping the function of Audit within the purview of the Cooperative Department with the safeguards we have indicated above. The retention of audit with the Registrar has the further advantage that on the basis of audit carried out by persons who have not only the professional competence, but also the requisite orientation, he can keep himself in close touch with the movement.”

10.20. This very issue has been examined, more recently, by the Mirdha Committee which submitted its report in August, 1965. The Committee has made the following recommendations:

“Historically speaking, in the initial stages of the growth of the cooperative movement, combination of audit as well as administration under the Registrar of societies,.....was perhaps unavoidable. But this does not mean that audit should necessarily remain the statutory responsibility of the Registrar for an indefinite period of time,.....the administrative duties of the Registrar as well as promotional role which the Registrar is expected to play would, in our opinion, be considerably handicapped if the Registrar continues to be burdened with the responsibility for auditing these very institutions regarding which he has played an important part in sponsoring and promoting..... In order that there can be an independent scrutiny of financial

activities as well as general trend of working of these societies, it is desirable that their audit should be done by an agency independent of the Registrar..... This agency can be set up somewhat on the lines of the agency for Local Funds already existing in many States and it can be controlled either by the State Finance Department or by the Development Commissioner of the State."

10.21. We have carefully considered the foregoing and other points of view on the question of a suitable audit organisation for the cooperative societies. We are inclined generally to agree with the approach of the Mehta Committee that an audit wing would be the most appropriate organisation for the purpose in view. We consider it necessary, however, that the Audit Wing should be segregated completely from the administrative wing of the Cooperative Department and for this reason, placed under the direct control of either the State Finance Department or the Development Commissioner of the State. We believe that this arrangement would also meet the broader considerations set out by the Mirdha Committee, without dislocating the present set-up for the audit of the cooperative societies in the States and obviating the need for an additional audit agency similar to that of the Examiner, Local Funds. In such a case, the independence and objectivity of audit can be further safeguarded if the audit wing is headed by an officer of a sufficient seniority with the status of a major head of department. It will be an advantage if the officer is taken on the basis of merit and competence, either on deputation from the Audit & Accounts Service or from among the departmental officers with adequate experience in accounting who, we believe, are available to man the posts.

*Audit by the Comptroller and Auditor General*

10.22. At present, the Comptroller and Auditor General reviews the inspection reports on the accounts of cooperative societies prepared by the staff of the Registrar, Cooperative Societies. In addition, he obtains utilisation certificates from the concerned departments in respect of grants and subsidies given to the societies by Government. The test audit of the Cooperative Societies formed under the Indian Companies Act in which the Government hold not less than 51 per cent of the shares is, however, conducted by the Comptroller and Auditor General in addition to the audit done by professional auditors appointed by Government on his advice. The results of these reviews and test audit are reported to Parliament/Legislature, as usual, through the Audit Report (Commercial).

The Audit Report (Commercial) is mostly based on the audit conducted by the staff of the Registrar of Cooperative Societies in respect of cooperative societies not formed under the Indian Companies Act, As Government's assistance to individual cooperative societies in this category in the form of loans and grants is very substantial in a number of cases, it



considered sufficiently thorough in as-much-as the Comptroller and Auditor General does not have access to the relevant accounts and records of the societies. We would recommend that the accounts of cooperative societies (excluding Cooperative Banks) receiving large assistance by way of loan including guaranteed loans, and share capital (say Rs. 5 lakhs) and grant in-aid exceeding Rs. 1 lakh, recurring, and Rs. 5 lakhs, non-recurring, should be audited by the Comptroller and Auditor General in his discretion, in addition to the departmental audit. (It is understood that the additional audit of this type is already being conducted in the States of Maharashtra, Gujarat and Madras). If the post of the chief auditor entrusted with audit of accounts of co-operative societies is manned by an officer on deputation from the Indian Audit and Accounts Department and he functions under the Finance Department or the Development Commissioner of the State, it may be possible for the Comptroller and Auditor General, by issue of suitable directions to him, to transfer his own audit responsibilities to the Chief Auditor of the Co-operative Societies.

*Annual Accounts of Co-operative Societies*

10.23. At present, there are no arrangements in the States for the submission of a comprehensive report or review to the Legislature relating to the accounts of the co-operative societies. We have noted earlier that in respect of Panchayati Raj institutions, a procedure has already been prescribed for a consolidated review of their annual accounts. We have made some suggestions for amplification of the contents of this annual review so as to provide an adequate appraisal of the financial and physical targets of the institutions. We believe that there is equal, if not greater, need for a proper annual review of the financial results of the co-operative societies for the information of the State Legislatures. We, therefore, recommend that as in the case of Panchayati Raj institutions, an annual consolidated statement and review of the accounts of the co-operative societies may be prepared for submission to the State Legislatures.

## CHAPTER XI

### AUDIT OF PUBLIC SECTOR UNDERTAKINGS

11.1. The problems relating to the operation of public sector undertakings are some of the most crucial and complex that are in the forefront of public attention to-day. With the expansion of Government activities into the commercial and industrial fields, it has been found necessary to employ new forms of organisations to equip them with the reasonable degree of autonomy and flexibility in their operations. The growing number and size of Government companies and corporations has also necessitated an examination of the methods and techniques to ensure an effective and efficient utilisation of the large sums invested in them. In this context, the role of audit in relation to public undertakings is one of the most important, and not the least controversial, field for scrutiny and review.

11.2. From the viewpoint of managerial organisation, state enterprises may be said to belong to three categories: departmental undertakings, statutory corporations, and Government companies. Departmental undertakings are directly administered by the Government through the usual hierarchy of civil service headed by a Minister fully answerable to Parliament for the activities and functioning of the organisation. There is no difference, in principle, so far as the scope and organisation of audit are concerned, between departmental undertakings and other activities of Government. The budget and accounts of these undertakings form an integral part of the financial accounts and statements of the Government and the jurisdiction of audit is attracted to them as much as in the case of other Government activities. Some of the departmental undertakings of a commercial nature are required to maintain proforma accounts in addition to the normal appropriation accounts; these are also subjected to audit with a certain change of emphasis to suit the commercial nature of the transactions.

11.3. With regard to the statutory corporations, the provisions regarding audit have been laid down in the relevant statutes and exhibit a varied pattern. There are Corporations such as the Air-India and the Indian Airlines Corporation in respect of which responsibility of audit has been entrusted entirely to the Comptroller and Auditor General. At the other extreme, are those like the Food Corporation of India, for which the audit is done exclusively by the chartered accountants and the Comptroller and Auditor General does not come into the picture at all. In some other corporations, a compromise arrangement has been made under which the normal audit functions are performed by the chartered accountants appointed in consultation with the Comptroller and Auditor-General who has the discretion, and with regard to certain matters also an obligation, to conduct a

supplementary audit. Instances of this type are, the Central Warehousing Corporation and the State Financial Corporations. We are not aware of the special circumstances which necessitate a varied approach to the role of the Comptroller and Auditor General's audit in relation to statutory corporations. We suggest that the association of the Comptroller and Auditor General with the audit of such corporations should be the normal rule which should be dispensed with only in very unusual and compelling circumstances.

11.4. The audit of Government companies registered under the Companies Act is regulated by provisions contained in this behalf in the Companies Act, 1956. The normal audit functions are carried out by the chartered accountants appointed by the Central Government on the advice of the Comptroller and Auditor General, who has also the right to issue directions as to the manner in which they should carry out their functions. The Comptroller and Auditor General has the right to comment upon or supplement the report of the chartered accountants as also to conduct a supplementary or a test audit of the company accounts. The observations of the Comptroller and Auditor General arising out of this supplementary audit are incorporated in the Annual Audit Report (Commercial) submitted by him to Parliament under Article 151 of the Constitution.

*Separation of the Audit Report on Departmental Commercial Undertakings*

11.5. Since 1964, a separate volume embodying the result of audit in regard to commercial undertakings is being prepared by the Comptroller and Auditor General. In the previous years, the result of audit in regard to departmental undertakings as well as Government companies and corporations were included in the Audit Report (Civil) along with the comments on other Government transactions. As the audit report on departmental commercial undertakings has to be examined by the Public Accounts Committee and not by the Committee on Public Undertakings, it seems appropriate to include this portion of the audit report in the Audit Report (Civil). We suggest that the desirability of incorporating audit comments on departmental commercial undertakings in the Audit Report (Civil) and not in the Audit Report (Commercial) may be examined by the Comptroller and Auditor General.

11.6. Of the many criticism which are levelled at the present arrangements for the audit of Government companies, the most important one is the one which questions the very necessity of imposing a super-audit by the Comptroller and Auditor General over the normal and professional audit conducted by the chartered accountants. The essence of the argument is that there is no justification for treating Government companies differently from the private companies engaged in similar commercial and industrial enterprises. We are satisfied that, for several reasons, it is necessary and desirable to associate the Comptroller and Auditor General, as an inde-

pendent authority, with the audit of Government companies. The requirements of audit in the case of Government companies are not the same as those in the case of private companies. The role of the professional auditors is essentially that of verifying and certifying the correctness of the profit and loss account and the balance-sheet, with a view to safeguarding the interests of the individual share-holders against fraud or misappropriations by the management. In the case of Government companies, it is the accountability to Parliament that has to be given paramount importance in view of the large sums of money invested by Government in the share capital or by way of loans. The essence of accountability here is that through an independent audit the Comptroller and Auditor General should ensure that the operations are being conducted with efficiency, effectiveness and economy. This is so because of the absence of the normal incentives to efficiency in Government companies which, in many instances, enjoy a monopolistic position and are not subject to the rigours of the test of profitability. We understand that the experience and practices in many other countries generally support this view. In the U.S.A., there is little difference between the scope and content of the comprehensive audit of the Comptroller General in relation to public undertakings and Government agencies. After the passing of the Government Corporations Control Act, 1945, the financial transactions of Government corporations are audited exclusively by the General Accounting Office under the direction of the Comptroller General. In France, the public undertakings are audited by a separate commission, which is legally distinct from the Audit Court, but in which the majority of the members are taken on deputation from the personnel of the Audit Court. The audit of the Commission is in addition to the normal audit by professional auditors in the case of many public undertakings. The Commission submits a general report to the Parliament, the Prime Minister and the Audit Court. In addition, it submits to the Minister concerned individual reports on selected undertakings containing a thorough review of the efficiency of the management and suggestions for improvements in their organisation and operations. These reports are treated as secret, although members of the Finance Committee of Parliament can obtain copies for their personal information. In Australia, all public undertakings are audited by the Auditor General of Australia. The position is similar in Canada where all the Crown corporations, with a few exceptions, are audited by the Auditor General of Canada. It is only in the United Kingdom that the Comptroller and Auditor General has been excluded from the realm of nationalized industries. This rather exceptional position has been the subject of much debate and controversy. Nevertheless, it is generally recognized that audit by the chartered accountants by itself is not sufficient, and should not be expected, to satisfy the needs of accountability of public undertakings to Parliament. The Parliamentary Committee on Public Undertakings in the United Kingdom has, time and again, expressed the view that unlike the Public Accounts Committee which is assisted by the

Comptroller and Auditor General, it works under a serious handicap without the expert aid of a permanent and independent authority.

11.7. Apart from questioning the logic or necessity of a supplementary audit by the Comptroller and Auditor General, there are other criticisms against the system of the audit of public undertaking which spring from audit methods and procedures and their impact on the operational freedom and efficiency of the undertakings. It has been pointed out to us that the multiplicity of audit often delays the completion of annual accounts and the holding of the annual general meeting of the shareholders. As we have already stated, the supplementary audit by the Comptroller and Auditor General and the professional audit by the chartered accountants are both complementary to each other in that the audit by the chartered accountants is essentially a 'regularity' audit whereas the Comptroller and Auditor General's audit is primarily an efficiency-cum-propriety audit. In the circumstances, both have to co-exist and the attempt should be so to devise and co-ordinate procedures as to avoid unnecessary duplication and delay in the system. We would suggest that the Comptroller and Auditor General's audit and the chartered accountant's audit may be so co-ordinated that the audit staff from both sides can visit the organisation at or about the same time and the annual accounts can be finalized expeditiously and with the minimum strain on the management.

11.8. It has been pointed out to us that considerable delays sometimes occur in the appointment of auditors for Government companies, thus limiting the time available to them for discharging their responsibilities. The existing system seems somewhat cumbersome in that the managing director has first to approach the Company Law Department who have then to seek the advice of the Comptroller and Auditor General. It has been suggested that since Section 224 of the Companies Act is not applicable to Government companies, it will not be necessary to defer the appointment of auditors till after the annual general meeting of the company. We suggest that, in consultation with the Comptroller and Auditor General, the Company Law Department may evolve suitable procedures to see that the auditors of Government companies are appointed by the first or second month of the relevant year.

11.9. It has been pointed to us that some public undertakings have adopted the practice of closing their accounts half-yearly and have, simultaneously, made arrangements for concurrent audit by the chartered accountants. These measures have been found to be useful in expediting the completion of audit and preparation of the annual finance statements. We recommend that the practice of closing accounts half yearly and of concurrent audit by chartered accountants may be adopted, wherever feasible, to facilitate the early completion of annual accounts.

11.10. A common and persistent point of criticism against the present system of audit is its adverse effect on the initiative and enterprise of the

public undertakings. It is generally recognized that the nature of audit of public undertakings has to be different in important respects from the traditional audit of government departments. The very purpose of adopting the form and organisation of a company for carrying on certain type of activities by Government is to enable the undertakings to function with a certain measure of autonomy and flexibility so vital to the efficiency of commercial and industrial undertakings. With the special position of public undertakings, the nature of audit cannot, obviously, be the same as the regularity type of audit of government departments or the formal type of commercial audit of private companies. Indeed, the main justification of the supplementary audit of the Comptroller and Auditor General in the case of government companies is that it is directed primarily towards an examination of major issues bearing on the general efficiency of the undertakings. We understand that there is sufficient recognition of this new type of responsibility within the Indian Audit Department and a specialized wing has been created under the Director of Commercial Audit for developing expertise for undertaking the efficiency-cum-propriety type of audit of industrial and commercial undertakings. It is obvious that the full development of the techniques and skills for undertaking the responsibilities for this new and complex type of audit can be attained only through an evolutionary process. An effective survey of the efficiency of public undertakings engaged in a variety of commercial and industrial enterprises would require a variety of technical and administrative skills which may not be easy to procure within the set-up of a single specialized department. We would like to cite, in this connection, the example of the French Commission on the Verification of the Accounts of Public Enterprises. This Commission is divided into four Sections, specializing respectively in power, in transport and communications, in credit, insurance and information, and finally, in mechanical, chemical and miscellaneous industries. Although the members of the Cour des Comptes occupy a dominant position in the Sections, the rapporteurs who undertake audit on their behalf are recruited from varied channels such as senior civil servants, government technicians, economic experts, engineers and other specialists. These rapporteurs are not on the permanent strength of the Commission and their services are obtained on deputation on a temporary basis. We recommend that the Comptroller and Auditor General may take all steps necessary to develop the requisite degree of competence and expertise within his organisation for the effective conduct of efficiency audit of public undertakings and devise, where necessary, suitable procedures to associate such technical experts, senior administrators and economic experts in this endeavour, as may be considered necessary by him.

11.11. It has sometimes been urged that undue concern is shown by audit in the detection of minor technical and procedural irregularities which are viewed in isolation and not in the background of the overall objectives and achievements of the undertaking. We have already offered

some comments on this aspect in an earlier chapter dealing with the relationship between the audit and the administration. We have been given to understand that as a rule the audit formulate their views only after taking into account the circumstances in which a particular action or decision is taken or not taken by the management. Discussions also take place at various levels before audit comments are finally included in the audit report and every care is taken to present an objective and balanced view of the transactions under question. It has also been argued by the Audit Department that the lack of initiative and enterprise in the public undertakings is to be attributed not to audit criticism as such, but among other things, to the meticulous rules and procedures which have been laid down by the administrative authorities to regulate the activities and operations of the undertakings. It is likely that some of the prescribed rules and procedures are unduly restrictive and a strict adherence to them may, in practice, run counter to the need for speed and flexibility with which public undertakings are expected to function. Consequently, deviations and departures from the prescribed code may sometimes occur and give rise to objections from the audit authorities. We believe that while there is need for a thorough review of the rules and regulations which have been laid down to govern the operations of public undertakings, a liberal and realistic interpretation of these rules may partially remove such discontent as exists with the audit queries and objections about minor irregularities. While it seems inevitable that Audit should be concerned with individual instances of waste and extravagance, we would also recommend that they should also endeavour to assume a more positive role in reviewing the adequacy of the various rules and regulations and suggesting ways and means of improving the organisation and methods of work of the public undertakings.

11.12. It has been pointed to us that an important field in which audit criticism is likely to have the most deleterious effect on the initiative and judgement of the management of public undertakings is the award of contracts for supplies and services. It is of the utmost importance to ensure that the fear of audit criticism does not coerce management into taking audit oriented decisions which, though regular in appearance, may ultimately be unwise in the interests of speed and efficiency of operations. We have given some thought to the difficult problem of devising such procedures as can mitigate the inhibiting effects of the audit criticism without, at the same time, interfering with the freedom and performance of audit. It seems to us that a co-operative attitude between audit and management in settling all objections arising from the award of contracts through mutual discussions will go a long way in meeting the situation. We would suggest that every effort should be made by audit to settle objections arising from the award of contracts for works, supplies and services through discussion with the management of the public undertakings, and if necessary, with the concerned ministry. The aim should be to resolve all disputed points satisfactorily between audit and administration at appropriate levels, so as to

obviate the need of their being included in the audit report of the comptroller and Auditor General. We would suggest that after ascertaining the views of the Comptroller and Auditor General, the administrative ministries and the managements of public undertakings may be made aware of this procedure for consultations with audit for the settlement of objections relating to the award of contracts.



---

---

**PART THREE**  
**CONCLUSIONS**

---

---

**CHAPTER XII**  
**SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS**

**REFORMS IN ACCOUNTS**

*Preface*

1. In defining the scope of our work and our approach to it, we have been guided throughout by the overall aims and objectives of the Administrative Reforms Commission and by an awareness of our primary role which is to assist the Commission in discharging its responsibilities.

Para 5.

*Chapter I*

2. The structure of the accounting system of a Government must satisfy the needs of Parliament, the executive and the administrative ministries, including their subordinate agencies. We have examined the present system with a view to assessing the extent to which it is capable of subserving the above objectives. Our primary concern has been to devise practical measures to ensure that all these objectives can be adequately met by a well-organised accounting system.

Paras 1.2 and 1.3

*Chapter II*

3. The function of keeping accounts is shared by the Comptroller and Auditor General with the treasuries and the administrative departments except in the case of Defence and Railways which have their own accounting organisations. However, he retains full and effective control over the form in which the accounts are to be kept, including those to be kept by agencies other than the Comptroller and Auditor General.

Paras 2.2 and 2.3

4. The pattern of the compilation of Government accounts follows well-defined lines. It originates at the stage of the initial accounts maintained at the treasury and, in certain cases, by the departments themselves. The information flows from a large number of originating points to the various accounts offices where it is classified and consolidated into monthly and progressive figures separately for the Union and State Government merging finally into the annual finance and appropriation accounts.

Para 2.9

5. The general structure of Government accounts and, in particular, the system of classification of transactions are matters of great significance from many view-points. The adequacy and effectiveness of Parliamentary review and control over financial administration are determined substantially by the form and contents of the consolidated and classified financial statements together with the demands for grants, submitted to the Parliament. Similarly, for the purposes of financial control and effective financial

management within the administrative ministries as also for an analysis of Government activities, a meaningful classification of Government accounts is one of the prime requisites.

Para 2.11

6. Traditionally, the major heads of accounts have had a close correspondence with the various ministries and departments of the Government. In recent years this simple framework has not been able to withstand the vast expansion of governmental functions, particularly, in the spheres of social and economic development.

Para 2.14

7. We have referred earlier to the changes in the accounting heads which were introduced in two instalments with effect from 1-4-61 and 1-4-62 respectively, as these changes were, they still left considerable scope for further rationalisation of the accounting structure to bring it in tune with the requirements of the changing pattern and priorities of public expenditure and activities.

Para 2.15

8. One of the important characteristics of the accounting structure in India is its uniformity as between the transactions of the Central and the State Governments.

Para 2.16

### *Chapter III*

9. We do not agree with the view that the responsibility for compiling accounts necessarily affects the objectivity or efficiency of audit. On the other hand, there is some point in the argument that its association with the details of accounts from day to day is of considerable assistance to audit in discharging its main responsibilities. There is no inherent conflict between the compilation of central accounts and the operations of an independent audit and such deficiencies as exist in the present system (for instance, the general inadequacy of internal accounting system) may be attributed to factors other than the combination of the two functions in the agency of the Comptroller and Auditor General.

Para 3.6

10. We do not think there is any inherent conflict or disadvantage in the combination of the function of compilation of accounts with that of audit, nor do we think such deficiencies as exist in the present system can be eliminated or mitigated only through the separation of accounts from audit without substantial changes in the institutional framework such as the treasury system of payments and receipts. We have reached the conclusion, on the other hand, that the present pattern has important advantages, notably, of economy and uniformity.

Para 3.8

11. While we do not see any urgent or compelling need to separate accounts from audit as a matter of general policy, we do recognise that where special circumstances justify, the question of transferring the responsibility

for compilation of accounts to the administrative agency concerned may be examined on merits. Cases of this type are the organisations where the transactions are predominantly of a commercial nature, or where large and frequent transactions with the general public are involved and the payments can be conveniently centralised. Para 3.9

12. It is only in recent years that there has been some recognition in Government of the importance of developing and establishing modern accounting systems within the administrative ministries, but the progress towards implementing this idea has so far been far from impressive. Para 3.10

13. It is possible to envisage a dual but integrated system of accounts in which the appropriation accounts employing a uniform pattern with a minimum of detail will continue to be kept by the Comptroller and Auditor General and subsidiary accounts to assist managerial performance can be organized within the administrative departments in such form and detail as will suit their individual needs. Para 3.11

14. We recommend that necessary steps may be taken in all administrative ministries, and in subordinate organisations to strengthen the system for maintenance of initial accounts (with such checks as may be considered essential) and of related reports, with a view to facilitating proper control over expenditure in relation to Parliamentary grants and appropriations. Para 3.12

15. Judged from these standards, there is a general weakness of the accounting system in India to provide sufficient data for evaluation and control of performance to the administrative departments and agencies. Para 3.13

16. It is obvious that much greater attention needs to be given to the maintenance of commercial accounts on a regular and scientific basis if they are to serve the purposes intended of them. Further, a thorough investigation is necessary to determine and establish suitable methods and procedures to provide more analytical data to serve managerial needs. Para 3.13

17. It will be necessary and desirable to devise accounting and reporting procedures which can produce a regular flow of information at all levels in such a form that physical achievements and their financial costs can be co-related directly without much difficulty. It is obvious that the primary responsibility for such accounting and reporting systems needs should be assumed by the administrative departments themselves and not by an external agency. Also, these accounts should be fully integrated with the appropriation accounts which serve the purpose of control over expenditure in relation to Parliamentary authorisation. Para 3.15

18. As a supplementary to an effective accounts organisation within the administrative departments, the institution of internal audit will also be necessary. An efficient organisation for internal audit will be of great value in relieving statutory audit of the necessity of detailed checks on individual transactions and instead directing its primary focus on the financial system as well as the over all performance of administrative agencies. Para 3.16

19. It is a basic requirement of the drive towards establishing and improving effective accounting systems within the administrative departments that the initiative and leadership for a Government-wide programme should be specifically located and we suggest that the appropriate agency for this purpose would be the Ministry of Finance in association with the Comptroller and Auditor General. We also suggest that within each ministry and such of the subordinate organisations as may need it, separate accounting cells may be set-up under the direction of an officer of appropriate status to ensure the efficient functioning of the existing set-up and initiate studies and investigations to install suitable accounting systems to supplement the main accounts, maintain an internal audit organisation and, generally, to act as liaison with the Ministry of Finance in a common endeavour towards improvement of accounting systems to see that regular reports regarding physical achievements from designated reporting officers are being received. Para 3.17

20. It will be desirable and appropriate that the accounting functions within the ministries are also entrusted to the Internal Financial Adviser with proper assistance at subordinate levels. Para 3.18

21. After examining the matter carefully in all its aspects, we have reached the conclusion that a system of exchequer control over issues from the Consolidated Fund of India is of academic interest and is not practicable in the context of our decentralised accounting and payment procedures. Para 3.26

22. We are of the view that a complete separation of the cash balances of the Consolidated Fund, the Contingency Fund and the Public Account is likely to give rise to several difficulties without much advantage. The present system does not seem to involve any diminution of Parliamentary control over public expenditure. It will be an advantage, however, if the monthly and annual balances of the Consolidated Fund are separately calculated and exhibited in the accounts for general information. Para 3.33

23. We suggest that the Union and State Governments may launch a programme for a systematic and comprehensive maintenance of the records of fixed assets belonging to the Government. It will obviously be necessary

to entrust the responsibility for the consolidation of data to a central agency which may, preferably, be located in the Ministry/Department of Finance.

Para 3.38

#### *Chapter IV*

24. We attach great importance to a thorough and effective reorganisation of the treasuries to improve substantially the base of the accounting structure in India and facilitate a speedy and accurate compilation of accounts at higher levels. Essentially, the measures for reorganisation should begin with proper staffing and training of the personnel at various levels employed at the treasuries.

Paras 4.1 and 4.2

25. A practical way to eliminate the delays involved in the final adjustment of transactions transferred from one account circle to another through exchange or settlement accounts is to introduce, to the extent possible, a system of payments by cash or through bank drafts.

Para 4.9

26. It is not possible to simplify the accounting structure in terms of categories broader than the details presented to Parliament in the demands for grants. It follows that the simplification of the budget and the accounts are inter-dependent issues and both have to be simultaneously reviewed and amended.

Para 4.10

27. The effort for simplification of the structure of central accounts may be directed along two approaches. The degree of detail in the presentation of the budget and the demands for grants may be kept at the broadest level consistent with Parliamentary control, and secondly, all details subsidiary to the primary units of appropriation may be eliminated from the central accounts.

Para 4.12

28. The pattern of primary units of appropriation prescribed by the Ministry of Finance was designed many years ago and provides for minute details with regard to certain items of expenditure. This pattern needs to be reviewed and re-arranged so as to eliminate, to the extent possible, such details as are not essential either for purposes of financial control or for accountability to Parliament.

Para 4.13

29. The budget and the corresponding accounts should contain details only down to the level of primary units of appropriation.

Para 4.14

30. Small schemes i.e. schemes costing less than Rs. one lakh in the case of State schemes and Rs. five lakhs in the case of Central schemes need not contain a detailed break up of their total expenditure.

Para 4.15

31. At present separate sub-heads are provided for in the demands for grants for expenditure in respect of individual schemes. We recommend

that in all such cases the expenditure may be exhibited only under one group-head in the demands for grants and the corresponding accounts. Similarly, there are large number of Plan schemes for which separate sub-heads are being provided in the State budgets. Here, also we recommend that schemes of a similar nature or schemes involving only small financial expenditure may be brought together under suitable sub-heads with a view to reducing the number of existing sub-heads and detailed heads.

Para 4.16

### *Chapter V*

32. It is desirable that classification system should endeavour to direct and focus attention on the major issues involved in the budgetary process. Broadly speaking, the budget accounts should be so compiled as to depict to the extent practicable, the total expenditure of Government on its basic functions, programmes and activities.

Para 5.1

33. At present, heads of accounts only partially reflect the broad functions and purposes of governmental expenditure. A greater degree of functional classification would provide more meaningful information on the broad purposes served by governmental expenditure, irrespective of the organisation making the expenditure.

Para 5.2

34. It is realised that changes in the classification of accounts, if introduced all at once on a wide scale, may upset normal routine and create some confusion in the maintenance and presentation of accounts. This practical aspect will also have to be borne in mind. Nevertheless, it will be useful to make further progress with reorganising the major heads on the lines of a broad functional classification. An opportunity should be taken, simultaneously to establish a rapport between the account heads and the major heads of development adopted for the purpose of the Five Year Plans. This is a major exercise by itself and can, appropriately, be undertaken by the Union Ministry of Finance with the association of the Planning Commission and the Comptroller and Auditor General who, subject to the approval of President, has the primary responsibility for determining the structure of Government accounts.

Para 5.4

35. Pending a thorough review of the structure of major heads, it seems feasible to introduce some minor arrangements within the existing framework with a view to providing more informative and meaningful data in tune with the changing pattern of governmental expenditure. At present the number of demands for which provision is made under Miscellaneous heads is too large and covers activities which can quite legitimately be placed under a separate major head and others which can be classified under some of the existing heads with which they have an obvious affinity. Some of the activities which have assumed importance now do not have a separate major head assigned to them. For instance, the entire expenditure

of the Ministries of Petroleum and Chemicals and Steel, Mines and Minerals is exhibited under major heads which, simultaneously cover a number of different though related activities. The major heads from Nos. 27 to 39 under section—"Social and Development Services" can appropriately be divided into two sections, one dealing with the Social Services and the other with the Economic Services. The number of major heads can be reduced by a merger of some allied major heads. Para 5.5

36. At a point where functional classification is extended to an analysis of the overall and subsidiary objectives and programmes of each ministry or department and suitable yardsticks of performance for these programmes have been devised the concept of functional classification becomes almost synonymous with that of performance budgeting. Para 5.6

37. The concept of performance budgeting does not impose any rigid or inflexible pattern or conditions and the process of conversion of the traditional budget into a performance budget can be initiated within the broad framework of the existing organisational and accounting systems. Para 5.8

38. The first and the foremost requirement for the introduction of performance budgeting in selected areas would be to recast the minor heads to establish a closer link with the specific programmes and activities of the concerned organisation. Para 5.9

39. It seems quite clear that some modification of the structure of accounts is inevitable to pave the way for introduction of performance budgeting. Nevertheless, there are a few important considerations and limitations which have a direct bearing on this question and should, therefore, be given due importance in devising and implementing changes in the accounting structure. In the first place, it is imperative that the proposed modification should conform to the constitutional requirements with regard to presentation of the budget for approval by the Legislature and should, in no way, result, in whittling down legislative control. Secondly, it is to be borne in mind that the heads of accounts are dealt by a vast multitude of officials including lower division clerks in the departmental offices, treasuries and accounts offices and it is essential that these heads are not changed frequently to avoid wide-spread confusion in the classification and compilation of accounts. Thirdly, the reorganisation of minor heads on the lines of performance budgeting should not have the effect of loading the budget accounts with excessive detail. Para 5.12

40. Having regard to the considerations stated above, it is not only desirable but essential that we should proceed cautiously in revamping the accounting structure on the lines of performance budgeting. A beginning



should be made with one or two heads which concern development activities of considerable national importance and where the end-products can lend themselves to physical measurements and a well-organised reporting and accounting system can be established. Para 5.13

41. A decision to introduce performance budgeting in selected areas will need to be followed up not only by an assessment of the accompanying changes in the accounting structure but also by the development of an efficient system of internal reporting and auditing, including the establishment of suitable norms of performance. Para 5.14

### *Chapter VI*

42. We believe that the feasibility of introducing mechanised processes in the compilation of general accounts in the offices of the Accountants General, or even certain limited areas, is a matter of detailed examination by an expert committee. We recommend that a special committee may be constituted for this purpose and the representatives of the Comptroller and Auditor General, Ministry of Finance and other ministries concerned may be associated with it. Para 6.7

43. We believe that an effective way of reducing the delays in the payments to gazetted officers would be to eliminate the need for action by three separate agencies and the sanction of the concerned administrative authority being obviously indispensable a practical and lasting solution to the problem lies only in combining the functions of the accounts officer and the treasury officer into a single agency. Para 6.9

44. We recommend that individual running ledger account system may be extended to cover all gazetted officers of the Central Government in such departments as Income-tax, Customs, Central Excise, Central Public Works and Survey of India where officers are frequently transferred from one audit circle to another. Para 6.10

45. A system of entrusting the responsibility for gazetted officers' bills also to the head of the offices will be not only more efficient but also less expensive than the present system and we recommend its general adoption in the case of lower ranks of gazetted officers, who are not liable for transfer from one audit circle to the another. Para 6.10

46. It has been observed that the problem of missing credits arises more frequently in the accounts of officers who are liable to frequent transfers from one account circle to another. We have recommended earlier in this Chapter the adoption of the individual running account system of payments in the case of gazetted officers who are liable to frequent transfers. With the introduction of this scheme, the problem of missing credits in the

accounts of such officers will have been completely resolved. As an alternative to the introduction of the I.R.L.A. system, we would recommend the centralisation of G.P.F. accounts of officers subject to frequent transfers between different accounts circles. We further recommend that in order to eliminate the omissions and delays involved in the operation of exchange and settlement accounts, the remittance of G.P.F. credits may be affected through bank-drafts.

Para 6.14

47. In our view, the proposals enunciated in paras 6.22, 6.23 and 6.24, many of which are stated to be already under the consideration of the Government of India, would go a long way in simplifying existing system for the sanction and payment of pensions in ridding it of many procedural and other avoidable delays, and redressing the legitimate grievances of the pensioners in this regard.

Para 6.24

48. We have given careful consideration to the proposal for grant of cheque-drawing powers to the drawing and disbursing officers whether individually or in groups. We feel that there will be several difficulties in adopting this proposal as a matter of general policy. However, we are appreciative of the advantages of cheque-drawing powers being exercised in those departments where the volume of transactions in regard to payments to the public is specially large. It will be desirable that in the case of such departments, the system of personal ledger accounts which is already operative in certain departments may be introduced. We feel that improved efficiency of the treasuries combined with the introduction of the system of personal ledger accounts in selected areas will substantially remove the causes of delay in the procedures of Government payments to the public.

Paras 6.27, 6.28 & 6.29

49. The principle that refunds should be granted with the least delay and inconvenience is unexceptionable and should receive due recognition in all Government departments and organisations. The extent to which procedures can be simplified in the individual organisations can be determined only after detailed investigations which may have to be undertaken as a special study.

Para 6.30

50. It should be possible, within the framework of the existing system, to widen the field of direct receipts by departmental officers. We feel, however, that the introduction of a general system of direct receipts in all departments would neither be necessary nor free from risks.

Para 6.32

51. We are of the view that, if necessary, the rules governing payments into government treasuries may be further relaxed in suitable circumstances and in limited areas but there is no need for general dispensation of the requirement for the prior signature of the departmental officer on the

chalan for depositing money into the bank or treasury. We would like to make two further suggestions in this regard. First, the chalans for depositing money should be made available in the departmental offices so that the depositor may not have to go to the treasury, in the first instance, merely to collect the chalan and bring it back to the departmental officer; secondly, arrangements may be made for deputing a member of the treasury staff to sit in the local branch of the bank to carry out the necessary verification at the bank premises and save the depositor avoidable inconvenience of the journey to the treasury for this purpose.

Para 6.33 & 6.34

## 2. ROLE OF AUDIT

### *Chapter VII—Approach and objectives*

52. It is necessary that the scope and authority of audit should be commensurate with the range and character of their duties and responsibilities. At the same time, it is also necessary to ensure that the audit methods and procedures serve to assist administration in achieving economy and efficiency in the discharge of financial responsibilities.

Para 7.1

### *Chapter VIII—Scope and Organisation of Audit*

54. We recommend that:

(i) The dates for the submission of the appropriation accounts, the finance accounts and the audit reports by the Comptroller and Auditor General may be settled between the Comptroller and Auditor General and the Union and State Governments as the case may be;

(ii) The finance accounts may be submitted simultaneously with the appropriation accounts and the audit report;

(iii) The Central and the State Governments may consider the issue of executive orders for placing of the annual reports on the table of the House within a prescribed period after their receipt from the Comptroller and Auditor General. This period may perhaps be limited to a week if Parliament/the State Legislature is in session.

Para 8.7

54. We recommend that the Comptroller and Auditor General of India may submit to the President an annual report on the activities of the Audit Department to be laid before Parliament.

Para 8.8

55. We consider it a matter of great importance and urgency that the powers and functions of the Comptroller and Auditor General should be laid down fully and clearly in an Act of Parliament as envisaged in Article 149 of the Constitution. Specific provisions should be made in this Act to authorize the Comptroller and Auditor General to audit, subject to suitable limits and conditions, the accounts relating to—

- (i) of authorities/bodies receiving government assistance in the shape of substantial investments/loans and grants-in-aid received from Government by non-Government bodies;
- (ii) of contractors in case of large contracts settled with Government through direct negotiations and not through open competitive bids.

Para 8.9

### *Chapter IX—Audit and Administration*

56. It is the operation of the propriety and efficiency types of audit which raises delicate issues of the relationship of audit with administration and it is in this field that the audit activities are specially prone to react adversely on the performance of the executive. We consider this aspect of crucial importance in relation to the audit of public undertakings on account of the apprehension that a rigid and stereotyped scrutiny of contracts for supplies and services is likely to have a hampering effect on the initiative and enterprise of these undertakings.

Para 9.3

57. We regret to note that the progress towards a positive solution of this vexed and long-standing problem of ever-mounting arrears of audit objections cannot be considered to be satisfactory. Apparently, more radical steps need to be taken by the audit and the administration in a co-operative endeavour to improve the situation.

Para 9.6

58. We consider it desirable that the Ministry of Finance, in co-operation with the Comptroller and Auditor General, should initiate special studies to determine suitable areas and categories of transaction which may be reviewed by the audit at the site of the administrative offices and agencies. An early beginning may be made in respect of such items of expenditure as contingent charges which obviously seem to be amenable to decentralized audit and the new procedure may be progressively extended to other areas which may be considered suitable for this purpose.

Para 9.7

59. We recommend that a review may be undertaken by the Ministry of Finance, in consultation with the Comptroller and Auditor General, with a view to examining and enhancing the powers delegated to audit officers, at various levels, of waiving the recovery of irregular expenditure. The desirability of delegating certain powers of waiving audit objections of a technical nature, irrespective of their monetary value, may also be considered.

Para 9.7

60. At present, all outstanding audit objections, regardless of their nature and importance, are intimated to the concerned ministries in a single half-yearly statement. In our view, it will assist in a quicker disposal of objections and the promotion of better understanding between audit

and administration if before presentation to the ministries, the lists of objections are analyzed and classified in separate categories to indicate the nature and importance of the entries. Para 9.8

61. It is suggested that the current procedures may be revised to eliminate the multiplying effect of overlapping audit objections relating to a single transaction and facilitate their examination and settlement. Para 9.8

62. It should be one of the primary functions of internal audit to tone up the financial management of executive agencies with a view to eliminating such irregularities as are likely to give rise to audit objections. Para 9.8

63. Suitable training facilities in financial administration may be provided for executive officers at various levels and check-lists of important points with regard to various types of transactions may be prepared and distributed among the officers and staff. Simultaneously, laxity in following prescribed rules and regulations should be viewed with pronounced disfavour so as to attract suitable disciplinary action. Para 9.8

64. We should suggest that the rules and regulations particularly those which give rise to recurrent audit objections, may be subjected to a thorough review in a joint and continuing programme of reform to be undertaken by the audit and the administrative ministries. Para 9.8

65. It is of interest to note in this connection that in the U.S.A. the Comptroller General often comments on even those cases where either no irregularity or deficiency has been noticed by audit or commendable standards of efficiency have been found to exist. We would commend this practice to the Comptroller and Auditor General in India and suggest, in particular, that instances of waste, extravagance or other irregularities occurring in the audit report should be presented against the background of all the relevant circumstances of the case including, wherever appropriate, the aims and objectives of the related activities. Para 9.10

66. There are some instances in which losses are suffered and subsidies are given by the Government as a matter of deliberate policy to further certain objectives of social and economic development. It is desirable that in cases of this type appearing in the audit report, full details of the inevitable losses should also be furnished in the report so as not to cast an unfair and undeserved reflection on administrative performance. Para 9.11

67. We feel that too much stress has been laid in the past on the objectivity and independence of audit with the unfortunate result that the attention of audit has not been directed sufficiently towards playing a

more positive and constructive role lest this should be construed as unwarranted intrusion into the field of administrative responsibility. We have suggested elsewhere in this report that certain types of irregularities coming to the notice of audit should be settled, to the utmost extent, in consultation with the administrative ministries and should not be included in the audit report. We feel that this principle should be given a wider and more extensive application and recommend that, as far as possible, cases in which administration have taken remedial and preventive measures to the satisfaction of audit, may not be included in the audit report.

Para 9.12

### *Chapter X—Audit of Special Areas and Agencies*

68. We consider it desirable that the Comptroller and Auditor General should take all necessary steps to strengthen and develop necessary competence and expertise for efficiency-cum-performance audit to cover, progressively, a larger number of important schemes and projects. It will be useful if audit operations are made applicable not only to schemes which have already been completed, but also to current schemes so as to locate possible deficiencies which can be rectified in time.

Para 10.4

69. We think it should be one of the important functions of audit to examine the adequacy of the accounting organisation and procedures within the executive agencies and suggest suitable measures for improvement and reform wherever necessary.

Para 10.5

70. We should like to reiterate that the Comptroller and Auditor General's audit should be regarded as complementary to and not as a substitute for internal controls within the executing agencies; indeed, the utility and quality of audit reviews would be greatly enhanced by the existence of systematic arrangements within the executive agencies to evaluate the progress and performance of their projects from time to time.

Para 10.5

71. We are of the view that all revenue receipts of the Central Government as well as the State Governments should be subjected to audit by the Comptroller and Auditor General. We suggest that a specific provision may be made in the proposed enactment for audit of all revenue receipts of the Union Government as well as the State Governments by the Comptroller and Auditor General.

Para 10.8

72. We find it hard to understand why audit activities, in themselves, should have a deleterious effect on the initiative and judiciousness of sonior officers of the Income Tax Department. It is possible, and indeed likely, that much of the dissatisfaction with the working of audit arises really from the nature and severity of the followup action taken by the administrative authorities themselves. It has been brought to our notice that recently the departmental practice with regard to the followup action on

mistakes reported by the audit has been reviewed and the revised procedures contemplate the exercise of discretion and judgment in calling for explanations for the various types of mistakes pointed by the audit. This will go a long way in reassuring the income tax officials that *bona fide* mistakes and errors of judgment on their part will not be viewed with undue severity in isolation from the background of their general performance.

Para 10.11

73. It is desirable that doubts and differences between audit and revenue authorities regarding interpretation of the statute should be resolved through mutual consultations in association, if necessary, with the Ministry of Law and in a spirit of understanding and appreciation of their complementary roles.

Para 10.12

Audit should give special attention to the examination of the adequacy of set up for internal audit and other regulations and procedures to secure an effective check on proper assessment of various taxes.

74. The post of the Examiner of Local Funds Accounts may be accorded sufficiently high status and may be manned by senior officers taken on deputation from the Indian Audit and Accounts Department. In due course, the Comptroller and Auditor General may consider the desirability of issuing suitable directives to the Examiners with regard to the discharge on his behalf, of the audit duties entrusted to them.

Para 10.15

75. With the addition of further information about the progress of important schemes and programmes and the situation with regard to taxes levied and collected, the consolidated accounts will focus attention more directly on performance in terms of both the financial and the physical targets of the Panchayati Raj institutions and thus stimulate better utilization of the funds entrusted to them.

Para 10.15

76. We are inclined generally to agree with the approach of the Mehta Committee that the audit wing would be the most appropriate organisation for the purpose in view. We consider it necessary, however, that the audit wing should be segregated completely from the administrative Wing of the Co-operative Department and for this reason placed under the direct control of either the State Finance Department or the Development Commissioner of the State. It will be an advantage if the officer is taken on the basis of merit and competence, either on deputation from the Audit and Accounts Service or from among the departmental officers, with adequate experience in accounting.

Para 10.21

77. The accounts of co-operative societies (excluding co-operative banks) receiving large assistance by way of loans, including guaranteed loans, and share capital (say, Rs. 5 lakhs) and grants-in-aid exceeding Rs. 1

lakh, recurring and Rs. 5 lakhs non-recurring, should be audited by the Comptroller and Auditor General in his discretion, in addition to the departmental audit. Para 10.22

78. As in the case of Panchayati Raj institutions, an annual consolidated statement and review of the accounts of the co-operative societies may be prepared for submission to the State Legislatures. Para 10.23

*Chapter XI—Audit of Public Sector Undertakings*

79. We are not aware of the special circumstances which necessitate a varied approach to the role of the Comptroller and Auditor General's audit in relation to statutory corporations. We suggest that the association of the Comptroller and Auditor General with the audit of such corporations should be the normal rule which should be dispensed with only in very unusual and compelling circumstances. Para 11.3

80. We suggest that the desirability of incorporating audit comments on departmental commercial undertakings in the Audit Report (Civil) and not in the Audit Report (Commercial) may be examined by the Comptroller and Auditor-General. Para 11.5

81. We are satisfied that, for several reasons, it is necessary and desirable to associate the Comptroller and Auditor General, as an independent authority, with the audit of Government companies. Para 11.6

82. We would suggest that the Comptroller and Auditor General's audit and the chartered accountants' audit may be so co-ordinated that the audit staff from both sides can visit the organisation at or about the same time and the annual accounts can be finalized expeditiously and with the minimum strain on the management. Para 11.7

83. We suggest that in consultation with the Comptroller and Auditor General, the Company Law Department may evolve suitable procedures to see that the auditors of government companies are appointed by the first or second month of the relevant year. Para 11.8

84. We recommend that the practice of closing accounts half yearly and of concurrent audit by chartered accountant may be adopted, wherever feasible, to facilitate the early completion of annual accounts. Para 11.9

85. We recommend that the Comptroller and Auditor General may take all steps necessary to develop the requisite degree of competence and



expertise within his organisation for the effective conduct of efficiency audit of public undertakings and devise, where necessary suitable procedures to associate such technical experts, senior administrators and economic experts in this endeavour. Para 11.10

86. While it seems inevitable that audit should be concerned with individual instances of waste and extravagance, we would also recommend that they should also endeavour to assume a more positive role in reviewing the adequacy of the various rules and regulations and suggesting ways and means of improving the organisation and methods of work of the public undertakings. Para 11.11

87. We would suggest that every effort should be made by audit to settle objections arising from the award of contracts for works, supplies and services through discussion with the management of the public undertakings and, if necessary, with the concerned ministry. The aim should be to resolve all disputed points satisfactorily between audit and administration at appropriate levels, so as to obviate the need of their being included in the audit report of the Comptroller and Auditor General. We would further suggest that after ascertaining the views of the Comptroller and Auditor General the administrative ministries and the managements of public undertakings may be made aware of this procedure for consultation with audit for the settlement of objections relating to the award of contracts. Para 11.12

Sd/-

S. Ratnam,

*Chairman.*

Sd/-

M. A. Chidambaram,

*Member.*

Sd/-

G. Basu,

*Member.*

Sd/-

A. K. Mukherji,

*Member.*

Sd/-

J. C. Luther,

*Secretary*

13TH SEPTEMBER, 1967

NEW DELHI

Sd/-

N. S. Pandey,

*Member.*

APPENDIX I

MINISTRY OF HOME AFFAIRS

(DEPARTMENT OF ADMINISTRATIVE REFORMS)

RESOLUTION

*New Delhi, the 5th January 1966*

No. 40/3/65-AR(P)—The President is pleased to set up a Commission of Inquiry to be called the Administrative Reforms Commission to examine the public administration of the country and make recommendations for reforms and reorganisation where necessary.

2. The Commission will consist of Shri Morarji R. Desai, M.P., as the Chairman and the following as Members:

- (i) Shri K. Hanumanthaiya, M.P.
- (ii) Shri H. C. Mathur, M.P.
- (iii) Shri G. S. Pathak, M.P.
- (iv) Shri H. V. Kamath, M.P.
- (v) Shri V. Shankar, I.C.S.—Member Secretary.

3. The Commission will give consideration to the need for ensuring the highest standards of efficiency and integrity in the public services, and for making public administration a fit instrument for carrying out the social and economic policies of the Government and achieving social and economic goals of development, as also one which is responsive to the people. In particular the Commission will consider the following:

- (1) the machinery of the Government of India and its procedures of work;
- (2) the machinery for planning at all levels;
- (3) Centre-State relationships;
- (4) financial administration;
- (5) personnel administration;
- (6) economic administration;
- (7) administration at the State level;
- (8) district administration;
- (9) agricultural administration; and
- (10) problems of redress of citizens' grievances.

Some of the issues to be examined under each head are listed in the schedule to this Resolution.

4. The Commission may exclude from its purview the detailed examination of administration of defence, railways, external affairs, security and

intelligence work, as also subjects such as educational administration already being examined by a separate commission. The Commission will, however, be free to take the problems of these sectors into account in recommending reorganisation of the machinery of the Government as a whole or of any of its common service agencies.

5. The Commission will devise its own procedures, and may appoint committees and advisers to assist it.

6. The ministries and departments of the Government of India will furnish such information and documents and other assistance as may be required by the Commission. The Government of India trusts that the State Governments and all others concerned will extend their fullest co-operation and assistance to the Commission.

7. The Commission will make its report to the Government of India as soon as practicable.

#### *ORDER*

Ordered that a copy of the Resolution be communicated to all Ministries and Departments of the Government of India, State Governments, Administration of Union Territories, etc. etc.

Ordered also that the Resolution be published in the Gazette of India for general information.

N. K. MUKARJI  
*Joint Secretary*

#### *SCHEDULE*

(1) The machinery of the Government of India and its procedures of work:

- (i) The grouping of subjects in departments.
- (ii) The role of the Cabinet Secretariat.
- (iii) Problems of inter-ministry co-ordination.
- (iv) Staffing patterns and methods of work within ministries and departments.
- (v) Relationship between ministries and their attached and subordinate offices.

(2) The machinery for planning at all levels.

Planning Originations and procedures at the Centre and in the States, and the relationship of the Planning Commission at the Centre and planning agencies in the States with other agencies.

(3) Centre-State relationships.

- (i) Centre-State relationships in the realm of planning and development, with particular reference to the growth of central agencies handling concurrent and State list subjects.

- (li) Centre-State relationship in other spheres, with particular reference to the needs of national integration and of maintaining efficient standards of administration throughout the country.
- (4) Financial administration,
  - (i) Budgetary reform,
  - (ii) Reforms in the administration of accounts.
  - (iii) The role of audit.
  - (iv) The system of expenditure control, including procedures for sanctioning schemes and the problem of financial delegation and decentralisation.
  - (v) Procedures governing financial relations between the Centre and the States.
- (5) Personnel administration.
  - (i) Personnel planning and organisation for it,
  - (ii) Recruitment policy and procedures, including selection techniques.
  - (iii) The Union Public Service Commission and the State Public Service Commissions.
  - (iv) Promotion policies and incentives.
  - (v) Policies and rules governing conduct and discipline to ensure efficiency, honesty and maintenance of morale.
  - (vi) Training,
  - (vii) The roles of the Cabinet Secretary and the Ministries of Home Affairs and Finance.
  - (viii) Personnel management for public sector enterprises.
- (6) Economic administration.
  - (i) Economic co-ordination, and the role of the Departments of Economic Affairs and Co-ordination, the Planning Commission and the Department of Industry in that respect.
  - (ii) Administration of foreign exchange.
  - (iii) Export promotion, the mechanism of import control, and administration for trade and commerce generally.
  - (iv) Review of the mechanism and procedures of economic controls.
  - (v) The role of the Ministry of Industry and Supply *vis-a-vis* other Ministries handling specific industries.
  - (vi) Organisation for promoting industries in the private sector.
- (7) Administration at the State-level.
  - (i) Examination of the organisation and procedure of State Governments with special reference to problems similar to those enumerated above.

- (ii) The need to strengthen administration in the States at all levels.
- (8) District administration.
- (i) The role of the Collector in respect of general administration and development administration, and as the agent of the State Government.
  - (ii) The role of the Collector in the matter of public grievances and complaints.
  - (iii) The relationship between the Collector and panchayati raj institutions.
  - (iv) The relationship between the Collector and departmental heads at the district and super-district levels.
  - (v) The size of districts.
  - (vi) Personnel policies in relation to the post of Collector.
- (9) Agricultural administration.
- (i) The role of the Ministry of Food and Agriculture and other ministries concerned with agricultural production, and co-ordination between them.
  - (ii) Inter-relationship between State Agriculture Departments, Community Development Organisations and other organisations concerned with agricultural production in the State.
  - (iii) Organisation for agricultural administration at the State and district levels.
  - (iv) Co-ordination between research and extension organisations.
- (10) Problems of redress of citizens' grievances.
- (i) The adequacy of the existing arrangements for the redress of grievances.
  - (ii) Need for introduction of any new machinery or special institution for redress of grievances.

## APPENDIX II

### ADMINISTRATIVE REFORMS COMMISSION

TRAVANCORE HOUSE,  
CURZON ROAD,  
NEW DELHI

May 28, 1966

*Constitution of a Study Team on Reforms in Accounts and the Role of Audit.*

REF:—*Para 5 of the Government of India, Ministry of Home Affairs Department of Administrative Reforms Resolution No. 40/3/65-ARC (C), dated 5th January, 1966.*

The Administrative Reforms Commission hereby appoints the following persons to constitute the Study Team on Reforms in Accounts and the Role of Audit :

1. Shri S. Ratnam, 5-A, Ring Road, Lajpat Nagar-IV, New Delhi-14—*Chairman.*
2. Shri M. A. Chidambaram, Adayar House, Madras-26—*Member.*
3. Shri G. Basu, Chartered Accountant, Basu House, 3, Chorangee Approach, Calcutta-13—*Member.*
4. Shri A. K. Mukherji, Additional Deputy Comptroller and Auditor General, New Delhi—*Member.*
5. Shri N. S. Pandey, Joint Secretary, A.R. Commission, New Delhi—*Member.*

2. The Study Team will, in regard to the subject allocated to it, ascertain facts, locate the principal problem areas, examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration. The Study Team will submit the report as early as possible.

3. Shri J. C. Luther, Deputy Secretary, Administrative Reforms Commission, will act as the Secretary to the Study Team.

Sd. V. V. CHARI  
*Secretary*

### APPENDIX III

#### ADMINISTRATIVE REFORMS COMMISSION

TRAVANCORE HOUSE,

CURZON ROAD,

New Delhi, May 28, 1966

*Constitution of a Study Team on Budgetary Reform, System of Expenditure Control and Procedure governing financial relations between the Centre and the States.*

REF: Para. 5 of the Government of India, Ministry of Home Affairs (Department of Administrative Reforms) Resolution No. 40/3/65-AR(C), dated 5th January, 1966.

The Administrative Reforms Commission hereby appoints the following persons to constitute the Study Team on Budgetary Reform, System of Expenditure Control and procedure governing financial relations between the Centre and the States:

1. Shri B. Venkatappiah,  
Mafatlal House,  
Backbay Reclamation,  
Bombay-1—*Chairman.*
2. Shri N. N. Wanchoo,  
Secretary,  
Ministry of Iron & Steel,  
New Delhi—*Member.*
3. Shri P. L. Tandon,  
Chairman, Hindustan Levers,  
Hindustan Levers House,  
165-166, Backbay Reclamation,  
Bombay—*Member.*
4. Shri G. L. Bansal,  
Secretary-General,  
Federation of Indian Chambers of Commerce & Industry,  
Federation House,  
New Delhi—*Member.*
- \*5. Shri N. S. Pandey,  
Joint Secretary,  
Administrative Reforms Commission,  
New Delhi—*Member.*
- \*6. Dr. D. T. Lakdawala,  
Head of Department of Economics,  
University of Bombay,  
Bombay—*Member.*

---

\*Added by subsequent Memoranda.

2. The Study Team will, in regard to the subject allocated to it, ascertain facts, locate the principal problem areas, examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration. The Study Team will submit its report as early as possible.

3. Shri J. C. Luther, Deputy Secretary, Administrative Reforms Commission, will act as the Secretary to the Study Team.

Sd. V. V. CHARI  
*Secretary*

To

The Chairman and Members of the Study Team.  
Secretaries to the Ministries and Departments of Government of India  
Chief Secretaries to all State Governments.



## APPENDIX IV

# QUESTIONNAIRE ON REFORMS IN ACCOUNTS AND THE ROLE OF AUDIT

## I. REFORMS IN ACCOUNTS

### *Simplification of accounts and procedures*

It has been stated that the present system of classification of Government transactions and procedures of maintaining and compiling accounts are cumbersome and involve too much of detail. In maintaining and compiling Government accounts, however, various considerations, such as, accountability to Parliament, safeguards against misappropriations, etc., have to be borne in mind. In the circumstances, what measures would you suggest for simplification of the accounting system and procedures?

(ii) The procedures for depositing government dues into the treasuries and for withdrawing sums from treasuries for discharging government liabilities are also stated to be too complicated and to be responsible for considerable delay and inconvenience. What steps should, in your opinion, be taken to simplify the procedures and to obviate delay and inconvenience to the public to the maximum extent?

### *Delays in payment of salaries, etc.*

2. It has been complained that delays take place in making payments of salary of officers, pensions, G.P. Fund, etc. What factors do you think are responsible for these delays and what steps do you propose for eliminating them?

### *Working of the existing systems for Ministries whose accounts are kept by the Comptroller and Auditor General*

3. (i) At present, the accounts in respect of several ministries, except a few, are being compiled and maintained by the Civil Accountants General. Is this system working satisfactorily? If not, what are its shortcomings and what remedies would you suggest?

### *For Ministries entrusted with the compilation of their own accounts*

(ii) How is the present system of centralised payments and compilation of accounts by a Pay and Accounts Officer/Chief Accounts Officer working? Has it yielded the expected results, namely, expeditious compilation of accounts, prompt payments, better control over appropriations and earlier compilation of appropriation accounts, etc.? If not, in what respects has the system failed and what are the reasons for its failure? Please give dates on which the compilation of monthly accounts was completed, during the last six months. On what dates were the printed copies of the appropriation accounts of the Ministry for the last three years ready and sent to the

Comptroller and Auditor General? Do you think it will be preferable to have the accounts compiled by the Comptroller and Auditor General as was being done prior to the departmentalisation of accounts?

*Departmentalisation of accounts and centralisation of payments*

4. Under the existing arrangements, payment of establishment, travelling allowance and other charges are made by drawing and disbursing officers by encashing bills at the treasuries (which number about 300). However, officers of Public Works, and Forest Departments obtain funds for meeting works expenditure by cheques and for meeting establishment charges either by cheques or by drawing bills on the treasuries. Some specific payments like pay and allowances to gazetted officers, pensions G.P.F., etc., are made at the treasuries on the strength of payment authority from the Accountant General concerned.

The treasuries send account of these payments duly supported by paid vouchers twice a month to the Accountant General concerned. The first list of payments covers payments made from the first to tenth of the month and the second, from 11th to the end of the month. Along with the second list of payments, a monthly account of payments as also of Government receipts deposited at the treasuries is also sent by the treasuries to the Accountant General. The Public Works and Forest Officers send the account of both receipts and payments duly supported by vouchers, schedules, etc., to the Accountant General only once at the end of the each month.

The accounts of payments and receipts received from the treasuries and Public Works and Forest Officers are compiled and consolidated by the Accountant General. The accounts so compiled are submitted by him to the Government in the prescribed form by 25th of the month following the month to which the accounts relate.

The payments made through other departments and governments are brought into account against the grants/appropriations of the respective Ministries on receipt of requisite details and vouchers from the Accountants General in whose jurisdiction these payments are made.

The payments made in a month by different drawing and disbursing officers in a Ministry are also consolidated by the Controlling Officers on receipt of statements of monthly expenditure from these officers. This is done to watch the progress of expenditure against the grants/appropriations and to ensure that the balance of the grants/appropriations would be sufficient to meet future needs.

The day-to-day progress of expenditure is not available under the above arrangements.

The following are some of the important points which are usually made against the above arrangements:

- (i) The arrangements do not help the budgeting agencies to have knowledge of the day-to-day progress of expenditure nor to have

an effective control over grants/appropriations.

- (ii) There are delays in the compilation of monthly accounts and appropriation accounts and in making payment of Government dues. Delays also take place in the adjustment of payments made through other governments, etc., against the relevant grants/appropriations.
- (iii) It is anomalous that a Civil Accountant General should compile the accounts, the correctness of which is also to be certified by him as auditor.

It is stated that if payments are centralised and are made by the Administrative Ministries themselves, the above shortcomings would be substantially removed. The system of centralised payments which envisages appointment of a Chief Pay and Accounts Officer in each Ministry or a group of Ministries and which is already being practised in the Ministries of Food and Agriculture, Rehabilitation, Supply and Technical Department, Works and Housing (Headquarters) and Printing and Stationery Office is reported to have the following important drawbacks:—

- (a) The Central Government offices are located at different places all over the country. Though banking and communication facilities have now considerably improved, there are still larger number of places in the country where these facilities cannot be said to be efficient. Some of these places also become inaccessible due to floods, snow, etc., for a few months in a year. Due to these difficulties, it becomes necessary to set up regional offices under most of the Chief Pay and Accounts Officers for ensuring prompt payments. (The Chief Pay and Accounts Officer of the Ministries of Food and Agriculture, Rehabilitation, etc., has regional offices at Bombay, Calcutta, Madras, etc.). With this development, it is argued, the advantages of expeditious compilation of monthly and appropriation accounts and of watching progress of expenditure from day-to-day against the grants/appropriations would tend to disappear as the Regional Offices would send monthly accounts only on the expiry of the month to the Chief Pay and Accounts Officers for consolidation.
- (b) The centralised system of payments requires that before payments are made, pre-checks are exercised. As these checks are far more extensive and important than those being exercised at present at the treasury level, it will be necessary to employ more staff to cope with the additional work. The extra expenditure on additional staff, accommodation, etc., would, it is stated be fairly large—one estimate pitching it at over Rs. 17 crores per annum, if the system is introduced on a country-wide basis (both at the Centre and in the States).
- (c) Even under the separated system of accounts, the existing cheques drawing powers of Public Works and Forest Officers

and some other holders of personal ledger accounts may have to be kept undisturbed. This will cause delay in the compilation of the monthly accounts and will also not allow the day-to-day watching of expenditure centrally.

Taking all the circumstances into consideration, which of the two systems of payments discussed above would you prefer? Please give reasons for your preference and indicate any other system which you may like to recommend.

*Delay in adjustment of inter-departmental and inter-governmental transactions.*

5. It is stated that large amount of payments remain lying under the various suspense and remittance heads in the Public Account at the end of each financial year pending their transfer to the appropriate heads in the Consolidated Fund Account on receipt of paid vouchers and other connected particulars. In this way, these payments remain outside the Consolidated Fund Account and the related Appropriation Accounts do not show all the payments made by the ministries concerned in a particular year. Likewise, large receipts of revenue are not exhibited under the proper heads of accounts in the Consolidated Fund Account. Substantial amounts are thus left unclassified. What measures do you suggest for ensuring prompt and timely adjustments of these payments and receipts?

*Accounts as aid to accurate budgeting*

6. There is a feeling that, at present, the figures regarding progress of expenditure are not available to budget authorities in time and this delay affects the preparation of budget as in the absence of figures of expenditure incurred upto date, it is difficult to frame accurate estimates of expenditure to be incurred either during the remaining part of the financial year or in the subsequent year. It has been alleged by some that it is the present system of compilation of final accounts by Accountants General that is responsible for delays in reporting progress of expenditure. On the other hand, this delay is attributed by others to the deficiencies in the system and procedure of accounts being employed within the Administrative Ministries and their subordinate agencies for it is argued that the Budget Estimates can very well be based on the departmental accounts without waiting for intimation of progressive figures from the Accountant General.

Please give your comments on the circumstances which are responsible for this delay in the reporting of progress of expenditure and suggest remedial measures in this regard?

*Performance budgeting*

7. In regard specifically to development expenditure, it has been stated that the present system of compilation and presentation of Government accounts only helps to bring together the expenditure incurred on different developmental activities, etc., during a financial year and the forms and

accounts are not related to and do not indicate the performance of the executing agencies during a particular period. There is also no provision for a regular and periodical reporting of the performance to the controlling authorities. It is thus not possible to watch through the accounts, etc., the performance of the current year nor to have a reasonably correct estimate of the programmes for the ensuing financial year while framing the budget estimates. What measures do you consider necessary for developing adequate system of performance reporting so as to co-relate performance with expenditure and to assist the introduction of performance budgeting which might be considered necessary in the context of vast development expenditure.

## II. ROLE OF AUDIT

### *Audit of expenditure*

#### *Audit vis-a-vis development expenditure by the Comptroller and Auditor General*

It has been stated that efficiency-cum-performance audit of development expenditure has been introduced since 1961. In this connection, what is the experience of the Comptroller and Auditor General in regard to the sufficiency of documents and data made available by the project authorities for this purpose. On the basis of five years experience of audit of this type, would the Comptroller and Auditor General suggest any changes with a view to further improving the effectiveness of this audit.

2. It has sometimes been urged that the audit of development expenditure should be done on lines different from those adopted for the audit of ordinary Government expenditure, having in view the context in which development expenditure is incurred. What are your comments in this regard? What suggestions would you make in regard to the lines on which audit of development expenditure should be conducted?

#### *Audit of Panchayats, etc.*

3. At present, Local bodies all over the country, i.e. municipal boards/corporations, district boards, zila parishads, panchayati raj institutions and co-operative societies, are audited generally by an officer designated as Examiner of Local Fund Accounts/Registrar of Co-operative Societies, appointed by State Governments. In view of the wide coverage by panchayati raj and co-operative institutions, the increased functions and duties entrusted to them and the enormous size of the funds controlled by them, it is for consideration whether the present system of audit of their accounts is reasonably efficient and adequate to ensure the protection of public interests. Is any modification in the existing arrangements called for? In view of the expanding role of these institutions in the future administrative set-up, is there any need for a review of the existing arrangements? Do you think the audit of these institutions and co-operative societies should be conducted by the Comptroller and Auditor General?

*Prompt settlement of audit objections*

4. It has been stated that audit objections do not receive prompt and timely attention from ministries and executive agencies and that there is considerable delay in dealing with the relating correspondence with the Indian Audit and Accounts Department. Detailed instructions have been issued from time to time by the Ministry of Finance on this point and the Ministries have been enjoined upon to place all these matters under the direct care and charge of a senior officer preferably of the rank of Joint Secretary. The Financial Advisers of the Ministries have also been requested to pay particular attention to matters relating to audit objections. In spite of it, the delays, it is stated, persist with the result that, in departments and ministries, there are always a number of audit objections pending disposals or clearance over a long time. What further steps should be taken to ensure their prompt and timely disposal?

It has been suggested in this connection that if the system of pre-audit (either by an Internal Audit Organisation or by the Comptroller and Auditor General) of Government payments is introduced, it might substantially reduce the number of audit objections. What are your views in this regard?

*Time limit for submission of appropriation and finance accounts and audit reports*

5. It has been suggested that the utility of audit reports is greatly lost if these are submitted long after the irregularities mentioned therein have taken place. On what dates were the audit reports on the accounts of the Central and State Governments submitted to the respective Governments for being laid before the Parliament/State Legislatures in respect of the last five years? On what dates were these reports actually laid before the Parliament/State Legislatures? What difficulties, if any, are being experienced towards expeditious submission of these reports to Government/Parliament/State Legislatures and what steps, would in your view, help in the removal of these difficulties?

*Audit of revenue receipts*

6. At present, major revenue receipts like customs duty, Central Excise, Income-tax, Sales-Tax, etc., are audited by the Comptroller and Auditor General. The purpose and objects of this audit are—

- (i) that adequate regulations and procedures have been framed by Government to secure an effective check on assessment, collection and proper allocation of taxes and duties;
- (ii) that the regulations and procedures are actually being carried out by the authorities concerned with reasonable degree of efficiency in accordance with the law framed by the Parliament or Legislature imposing the levy; and
- (iii) that adequate safeguards exist against frauds in the matter of collection of revenue and payment of refunds.

For this purpose, a test check of individual assessment cases is conducted with a view to ensuring that the assessments conform to the existing Acts and departmental instructions issued from time to time and decisions given by Supreme and High Courts. Have you any comments to make on the nature and scope of this audit? If this needs to be modified, on what lines should this modification be brought about?

*Audit of Public Sector Undertakings—Multiplicity of audit*

7. Different provisions governing audit have been laid down with regard to undertakings in the public sector. While the Comptroller and Auditor General is entirely responsible for conducting audit in certain cases, such as Air India and Indian Airlines Corporation, in the case of others, like the Life Insurance Corporation and the Food Corporation of India, the audit is done by Chartered Accountants. In the Central Warehousing Corporation, audit functions are performed by Chartered Accountants appointed in consultation with the Comptroller and Auditor General and his audit is obligatory when the Central Government pay subsidy for payment of dividend to the shareholders guaranteed by the Central Government and discretionary, when no such subsidy is paid. In the case of undertakings registered as companies, the system of audit is governed by Section 619 of the Companies Act which provides for audit by professional auditors appointed by the Central Government on the advice of the Comptroller and Auditor General. These undertakings are further subject to a supplementary or test audit to be conducted by the Comptroller and Auditor General, who has also the powers to give directions to the company's auditors and also to give such other instructions in regard to any matter relating to his functions, as such. Besides, there is also a system of internal audit by the staff of the F.A. and C.A.O. There is a complaint that the present system involves multiplicity of audit with consequential effects on the staff strength, timely holding of Annual Meetings, office working, initiative of officers in charge of operations, etc. It is stated that the company management feel harassed by the system. Please comment on the present system and suggest such reforms in it as you may consider desirable.

*Internal audit system*

8. (a) The public sector undertakings have generally an internal audit system. How effective is it? If it is not effective, please suggest measures to increase its effectiveness.

(b) What are the salient features and periodicity of the reviews submitted by the Financial Advisers of the Undertakings to the Administrative Ministries? Do these reviews cover points like budgetary control, cost accounting, materials and stores accounting, internal audit, etc.?

(c) Do public sector undertakings make adequate use of the modern accounting systems and operational statistics?

*Nature and scope of audit*

9. It has been suggested that, having regard to the commercial nature of many public sector undertakings, their auditors should pay special attention to assessing the general performance and efficiency of these organisations, including such aspects as the overall and unit costs of production, and for this purpose, they should be well-equipped with special techniques such as cost-accounting methods, etc. Do you think that the performance aspect is receiving due attention from the auditors of public undertakings? If not, what suggestions would you like to make to improve the quality of audit in this context?

In this connection, it is claimed that the supplementary or test audit of Government companies by the Comptroller and Auditor General is of the nature of performance-cum-propriety audit. Do you think that this audit is adequate and is being done on the right lines? If not, please give suggestions to improve the effectiveness of this audit.



## APPENDIX V

### LIST OF PERSONS AND ORGANISATIONS FROM WHOM REPLIES HAVE BEEN RECEIVED IN RESPONSE TO THE QUESTION- NAIRE ON REFORMS IN ACCOUNT AND ROLE OF AUDIT.

1. Shri T. P. Singh,  
Secretary to the Government of India,  
Ministry of Finance,  
New Delhi.
2. Shri Kirpal Singh,  
Chairman, Railway Board and Principal Secretary,  
Ministry of Railways,  
New Delhi.
3. Shri M. S. Rao,  
Chairman, Hindustan Steel Ltd.,  
Ranchi (Bihar).
4. Shri N. P. Mathur,  
Ministry of Iron & Steel,  
New Delhi.
5. Shri N. R. Bansod,  
Department of Supply & Technical Development,  
New Delhi.
6. Shri K. S. Ganapati,  
Officer on Special Duty,  
Ministry of Commerce,  
New Delhi.
7. Shri T. R. Sundara Raman,  
Officer on Special Duty (Accounts),  
P. & T. Board,  
New Delhi.
8. Shri V.P. Mithal,  
Director, Secretariat Training School,  
New Delhi.
9. Shri Bishan Chand,  
Chief Pay and Accounts Officer,  
Ministries of Supply & Technical Development, Food & Agriculture and Works, Housing & Rehabilitation,  
New Delhi.

10. Shri D. D. Dhingra,  
Accountant General, Central Revenues,  
New Delhi.
11. Shri P. N. Bhalla,  
Financial Adviser and Chief Accounts Officer,  
Minerals and Metals Trading Corporation of India,  
New Delhi.
12. Shri Shyamal Banerjee,  
Deputy Controller General of Defence Accounts,  
New Delhi.
13. Shri T. Narasimhan,  
Chief Auditor, Southern Railway,  
Madras.
14. Shri T. Rengachari,  
Accountant General, Mysore,  
Bangalore.
15. Shri D. N. Gupta,  
Finance Secretary,  
Government of Jammu & Kashmir,  
Srinagar.
16. Shri F. N. Rana,  
Finance Secretary,  
Government of Gujarat,  
Ahmedabad.
17. Shri M. Veeraraj Urs,  
Finance Secretary,  
Government of Mysore,  
Bangalore.
18. Shri N. Nanda,  
Deputy Secretary to the Government of West Bengal,  
Calcutta.
19. Shri P. N. Damry,  
Secretary, Finance Department,  
Government of Maharashtra,  
Bombay.
20. The Bihar Co-operative Auditors' Association,  
Patna.
21. Shri C. Balakrishnan,  
Secretary,  
The Institute of Chartered Accountants of India,  
New Delhi.

22. Shri S. B. Billimoria,  
S.B. Billimoria & Co.,  
Chartered Accountants,  
Bombay.
23. Shri S. Vaidyanath,  
Vaidyanath Aiyar & Co.,  
Chartered Accountants,  
New Delhi.

## APPENDIX VI

### *Abbreviations used*

1. G.P.F.	...	...	General Provident Fund
2. C.P.W.D.	...	...	Central Public Works Department
3. I.R.L.A.	...	...	Individual Running Ledger Account
4. R.D. & R. Heads	...	...	Revenue, Debt and Remittance Heads
5. I.B.M.	...	...	International Business Management
6. I.C.T.	...	...	International Computers and Tabulators
7. A.G.C.R.	...	...	Accountant General Central Revenues
8. P. & T.	...	...	Posts and Telegraphs
9. U.D.Cs.	...	...	Upper Division Clerks
10. I.T.O.	...	...	Income Tax Officer
11. U.K.	...	...	United Kingdom
12. U.S.A.	...	...	United States of America
13. C.S.R.'s	...	...	Civil Service Regulations