

ADMINISTRATIVE REFORMS COMMISSION

Report

FINANCE
ACCOUNTS
AND AUDIT



JANUARY 1968

GOVERNMENT OF INDIA



ADMINISTRATIVE REFORMS COMMISSION

REPORT

ON

FINANCE, ACCOUNTS

&

AUDIT

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

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

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

Yours sincerely,

(Sd.) K. Hanumanthaiya.

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

CHAIRMAN

GOVERNMENT OF INDIA
ADMINISTRATIVE REFORMS COMMISSION
NEW DELHI

January 13, 1968.

My dear Prime Minister,

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

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

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

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

CHAPTER I

INTRODUCTION

During the two decades since Independence, there has been a phenomenal growth in public expenditure, primarily owing to the big plans that have been launched and also as a result of the increase in administrative agencies and personnel. The following table illustrates the extent to which public expenditure has increased during the last 17 years, thereby bringing out in bold relief the expansion in the activities of Government:

Expenditure (Revenue & Capital) of the Centre States and Union Territories—Trends Since 1950-51

Year	Revenue Expenditure	Capital Expenditure	(Rs. in crores)
			Total
1950-51	729	169	898
1955-56	1,017	407	1,424
1960-61	1,685	976	2,561
1961-62	1,907	961	2,868
1962-63	2,288	1,212	3,500
1963-64	2,694	1,536	4,230
1964-65	2,977	1,827	4,804
1965-66	3,433	2,046	5,479
1966-67	3,934	2,558	6,492
1967-68 (BE)	4,253	2,047	6,300

Plan Expenditure (in crores of rupees)

First Plan	1,960
Second Plan	4,600
Third Plan	7,500

2. Expenditure of such large magnitude recording a sixfold increase over the years prior to the commencement of the plans—obviously calls for a reorientation of our ideas about the management of financial operations not only in terms of arithmetic but also in the context of maximum use of resources for social benefit as well as speed and effectiveness of execution of plans and programmes. On the constitutional side, the twin principles of responsibility and accountability have to be upheld and maintained. In a planned economy, the place of financial administration as a tool for the achievement of results within a given period can hardly be over-emphasised. Delays due to slow-moving financial machinery and the absence of correct attitudes on the part of financial authorities have been the subject of acid comments, particularly so in recent years. There is no gainsaying the fact that such delays besides being irksome and irritating lead to waste, hold up progress and in the long run, demoralise the developmental machinery. It is, therefore, in the national interest that a scrutiny should be made of the existing set-up of financial administration and the system of audit and accounts with a view to effecting reforms wherever necessary.

3. While financial administration is a crucial area of public administration, accounting provides the framework to the entire range of functions associated with it and audit the machinery for the appraisal of its working. The pattern and efficiency of the accounting system are of vital importance for the formulation, authorisation and execution of the budget and for the evaluation of performance. The organisation and procedures of audit by an external agency are designed with the primary objective of enforcing the accountability of the Executive to the Legislature, ensuring the observance of canons of financial propriety and incurring of expenditure for the purposes and within the limits authorised by the Legislature. The problem of reconciling the needs of audit with those of administration in devising a suitable structure of accounts has presented considerable difficulty in all attempt at reform and reorganisation of the system. A system geared exclusively to the needs of audit may fail to provide the requisite data and analysis to the administration for discharging its managerial role and may exercise a retarding influence on the tempo of administrative activity. On the other hand, a system devised primarily for facilitating managerial performance may fall short of the essential requirements of audit, and result in serious lapses and irregularities. Thus, what is required is a proper balance between the requirements of rigorous accuracy on the one hand and considerations of speed and efficiency in performance on the other.

4. Our terms of reference relating to Financial Administration required of us an examination of the following issues:

(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 decentralisation.
- (v) Procedures governing financial relations between the Centre and the States.

We felt that it would facilitate an expeditious and thorough examination of these issues if two Study Teams were constituted, one to deal with budgetary reform, the system of expenditure control and procedures governing financial relations between the Centre and the States; and the other with the reform in the administration of accounts and the role of audit. We accordingly constituted these two Study Teams. The Team (designated as the "Study Team on Financial Administration") dealing with the first set of issues was presided over by Shri B. Venkatappiah and had as its other members Sarvashri N. N. Wanchoo, P. L. Tandon, G. L. Bansal, N. S. Pandey and Dr. D. T. Lakdawala. The second Team (designated as the "Study Team on Accounts and Audit") was presided over by Shri S. Ratnam with Sarvashri M. A. Chidambaram, G. Basu, A. K. Mukherji and N. S. Pandey as members. Shri J. C. Luther was appointed as Secretary to both the Teams. Three working groups were constituted by the first Study Team for assisting it in the examination of issues relating to performance budgeting and Centre-State financial relations. Both the Study Teams have gathered valuable data and have submitted very useful reports which have helped us considerably in formulating our recommendations.

5. The Commission would like to place on record their high appreciation of the work of the Chairman and Members of the Study Teams and their Secretary.

6. Since the subject matter of the two reports is interconnected and since the understanding of the one is indispensable to the understanding of the other, we have thought it best to cover the entire field in one report. We have not addressed ourselves to the last of the issues mentioned at para 4, viz., procedures governing financial relations between the Centre and the States. We will deal with this subject later in our report on Centre-State relationships. Similarly some of the problems of financial administration, for example, those relating to specific delegation of power, have been left over for discussion in our report on the Machinery of Government.

CHAPTER II

THE BUDGET

(i) General

The present budgeting procedure is the legacy of a system which by and large remained unaltered in approach and outlook for nearly a century. That approach and outlook has been revenue-and-expenditure oriented, but seldom imbued with a concern for speed and efficiency so urgently needed for the attainment of our socio-economic goals and objectives. In the context of the enormous growth and complexity of the activities of modern governments, particularly those which are committed to planned economic development, the objectives sought to be achieved by the Budget extend beyond providing the legislature with the means of exercising an over-all control over the revenue collected and expenditure incurred by the executive. In a developing economy, the Budget should be a meaningful reflection of the national developmental effort, and a means for evaluating the progress of projects against set targets, as well as a tool for securing the efficient management of operations entrusted to the executive. It should also facilitate the appreciation of the impact of governmental expenditure on the national economy.

2. In order to consider the lines on which the budgetary system should be reformed so that it may fulfil the extended role envisaged for it, it is necessary first to have a look at that system as it is now in operation.

3. The Annual Financial Statement, laid before both Houses of Parliament, in accordance with Article 112(1) of the Constitution, sets forth the estimated receipts and expenditure of the Government of India, for the succeeding financial year. The receipts and expenditure of Government fall under one or the other major heads of account, prescribed in consultation with the Comptroller and Auditor-General. (Though the budget of the Indian Railways is separately presented to and dealt with by Parliament, the receipts and expenditure of the Railways are included in lump in the Annual Financial Statement).

4. The estimates of expenditure embodied in the Annual Financial Statement are converted into a number of Demands for Grants. Each of such Demands for Grants shows separately the expenditure required to be voted by the Lok Sabha; and the expenditure which is charged on the Consolidated Fund and not requiring vote of the Lok Sabha. Each demand or a combination of demands relates to a single Ministry. A demand is sub-divided into sub-demands each of which corresponds to a major head

of account. Thus, for the year 1967-68, the Ministry of Commerce presented four demands as follows:

<i>Demand No.</i>	<i>Subject.</i>
1.	Ministry of Commerce.
2.	Foreign Trade.
3.	Other Revenue Expenditure of the Ministry of Commerce.
4.	Capital outlay of the Ministry of Commerce.

5. Demand No. 2 relating to Foreign Trade was sub-divided, each sub-division corresponding to one of the following major heads of account:

26.	Miscellaneous Departments.
39.	Miscellaneous Social and Developmental Organisations
71.	Miscellaneous.

6. The next unit of classification below a sub-division corresponding to a Major Head is the Minor Head. Thus, taking the case of Demand No. 2 of the Commerce Ministry under the sub-division 39—Miscellaneous Social and Developmental Organisations, we have the following Minor Heads:

- (1) Commercial intelligence including statistics.
- (2) Foreign Trade Control.
- (3) Trade Demonstration and Propaganda.
- (4) Export Promotion Directorate.
- (5) Other Miscellaneous Organisations.

Under the Minor Head, the expenditure is divided into group heads. The final entry in the grant is the Primary Unit of Appropriation, e.g., "Pay of Officers", "Allowances and Honoraria". While there are some deviations from this pattern, by and large this is generally the system that operates.

7. The "Annual Financial Statement" together with "Demands for Grants" constitute the Budget. After the 'voted' portion of the expenditure is voted by the Lok Sabha, the funds required to meet the voted grants and the expenditure 'charged' on the Consolidated Fund are allowed to be withdrawn from the Consolidated Fund under the authority of an Appropriation Act passed by Parliament. The fiscal measures for raising the resources required for meeting the expenditure budgeted for are embodied in a Finance Act passed by Parliament.

8. The accounts of the expenditure incurred are compiled by the organisation of the Comptroller and Auditor General. In these accounts the expenditure is classified according to the Major Heads of account and the sub-divisions thereof. The information available from the accounts so compiled is used for compiling another set of accounts known as the Appropriation Accounts which show the total amount of expenditure incurred against each grant. This compilation enables the Audit Department to keep a watch over the progress of expenditure. Any excess of expenditure over the grant concerned has to be regularised through a supplementary demand, which after it is passed, is followed up with an Appropriation Act.

9. From time to time new features have been introduced in the documents connected with the budget with a view to providing valuable information. Thus along with Demands for Grants, notes are given on important schemes. Further, a document called the "Economic Classification of the Central Government Budget" is also compiled by reclassifying and regrouping the data provided by the Budget into a few meaningful economic categories, e.g., consumption, capital formation and financial investments. In this document, a cross-classification of Government expenditure by both economic and functional categories, brings together at one place all the relevant information by showing under each economic category the broad purpose to which Government expenditure is directed and under each functional head, the economic character of the expenditure.

(ii) Performance Budget

10. From the above description of the budgetary system it will be clear that the objective of controlling expenditure within the overall limits approved by the legislature is broadly served by it. The information provided under the "Economic Classification" is helpful in making a macro-analysis of Government transactions. It is, however, as a tool for management and as a device for evaluating performance that the Budget as now prepared is clearly deficient. The Budget no doubt contains notes on important schemes as a supplement to the Demands for Grants. But such a narrative description given separately cannot be a substitute for the inclusion of fuller data, relating to estimated inputs and the expected output, as an integral part of the budget. As stated by the Working Group on Performance Budgeting, "from the point of view of the Plan implementation, our budgets have failed to provide an adequate link between the financial outlays and physical targets, notwithstanding the growing amount of data now being supplied in the budget documents". There is, therefore, an urgent need to introduce a system which will provide such a link and that link must take the form of a "Performance Budget".

11. Performance Budgeting, which, in essence, is a technique for presenting Government operations in terms of functions, programmes, activities

and projects, seeks, among others, to achieve the following important objectives :

- (a) to present more clearly the purposes and objectives for which the funds are sought and to bring out the programmes and accomplishments in financial and physical terms;
- (b) to help a better understanding and better review of the budget by the Legislature;
- (c) to improve the formulation of the budget and to facilitate the process of decision-making at all levels of Government;
- (d) to enhance the accountability of the management and at the same time to provide an additional tool to management control of financial operations; and
- (e) to render performance audit more purposeful and effective.

12. The Working Group on Performance Budgeting has submitted a detailed report explaining the features of a scheme of performance budgeting—*vide* Accompaniment 'A' to the report of the Study Team on Financial Administration. We are in general agreement with the scheme described by the Working Group.

We feel, however, that the scheme, instead of being introduced in stages over a period of years as suggested by the Working Group, should be introduced as soon as possible in all the departments the activities of which are **developmental in character**. In the light of the sad experience in recent years with regard to the effective implementation of many development schemes and projects, we attach great importance to an early introduction of performance budgeting for all development programmes. It would help create a built-in-mechanism for watching the progress in attaining programme targets and taking timely corrective action, when things go awry. It will also help reinforce the principle of accountability to Parliament.

Recommendation 1

We recommend as follows:

- (1) The departments and organisations which are in direct charge of development programmes should introduce Performance Budgeting. This should be done both at the Centre and in the States.**
- (2) The performance budget documents should be prepared in the following manner. A programme and activity classification should be made for each department or organisation selected for the purpose of performance budgeting. Besides presenting the financial needs of those programmes and activities, the expenditure should be classified in terms of "object", e.g.,**

“Establishment”. This should be followed by a narrative explanation justifying the financial requirements under each activity. This explanation should include information on targets, achievements, relevant workload factors, comparative performance over the years, etc. All this will constitute the performance budget. It should be accompanied by the Demands for Grants which will continue to serve as the medium through which appropriation control is exercised.

- (3) The programme and activity classification referred to in (2) should be entrusted to a team consisting of officers drawn from the Ministry of Finance, the administrative Ministry concerned and an officer of the Audit Department.
- (4) In the departments and organisations where performance budgeting is to be introduced, the administrative and financial management system covering the planning, programming, budgeting, reporting and evaluation should be strengthened with a view to adapting these to the requirements of performance budgeting.
- (5) A suitable training scheme should be devised for those who, at different levels, will be concerned with the introduction of performance budgeting. The Finance Ministry should prepare a manual on performance budgeting, covering the various issues involved and containing instructions of a practical nature for the guidance of all concerned with the budgetary process.
- (6) The report of the Working Group on Performance Budgeting may be taken as illustrating the lines on which a performance budget is to be prepared.
- (7) In as many as possible of the departments and organisations selected for performance budgeting, the scheme should be introduced with effect from the Budget for 1969-70. For the others, the scheme may be introduced in the Budget for 1970-71.
- (8) The Finance Ministry should assume responsibility for introducing the system, and give a lead to the States in the matter.

(iii) Heads of Account

13. In order to facilitate the introduction of performance budgeting and keeping in view the growth in the volume and diversity of the expenditure incurred by Government in this era of planned development, it is necessary to review the present system of classification of expenditure and consider the changes necessary to adapt it in the light of changed conditions.

14. The basic feature of the accounting system in India both in the Union and the State Governments is a classification of transactions under numerous major Heads of Accounts, each having been further divided into a number of minor heads. Each of these is further sub-divided into detailed heads. The major Heads of account generally correspond to the various Ministries and Departments of Government. In recent years there has been an enormous expansion in the activities and functions of Government, particularly in the spheres of social and economic development. Although attempts have been made to amend the structure of accounting heads from time to time, the essential framework has remained, more or less, intact. As a result the accounts today, while exhibiting the outlay of the various Ministries, fail to throw light on the underlying objectives and the developmental targets of public expenditure. In particular, the basic pattern of minor heads has undergone but little change over the years despite the growing variety and complexity of public expenditure.

15. Having regard to the fundamental importance of the accounting structure to the efficiency of programme planning and administration, it is essential that the structure should be so devised as to depict, as far as possible, the total expenditure of Government, Central or State, on each of its functions, programmes and activities. Such a system will not only facilitate budgetary analysis and decision-making processes, but will also assist the implementation of programmes and the evaluation of their performance. Despite the recent reform in the pattern of classification of accounts which now gives greater recognition to functional categories than before, the basic pattern today retains its original bias towards the organisational set-up. Furthermore, the lack of coordination between the accounting heads adopted in the budget and the financial accounts and the major heads of development employed for indicating Plan outlays is another drawback of the present system. To glean from the Government accounts the total outlays on the various Plan schemes is a complicated exercise, which makes the problem of reviewing the performance in relation to the Plan programmes a very difficult one. We attach great importance to a thorough review of the structure of major heads of account with a view to evolving a new pattern, giving due recognition to the major functions and objectives of Government as well as to the need for a proper coordination between the account heads and the development heads used for the purpose of Five Year Plans. Even after a measure of uniformity is brought about between the development and account heads, it will be necessary to provide a link between the Plan schemes and the budget provision through a supplementary document specially prepared for the purpose. This document should contain a list of schemes included in the Annual Plan arranged under various heads of development indicating, besides, the provision made for each of the schemes under different account heads.

16. The reorganisation of the structure of major heads would be mainly useful in providing information about the relative dimensions of the broad purposes or functions of Government. In other words, the information now being furnished in the Annual Financial Statement would be related to more meaningful categories in terms of the major activities and functions of Government. If the functional layout of expenditure is to serve the purpose of identifying, more especially, the contents and costs of the various programmes of Government, the expenditure under the various major heads would have to be broken down and analysed further to indicate the overall cost of specific programmes, activities and projects of each Ministry or Department. It is only this detailed analysis which can serve as a basis for a rational choice between competing programmes or as an instrument of control over managerial performance of executive authorities at various levels. Although the concept of Performance Budgeting is flexible enough to be applicable in widely different institutional and organisational backgrounds, one of its prime pre-requisites is the integration of budgetary and accounting classifications which should reflect the various programmes and activities of Government as well as their relative costs in an intelligible manner. The process of installation of a performance budget thus calls for a meaningful analysis of the programmes, activities and projects being undertaken by Government and a review and reorganisation of the general structure of accounts, including major and minor heads, in order properly to reflect these programmes, activities and projects. The Study Team on Accounts and Audit has given a detailed analysis of the existing structure of minor heads under the Major Head 31-Agriculture—in Chapter V of its report. The principles enunciated by it for a thorough review and reorganisation of the minor heads should receive full recognition and a programme should be launched to recast the present structure.

Recommendation 2

We, therefore, recommend that:

- (1) The structure of major heads of accounts may be reviewed and recast in terms of broad functions and major programmes of Government. The heads of development adopted for plan purposes may also be reviewed with a view to establishing a direct correlation between these heads and the general accounting heads.**
- (2) Programmes, activities and projects of all the departments and organisations where performance budgeting is sought to be introduced should be clearly identified and the minor heads connected with these programmes suitably recast so as to reflect those activities.**
- (3) Representative of the C.&A.G., the Planning Commission, the Finance Ministry and the administrative Ministry concerned**

should be associated with the task of drawing up a programme for the implementation of recommendations (1) and (2).

- (4) Statements should be prepared each year, as a supplement to budget documents, analysing the plan outlays under various heads of development into components corresponding to the accounting heads.

(iv) The Financial Year.

17. Any consideration of reforms in the budget and the procedure thereof would bring to the fore the question of the period which should be covered by it. In our country this question has been debated, off and on, for more than half a century.

18. The present financial year which runs from the 1st April to 31st March of the following calendar year was adopted by the Government of India in 1866, presumably in conformity with British practices. Whatever might be the reasons for the British or even European preference for the year from the 1st April to 31st March, the matter calls for a re-examination in the light of the conditions in India. The question of revision of the financial year was raised pointedly in 1913 by the Royal Commission on Indian Finance and Currency (generally known as the Chamberlain Commission) who, referring to the difficulties arising in connection with accurate budgeting in India, observed as follows:

“The revenues of India, whether shown under railways or customs or directly under the head of land revenue, fluctuate to an extra-ordinary extent with the success or failure of the agricultural operations of each year, and these again depend predominantly on the south-west monsoon which spreads over the Indian continent and Burma in the months of June to October. Under present arrangements the Indian budget is presented before the end of March, and the Finance Member accordingly has to prepare his estimates in ignorance of the most important factor on which the results of the year will depend. The late Finance Member of the Viceroy's Council indeed has described the framing of a budget as a gamble in rain. We would observe however, that the description applies only because the budget is taken before the monsoon. It is clear in fact that from the financial point of view the present date is almost the most inconvenient possible for the budget, and the suggestion has, therefore, been made that the date of the beginning of the financial year should be altered from the 1st April to the 1st November or 1st January”.

19. This suggestion, viz., that the financial year should commence either from the 1st November or the 1st January was taken up for serious

consideration by the Government of India in 1921 after the end of the First World War—its consideration in 1914 having been postponed on account of the outbreak of the First World War. The proposal for the change was, however, dropped for want of unanimity. The matter was again raised in 1926 and 1927 by the members of the Central Legislature, but without much success. It has become a live issue again after Independence, and has since been the subject of frequent discussion, and of examination by the Government as also by Parliamentary Committees. In spite of prolonged and lively discussion, however, no unanimity or near unanimity of views has emerged. The views of State Governments have been divided on the subject. While a number of States have been definitely in favour of retaining the *status quo*, others have made positive recommendations for a change in the present financial year. There is no agreement, however, on the date from which the financial year should commence, some States being in favour of the 1st July, others in favour of the 1st October, while a few others are in favour of the financial year being co-terminus with the calendar year.

20. The Study Team on Financial Administration which had the benefit of the views of knowledgeable persons outside the Government as well as of senior officers of the Central and State Governments, has observed as follows:

“Since no one solution reconciles all these (alternatives), what particular balance of advantage should be regarded as justifying a disturbance of the *status quo* with its attendant disadvantages. We have considered these questions and feel that if the *status quo* is to be changed, the balance of advantage would lie in favour of 1st October, more especially from the point of view of performance on which we lay emphasis throughout this report”.

21. The following important considerations must be taken into account in any serious discussion of this matter:

- (i) India still remains, despite the industrial development of the past decade or so, a predominantly agricultural country with most of the industrial production and commercial activities being dependent to a large extent on agricultural production. This makes it necessary that the financial year should be such that the dominant character of the principal monsoon should be known before the budget is finally settled.
- (ii) The continuous spell of the working season or as much of it as possible should fall within a single financial year.
- (iii) The period commencing from the end of the monsoon and extending up to the peak of the next hot season constitutes the season of most intense activity.

- (iv) The timing of the budget session of Central and State Legislatures should be suitable for the members thereof.

22. The south-west monsoon—which is the principal one—breaks over the Arabian Sea in the beginning of June, in West Bengal by about the 10th of June and at places in northern India at a somewhat later date. The effect of this monsoon which is responsible for over 90 per cent of the total annual rainfall in India cannot be known until after the rains of the crucial month of September. The budget estimates would have therefore to be finalised some time after the month of September though the preparation of the budget estimates has necessarily to commence a few months ahead of the commencement of the financial year. By that time (*i.e.* the end of September and the beginning of October) it would be possible not only to take a final view of the behaviour of the monsoon but also to assess the prospects of the main crop, namely, the kharif crop which accounts for a substantial part of the total agricultural production in the country. Bearing in mind the first of the considerations set forth above, the most suitable time for the commencement of the financial year would, in our view, be the 1st November.

23. As regards the working season, it is generally taken to be from the beginning of October to the end of June. The duration of the present financial year, *viz.*, April—March, splits this working season into two parts falling into two consecutive financial years. If November to October is taken as the financial year almost the whole of the working season (that is the period exclusive of October) will fall in one financial year. We could, of course, put the whole of the working season into the financial year if it were to commence on the 1st October, but that would imply the finalisation of budget estimates by the end of August, if not earlier, and a clear picture of the agricultural prospects will not probably be available so early.

24. A financial year commencing from 1st November would also seem to be more suitable for Parliamentary business. If the financial year is to commence on the 1st November, the budget discussions can be held at the Centre and in the States during the latter part of the monsoon period when touring in general is inconvenient. Moreover, Government departments would then be employed in the work of preparation of the Budget during the earlier part of the monsoon season, which will suit them better than the hot summer months of April to June.

Another consideration, based on national tradition, may be urged in favour of the above date. Each nation has its own tradition based upon its civilisation, customs and habits. These traditions are evolved over centuries and they continue to remain in force in view of their inherent vitality. In India, whether in the agricultural or in the commercial field, the traditional dividing line between the close of one period of activity and commencement

of the next is the Diwali. An accounting year for government transactions conforming to this dividing line will result in considerable psychological advantage. Diwali or some date near about that date can, therefore, be taken as the starting point of the financial year. As the date selected must also be a fixed one in terms of the international calendar, the 1st of November can conveniently be adopted for this purpose.

25. We recognise that any change in the financial year would cause in the short run considerable dislocation in the administrative and statistical fields of activity. But that consideration should not deter us from adopting a more rational, practical and convenient system, keeping in view the many advantages which will accrue therefrom. We are confident that a change in the Financial Year is less likely to cause dislocation in national life than some of the changes introduced in recent years, for example, the decimal system of coinage, the metric system of weights and measures. Past experience in such matters shows that the process of adaptation to new systems superseding age-old practices will not be unduly protracted or painful.

Recommendation 3

We recommend that the financial year should commence from the 1st of November instead of the 1st of April as at present. This should be adopted both at the Centre and in the States.

(v) Accuracy of Budget Estimates—Receipts.

26. One of the essential requirements of a sound budget is the achievement of the maximum possible accuracy in estimating the revenues and expenditure of the succeeding financial year. We have already pointed out the need for starting the Financial Year from the 1st of November in order to minimise the uncertainties due to the vagaries of the monsoon. We now deal with some other factors which contribute towards inaccuracy in estimates.

27. The criticism has sometimes been voiced in Parliament, in Parliamentary Committees and elsewhere that in the framing of budget estimates, there is a tendency to under-estimate revenue receipts and to over-estimate revenue expenditure. The result has been a recurrent complaint that there is recourse to more and more taxation, the need for which might have been obviated by the preparation of more accurate estimates. We need hardly emphasise that any undue under-estimation of revenues and over-estimation of expenditure would distort the budgetary outlook and may lead to an avoidable increase in taxation. The validity of this criticism is borne out by the figures of revenue and expenditure during the five years from the 1st April 1961 to the 31st March 1966; as compared to the budget forecast, the actuals show an under-estimation of revenue receipts in the years

1961-62 to 1965-66 by as much as Rs. 741 crores, and an over-estimation of expenditure on Revenue and Capital account by Rs. 286 crores. These are the years when under the influence of such inaccurate budget forecasts not only was additional taxation imposed, but an attempt was also made to enforce various measures and policies which the industry felt would affect them adversely. It is not unlikely that a contributory factor to the present position of economic malaise may have been this inaccuracy in estimates involving Rs. 1,000 crores over a period of five years. The under-estimate of tax revenues included in the figures for revenue receipts alone during these five years would come to Rs. 567 crores.

28. Under-estimation of revenue can partly be attributed to an over-cautious attitude on the part of the estimating authorities. Further, faulty techniques of forecasting may also lead to inaccurate estimates. We understand that the Central Board of Direct Taxes and the Central Board of Excise and Customs have been alive to the criticism of their estimating process, and have been taking measures for its improvement. Preparatory steps have also been taken by the Central Board of Excise and Customs for the reorganisation of its **Statistics and Intelligence Branches**, and executive instructions have been issued for taking into account all relevant factors like the commencement of production by new factories, the expansion of existing units, the availability of raw materials, the condition of agricultural crops and changes in the pattern of consumption and production in preparing the estimates. While the steps taken are in the right direction, we would like to emphasise here that the preparation of accurate revenue estimates is an essential part of the budgetary process and in the context of the impact of taxation on the economic life of every citizen, it is essential that the procedures of revenue forecasting should further be improved with a view to achieving the maximum possible accuracy.

29. As stated by the Study Team on Financial Administration, three methods are mainly used in revenue forecasting in developed countries, namely, the rule of the penultimate year, the method of averages and the method of direct valuation. Under the first of these namely, the rule of the penultimate year, the revenue estimates for the budget year are based (with necessary modifications) on the actual revenue for the fiscal year last ended. Under the second method known as the method of averages, the average of three or five year period just preceding is taken as the basis. The first two methods are, however, the product of an earlier age; it has now become possible to employ techniques of revenue estimating which will produce better results and for this purpose the direct valuation method has increasingly been adopted by many countries. Under this system, use is made of the known current economic data such as production, prices, consumption and exports. Each of these three methods has its own utility in revenue forecasting, but the last one requires greater emphasis. The applicability of this method depends, however, on the coverage and accuracy

of the statistics available. It is, therefore, necessary to open statistical cells, or strengthen them where they exist, for the purpose of collecting and analysing statistics relating to the yield of taxes, and for studying the impact of economic factors on the tax potential.

30. The present budget forecasts are generally based on actuals which are out of date by some months, at least, if not a whole year. In the changing economic situation, particularly in a period of recession or jolt to economy resulting from a radical change in policy such as devaluation, such a time lag is bound to entail undesirable consequences unless estimation of revenue receipts and expenditure returns turns out to be accurate. In the circumstances, we would suggest that Government do take urgent steps to use modern methods, such as computerisation, to assist in this difficult process of revenue forecasting.

Recommendation 4

We recommend that the arrangements for collection and study of statistical data having a bearing on taxation should be reviewed and improvements effected, keeping in view the need for up-to-date, accurate and comprehensive information necessary for preparing the estimate of revenue.

(vi) Accuracy of Budget Estimates—Expenditure

31. Over-estimation of expenditure aggravates the evil consequences of under-estimation of revenue. Like the latter, it is partially due to the estimator's psychological approach to his task. Just as the over-cautious estimator of revenue tries to provide for a possible inability to reach his target, the spending authority, apprehending that his estimates may be pruned down at a higher level or feeling that it is safe to provide for a possible contingency of expenditure outstripping estimates, pitches his demands too high.

32. While psychological factors leading to over-estimation of expenditure may be cured through a reorientation of outlook, improvement in managerial technique should help in reducing, if not eliminating, large shortfalls from the expected levels of expenditure on projects. Such improvements will have a two-fold effect. The budget forecast will be more accurate; and the performance will be so controlled that it will approximate to the targets originally set. In the case of governmental schemes in general, a system of forward looking or 'perspective' budget should be attempted for each service and activity—whether new or already existing—wherein requirements of manpower and materials for the next few years should be ascertained in advance. A budget so framed when reviewed every year will facilitate the precise formulation of the financial requirements of each year. During the course of construction of projects,

systematic cash-flow statements should be prepared and in this connection modern control techniques like PERT should be made use of. After the construction stage, it will be necessary to instal an operations budget covering the production, sales, manpower, etc. in each project, so that the future needs could be adequately foreseen and necessary administrative action taken betimes.

Recommendation 5

We recommend that:

- (1) A system of forward looking budget should be attempted for each service and activity wherein requirements of manpower and materials for a few years should be ascertained in advance. The budget so framed should be reviewed every year with a view to facilitating the process of formulation of financial requirements of each year.
- (2) During the course of construction of projects, systematic cash flow statements should be prepared and in this connection, modern control techniques like PERT should be made use of.

(vii) Lapse of Grants

33. It is axiomatic that all funds voted by the Legislature lapse when the financial year ends. The Legislature grants funds to the Executive on a yearly basis and all appropriations expire at the end of the financial year and no portion unexpended during the year may be reserved by transfer to deposits or by being drawn or kept in the cash chest to be expended after the end of the year for which the grant was made. This is known as the 'rule of lapse'.

34. We have referred above to the ways and means of preventing situations in which funds lapse either on account of over-estimation of expenditure attributable to remediable defects in the process of estimating or due to delays in programme execution which could be removed by better managerial control. There are, however, situations in which the lapse of funds becomes unavoidable due to factors beyond the control of the spending authorities, e.g., sudden emergence of bottlenecks, delays in the release of foreign exchange, non-availability of stores, spare parts, etc. Of these, according to our information, delays in the release of foreign exchange lead to serious consequences and all efforts should therefore be made to eliminate them. Such delays not only do not help in curtailing expenditure of foreign exchange, but they also retard economic progress.

35. It has been alleged that the operation of the rule of lapse has resulted in three types of adverse consequences, viz., (i) wasteful rush of expenditure towards the end of the year, (ii) a tendency on the part of the

spending authorities to withhold surrender of savings till the close of the financial year with the result that available funds cannot be reappropriated for use elsewhere, and (iii) an interruption in the flow and continuity of work at a favourable time of the year. It has been suggested that these deleterious effects of the rule of lapse can be mitigated, even overcome, by adopting one or the other of the following three methods:

- (i) The abrogation of the rule of lapse;
- (ii) An eighteen months' or 24 months' budget instead of a 12 months' one.
- (iii) The funds may be sanctioned annually with the provision that funds may not lapse at the end of the year but may be available for utilisation by the Executive for a limited period of, say, three to four months in the succeeding year on the principle of spill-over.

36. The Study Team on Financial Administration has examined all these alternatives, and does not favour any of them. We generally agree with the Team. The first suggestion would reduce the accountability to Parliament and would be against the existing provisions of the Constitution. As regards the second suggestion, the difficulty would continue even then; only it would recur at longer intervals. The year would then cease to be the unit of Government account and there would be one budget, one Finance Act, one Appropriation Act every 18 months or two years and no longer one of each in every year. Neither in expenditure, nor in revenue it is possible to estimate with accuracy for a two-year period. The various factors affecting the national economy like production, investment, wages, prices, balance of payments, tax receipts and industrial activity, which determine the general nature of the budget cannot accurately be predicted for periods longer than one year. The trend in most of the countries of the world has also been towards one-year appropriation. The third course of action looks promising and deserves consideration. It is inevitable that a period of lull in economic and administrative activities should set in after the end of the financial year if the supply of funds suddenly ceases at that time. This results in a relaxation of efforts coming as it does when the tempo of work is at its peak; such a relaxation produces an unhealthy reaction of leisure and complacency at the wrong time. The interruption in work is bound to result in delays in the completion of projects. We would, therefore, suggest that some amount should be earmarked so that expenditure can continue to be incurred on project in hand for a period of, say, one month, by which time new allotments will have been made and administrative machinery geared for action in terms of fresh financial provision. It is true, as the Study Team on Financial Administration has observed, that "no budgetary formula or similar device can counteract the results of inadequate

planning and inefficient execution." We need not, however, take an attitude of despair and a working arrangement of the type we have proposed should be able to take care of this problem.

37. It has been noticed that in spite of the repeated instructions of the Finance Ministry, instances persist of the departments and organisations not surrendering the surplus funds in time. This may be partly because executive authorities are not aware of the state of expenditure and the progressive total of expenditure against their allotment. The remedy in that case would be to improve and streamline their accounting and budgeting arrangement, a point which has been dealt with in some detail elsewhere in this report. We recognise, however, that there is also a psychological factor behind the reluctance to surrender funds in time and if the Ministries or project authorities could be given some assurance that underspending in one year would not prejudice the budget estimates for next year, the department's reluctance to surrender funds would tend to diminish.

Recommendation 6

We recommend that in order to overcome the reluctance of the Ministries/Departments to surrender funds in time the Finance Ministry should give an assurance through a circular that underspending in one year would not prejudice the budget estimates for the next year.

(viii) Lump Sum and Token Grants

38. The tendency to make lump sum provisions is, like the tendency to over-estimate expenditure, an instance of laxity in budgeting which needs to be held severely in check. It should be accepted as a general rule that no provision should be made in the budget for a scheme unless adequate details or information have been furnished to the Finance Ministry and accepted by it. This salutary principle has repeatedly been emphasised by Parliamentary Committees. We agree with the Study Team on Financial Administration that "the administrative Ministries can and should take steps to obtain the clearance of their budget proposals from the Finance Ministry well before the final date stipulated in the budget calendar" and that "it is advisable to stagger the proposals over a period of time instead of waiting till the last moment and then rushing them together to the Finance Ministry". In some most exceptional circumstances when urgent measures are required to be improvised for meeting an emergency, lump sum provisions may be made. In relatively small amounts they may be justified when a detailed break-down is inherently not possible, as when preliminary expenses on projected schemes have to be incurred. In all other cases, schemes must be deferred to the next budget year

If postponement for the whole year is not possible, a proper alternative would be, as suggested by the Study Team, to take up the item in the next supplementary estimate after a full scrutiny has been made. The number of such items should not be large and therefore there need be no apprehension that a large number of schemes will push up the supplementary estimates to such a high figure that the whole of the budget will be thrown out of gear. Further, the adoption of performance budgeting and sound techniques of managerial control should in general render it impossible for the spending authority to come out with a proposal for lump sum provision for a scheme for which it is not ready with details. We also consider that if spending departments have proper and efficient budget cells which will keep an eye not only on receipts and expenditure but also on proposals or projects likely to form part of the budget, the number of schemes in which pre-budget scrutiny will not have been made would be very small, if at all, and for these the device of supplementary estimates should be adequate.

Recommendation 7

We recommend that :

- (1) **There should normally be a total ban on the inclusion of lump sum provisions in the budget. They should be permitted only in the most exceptional cases, e.g., where urgent measures are to be provided for meeting emergencies or where comparatively moderate amounts are to be spent on items like preliminary expenses in a project for which only a rough estimate can be made and details cannot be furnished.**
- (2) **The administrative Ministries should take steps to obtain the clearance of the budget proposals from the Finance Ministry well before the due date.**
- (3) **The Contingency Funds of both the Central and State Governments should be enhanced suitably to enable funds being found for urgent schemes or projects which cannot be postponed till the estimates of next year are placed before the Legislature.**

39. The misuse of the system of "token" grants is another instance of budgetary indiscipline. A "token" demand, unlike a "lump sum" demand, is to be made only when the details of a scheme are ready and funds are available for undertaking it and yet it cannot be started without legislative approval, it being in the nature of a new scheme. The actual demand is limited to a nominal amount, because the necessary funds can be met out of savings under some other heads of expenditure. Obviously, a situation in which a token demand can be presented will, therefore, arise only mid-way in a year when the savings can be foreseen. (It would be incorrect

to begin the financial year with a token demand based upon anticipation of substantial savings. If such substantial savings are anticipated, the estimates should be reduced *ab initio*). Yet it has been misused to seek approval in principle for big schemes without the full financial implications being worked out and got approved by the Finance Ministry.

Recommendation 8

We, therefore, recommend that token grants should be asked for only when the approval of Parliament is necessary for a "new service" and the funds for that service can be found by re-appropriation.

(ix) Budget and Economic Analysis

40. The budget as presented to Parliament being primarily designed for facilitating legislative scrutiny and authorisation does not give an adequate indication of the impact of the operations of the Government on capital formation, mobilisation of savings and the level of economic activity of the country. An economic analysis of the budget is therefore required for enabling the policy makers "to review broadly the pattern of allocation of resources and its impact on the rest of the economy". Such an economic analysis is of special importance in developing countries where the transactions on Government account form a significant part of the total economy. Further, as stated by the Study Team on Financial Administration, "in a country like India where the national income data are not adequate the economic classification of the Government transactions has also to be viewed as an essential step towards the construction of a comprehensive system of national account".

41. The Ministry of Finance has been bringing out an economic classification of the Central Government budget since 1957-58. The expenditure taken into account for this purpose is that of the Central Government and the commercial undertakings run by it departmentally. However, for a proper appreciation of the Government's role in the generation of incomes, savings and capital formation, it is essential that this analysis should be extended to the budgets of all the State Governments as well as non-departmental public sector undertakings. (Only a few of the State Governments, e.g., Punjab, Madhya Pradesh and Orissa bring out an economic classification of their budgets.)

42. The economic classification of the budget is now presented as a supplementary document and has no specific role to play in the formulation of the budget. It is important that economic classification be integrated into the budgetary processes itself. For this purpose the economic analysis of the estimates should be carried out by each department for each Demand

so that the total impact of the budget can be appraised at the central point where the consolidated budget is prepared.

43. The usefulness of the techniques of economic analysis has to be adjudged not only in terms of better economic understanding of Governmental operations but also in terms of the extent to which it facilitates policy formulation. This implies that this technique should make it possible to forecast changes in national income. But the data in India required for this purpose are still very deficient. We understand that the Central Statistical Organisation (which has recently been strengthened for this purpose) is making continuous efforts towards the improvement of income statistics and for constructing the series of savings and investment. These efforts, which will be a supplement to what we have recommended, should in due course, help to fulfil much more adequately than at present the needs of economic analysis and of policy formulation.

Recommendation 9

We recommend that:

- (1) **Economic classification should be extended to the budgets of the State Governments and to all the non-departmental public sector undertakings.**
- (2) **The economic classification should be integrated with the budgetary process itself and to every demand for grant there should be attached an economic classification of that particular demand.**

(x) Consideration of the Budget by Parliament

44. It is one of the primary functions of the budgetary process to satisfy the requirements of accountability to Parliament which, in our democratic set-up, is the ultimate authority to sanction the raising and spending of public funds. Parliament's control of the purse is fully established, and taxes cannot be imposed nor money spent without its approval. The budget estimates are, therefore, primarily designed to secure Parliament's consent to the projected expenditure. It is sometimes contended that due to limitations of time and procedure Parliament does not get sufficient opportunity to fully examine and discuss the budget proposals. Suggestions for improvement of procedure have been made from time to time in this connection.

45. The Estimates Committee (Second Lok Sabha 1957-58), in their 20th Report, suggested *inter alia* the revival of the Standing Finance Committee which had been abolished in 1952. The suggestion has been repeated in other quarters. The Study Team on Financial Administration has after careful consideration disfavoured the revival of the Standing Finance

Committees and we concur. We are also in full agreement with the view of that Team that under our Parliamentary system the device of a whole House converting itself into a Committee of Supply while considering the estimates would be an unnecessary refinement.

46. We further agree with the Team that the discussion on Demands would be more informed and purposeful if they are invariably initiated by the Minister concerned and in the course of the introductory speech he explains the policies underlying the estimates, the physical programmes planned, and the progress in performance, if any, during the preceding year. A similar suggestion was made in the past by the Estimates Committee but it has not, we understand, been given effect to. We recommend that it should be adopted as a general rule.

47. At present, Ministries circulate their annual reports to Members of Parliament in time for the discussion of their Demands for Grants. These annual reports constitute a record of the activities of the departments and furnish useful information. We feel that it would add to the usefulness of these reports if they also include a full exposition of the needs of the departments and a justification for the funds asked for. These will be helpful to Members of Parliament in arriving at a proper appreciation of the performance and the requirements of the departments.

Recommendation 10

We recommended that :

- (1) The Minister should invariably open the discussion on Demands for Grants pertaining to his Ministry and explain the policy underlying the estimates, the physical programmes planned and the performance etc., during the preceding year.**
- (2) The Annual Reports of the Ministries and departments should include a full exposition of their needs and a justification for the funds asked for.**

CHAPTER III

FINANCIAL CONTROL AND MANAGEMENT

48. The control of the Finance Ministry over public expenditure is exercised in the main at three stages: (i) approval of programme or policies in principle, (ii) acceptance of provision in the budget estimates, and (iii) prior sanction to incurring of expenditure subject to such powers as have been delegated to the administrative Ministries. It is the control at the first and third stages that generally engages much of the time of the Finance Ministry and that impinges on the day-to-day working of the administrative Ministries. A control at these stages, if too rigid or detailed involving much time and effort, can slow down the pace of work, delay the implementation of projects—particularly developmental, commercial or industrial ones—and thereby cause loss of national effort or income. While the need for control or scrutiny is not denied, it must be constructive, purposeful, imaginative, and not narrow in outlook or cramping in effect. Various attempts have been made to achieve these objectives, but they have not yet been realised in adequate measure.

49. During the Second World War, a Joint Secretary of the Finance Department was appointed as the Financial Adviser to the Department of Supply with a view to expediting decision making and implementation of programmes of work. This experiment was abandoned after the War. It was, however, soon realised that the post-war problems and the demands of planned economy were no less urgent and pressing than those of the war years. Sir Richard Tottenham in his report to the Government in 1945-46 emphasised that the need of the time was to develop a sense of financial responsibility in the spending departments and, for this purpose, to provide them with the assistance of their own financial advisers as distinct from the Finance Ministry's officials. He attached special importance to the strengthening of the financial set-up within the spending departments. Shri Gopalaswamy Ayyangar in his report on the Reorganisation of the Machinery of Government (1949) referred to the delays and deficiencies of the existing system of financial advice and observed "that the system requires to be improved so as to increase the responsibilities of the individual Ministries and remove the sense of frustration prevailing among them". In 1951, Shri A. D. Gorwala, in his report on Public Administration, stressed the need for a greater delegation of financial powers to administrative Ministries and effective use by them of such delegated powers. Shortly thereafter in 1954, Shri A. K. Chanda strongly recommended the adoption of the U. K. Pattern

under which the Secretary of the administrative Ministry is the "Accounting Officer" and is entrusted with full and clear responsibility for financial regularity and propriety and is usually assisted by a Finance Officer under him. After some consideration, the Central Government accepted the underlying idea of administrative Ministries adopting their internal Financial Advisers in consultation with the Finance Ministry and a beginning was made when an internal Financial Adviser of the rank of Deputy Secretary was appointed in May 1955 in the Ministry of Irrigation and Power.

50. In 1958 with the introduction of a new scheme of delegation of financial powers, it was decided to appoint Internal Financial Advisers in all Ministries to assist them in the proper exercise of their financial powers. Officers of appropriate status were to be posted to each Ministry with such subordinate staff as might be necessary, to give financial advice. In case the financial advice offered by Internal Financial Adviser was not accepted, the matter was to be referred to the Secretary of the Ministry for orders, and if the Secretary did not accept the advice, the matter was brought to the notice of the Minister, who alone could over-rule the Internal Financial Adviser. The cases of such over-ruling were moreover to be reported to the Ministry of Finance and the Comptroller and Auditor General for information. All orders authorising expenditure by the administrative Ministries in exercise of their enhanced delegated powers were to be endorsed to audit over the signature of an officer in the internal finance branch. Under this scheme, officers of the rank of Deputy Secretary and below were transferred to the administrative Ministries, but the Joint Secretary continued to function in a dual capacity as a representative of the Ministry of Finance and as an Internal Financial Adviser of the concerned Ministry.

51. The question of decentralising financial control was again mooted in the context of a speedy and effective implementation of the Third Five Year Plan. In September, 1961 a revised plan was introduced in four Ministries as an experimental measure. Under this scheme, the 1958 delegation of powers was further widened in important respects, for example, the creation of posts and the incurring of expenditure on constituent items of projects. The obligation to consult the Financial Adviser in all matters within the field of enhanced delegation was removed. It was left to the discretion of the Secretaries of administrative Ministries to lay down procedures of consultation with the Financial Adviser and take a final decision after obtaining advice of the Financial Adviser. The Secretary could over-rule the Financial Adviser without the matter being reported to any outside authority. The scheme laid stress on the pre-budget scrutiny by the Ministry of Finance and emphasized that the Ministries should undertake voluntarily the reorganisation of their finance, budget, and account units. The scheme was extended to all the Ministries

in June, 1962, but it was not fully implemented in view of the onset of the emergency", caused by the Chinese invasion.

52. The 1962 scheme was revived, however, in March, 1966 with added emphasis on some aspects but without much alteration in its essential features. As regards financial advice within the Ministry, a more specific discretion was given to the Secretaries to decide whether or not they would need an Internal Financial Adviser. It was reiterated that Secretaries could over-rule their Internal Financial Advisers including the officers of the Finance Ministry when they were consulted on matters falling within the field of delegated powers.

53. The orders of 15th March, 1966 reaffirm in unequivocal terms the duties and responsibilities of the administrative Ministries:

"Within the limits of the budget provisions and subject to observance of financial principles, standards and procedures prescribed under the various rules and standing orders, the administrative Ministries are free to incur expenditure in the exercise of the powers delegated to them and no reference to the Finance Ministry is necessary. The Secretaries of the administrative Ministries can also over-rule the advice given by their Internal Financial Adviser (including officials of the Finance Ministry where they are consulted in respect of the delegated powers). The Secretaries thus have complete discretion in sanctioning expenditure within the delegated field. It also follows from this that each Secretary must assume full responsibility for decision taken in the exercise of delegated powers and for watching expenditure so that the budgetary provisions are in no case exceeded."

The Secretary of the administrative Ministry is, under the latest scheme of delegation, fully competent to take a decision after obtaining the advice of the Financial Adviser in such cases as he may deem necessary. Moreover, the procedure for consultation with the Financial Adviser has to be laid down by the Ministry itself in its own discretion. Thus, the Ministries are not under any obligation to consult their Internal Financial Adviser in all financial matters and it is open to them to prescribe the cases or types of cases in which they would consult the Financial Adviser. Further, it is not even obligatory for a Ministry to have an Internal Financial Adviser. In Ministries, where Internal Financial Advisers are not considered necessary, officers of the concerned Expenditure Division of the Finance Ministry will continue to be available for consultations and the Secretary of administrative Ministry will have the power to over-rule such officers of the Finance Ministry also in the delegated field.

54. The devolution of greater responsibility for financial management and of financial powers to the Ministries would involve the acceptance of certain obligations and restraints by the Ministries. First, the Administrative Ministries would have to work in financial matters within the general standards/norms laid down by the Finance Ministry and secondly, the responsibility for the expenditure for each department would squarely be on the shoulders of the Secretary of the administrative Ministry who is held accountable for all expenditure. The role and functions of the Financial Adviser, who will under the new scheme be 'internal' and not 'external' to the Ministry as before, assume great importance. It should be obligatory, in our view, for each Department or Ministry to have a whole-time Internal Financial Adviser of adequate seniority and rank and it should not be left to the discretion of individual department or Ministry to decide whether it should have an Internal Financial Adviser. The Internal Financial Adviser should be placed in charge of the Finance and Budget Cells of the Ministry and should be responsible for the financial management and control in all matters within the Ministry's field of responsibility and for maintaining requisite liaison with the Finance Ministry. He should not be entrusted with any other work of the administrative Ministry like personnel work, Parliamentary business or office management etc. However, on considerations of workload, in the case of smaller Ministries/Departments, it should be open to Government to entrust one Financial Adviser with the work relating to more than one Ministry/Department.

55. The Internal Financial Adviser should be responsible to and under the administrative control of the Secretary of the Ministry. The Finance Ministry should, however, be required to concur in the appointment of this officer and should have overall and coordinating interest in the development of careers of Financial Advisers. The annual assessment of his work should be made by the Secretary of the Expenditure Department, who should obtain the views and comments of the Secretary of the administrative Ministry under whom the Financial Adviser may, for the time being, be working. While it will be open to the Secretary of the administrative Ministry to over-rule him without being required to report the fact to any other authority, the relationship between him and the administrative Secretary should, as envisaged by the Study Team on Financial Administration, be that of senior partners in a common enterprise.

56. The existing rules provide that the Ministry could lay down in its discretion the procedure for consultation with the Financial Adviser. In view of the increased delegations to the administrative Ministries and of the dimensions of expenditure controlled by one Ministry, it is necessary that a set of model rules should be framed for the guidance of administrative Ministries in these matters.

Recommendation 11

We recommend that :

- (1) It should be obligatory for each Ministry to have a whole-time Internal Financial Adviser of adequate seniority and rank. This officer should be placed in charge of the Finance and Budget Cell of the Ministry and should be responsible for the financial management and control within the Ministry's field of responsibility. He should not be entrusted with any other work of the administrative Ministry like personnel work or office management, etc. It should be open to the Government to entrust one officer with the work relating to more than one Ministry/Department.
- (2) The procedure for consultation with the Financial Adviser and the type of cases in which he would be consulted should not be left to the discretion of individual Ministry. A set of model rules should be framed for the guidance of administrative Ministries in this matter.

57. The existing orders already provide for the Ministries organising their Finance Budget and Account Cells suitably to implement the schemes of enhanced delegation of powers, and for financial management by the Ministries themselves in consultation with the Internal Financial Adviser. The Finance Branches of the administrative Ministries should be suitably strengthened wherever necessary and endeavour should be made to staff them with qualified personnel competent to discharge their heavy responsibilities. The Ministry of Finance also have an important role to play in this matter. They should help the administrative Ministries to organise well-equipped internal Finance Branches. For this purpose, it will be necessary to (i) ensure proper training of the junior officers, and (ii) to provide suitable opportunities for officers in the middle levels to acquire varied experience and knowledge of public administration.

Recommendation 12

- (1) The Finance and Accounts Branches of the administrative Ministries should be suitably strengthened wherever necessary and staffed with qualified and well trained personnel.
- (2) The Finance Ministry should help the administrative Ministries to organise well-equipped internal Finance Branches. For this purpose, it will be necessary to (i) ensure proper training of the junior officers, and (ii) provide for officers in the middle levels suitable opportunities to acquire varied experience and knowledge of public administration.

58. We consider that the Financial Adviser should bring to his assignment a background of field experience, and at an appropriate stage he should be given such orientation as to equip him for the role and functions of Financial Adviser. The appointment as Financial Adviser of other officers who have not had the background of field experience should not, however, be ruled out entirely, but in such cases every endeavour should be made to provide them this experience as early as possible in their career as Financial Adviser.

59. There should be provision for periodical interchange between the officers of Finance Branches and other branches of administration. In the first place, it will ensure that at any given time there will be serving in the Finance Branches as also in the Finance Ministry a considerable number of officers who have had experience of the work of other departments and thus are better able to assess the impact of financial decisions on those departments or have appreciation of the problems of other departments. The financial advice given by officers with such a background will be more practical and more easily acceptable on that account. Secondly, under this system a proportion of those holding superior posts in the administrative Ministries and Departments also would have had experience and first-hand knowledge of financial work. This practice of inter-changeability has been followed in the Treasury and in the Government Departments in the U.K. with beneficial results to both. We would recommend that the principle of inter-changeability should be extended and placed on a sounder and more regular footing, and we have no doubt that this will make for sounder finance as well as better administration.

Recommendation 13

We recommend that :

- (1) The Financial Adviser should bring to his assignment a background of field experience and at an appropriate stage he should be given such orientation as to equip him for the role and functions of Financial Adviser. The officers without a similar background should be provided this experience as early as possible in their careers as Financial Adviser.**
- (2) There should be a provision for periodical interchange between the officers of the Finance Branches and other branches of administration.**

60. Administrative Ministries have to function in accordance with the existing delegation of financial powers. Such delegation is conditioned by general rules and regulations and the procedure prescribed for pre-budget scrutiny of schemes.

61. We need hardly emphasise that the rules and regulations have grown through the decades into voluminous proportions and are often over-laid with patch-work. Circumstances and conditions of work have changed beyond recognition and it is time that rules, regulations, procedures and instructions are completely overhauled and brought into line with these altered conditions and circumstances. At the same time, they should have a built-in capacity for adaptation to subsequent changes in conditions and circumstances. We propose to indicate in our report on the Machinery of Government the lines on which the existing delegation of powers should be further liberalised. Meanwhile, with a view to avoiding delays in the commencement of projects we recommend as follows:—

Recommendation 14

- (1) If a feasibility report has been accepted by Government and the detailed scrutiny thereof is likely to take considerable time, the administrative Ministry should be allowed to incur expenditure on preliminary work subject to specified financial limits.
- (2) A definite time limit, say, three months, should be prescribed for the consideration of schemes by the Finance Ministry. If the decision of that Ministry is not reached within the prescribed period, the case should automatically be put up to the Finance Minister who will decide upon the action to be taken and will communicate the decision to the administrative Minister concerned.

62. The Study Team on Financial Administration, while suggesting a general liberalisation of financial delegations, has drawn attention to one particular item in respect of which it recognises "the need for greater overall control", namely, the creation of posts with the resultant increase in establishment costs. It suggests that the proposals for additional staff or creation of posts should be considered by a well-trained Staff Inspection Unit composed of officers with adequate training in methods of work study, work measurement, etc. We agree with the Study Team. There is considerable justification in the general complaint that the increase in staff has been out of proportion to the needs of work.

Recommendation 15

We, therefore, recommend that :

- (1) **Proposals of the administrative Ministries for additional staff or creation of new posts should be considered by an indepen-**

dent agency namely, a well-equipped and well-trained Staff Inspection Unit.

- (2) In cases of sudden unforeseen increase in work due to extraordinary circumstances, the Ministries and Departments should have power to create, only for very short periods not exceeding three months, temporary posts if funds can be found by reappropriation within the existing budget provision. Such powers may be made available to Heads of Departments also.

CHAPTER IV

GOVERNMENT ACCOUNTS

(i) Introductory

63. The origin of the present system of accounts and audit may be traced to the institution of a number of far-reaching reforms by the Government of India in the system of financial management early in 1860's. It was for the first time in 1860-61 that procedures were prescribed for an annual budget of Imperial Income and Expenditure to be sanctioned by the Supreme Government of India before the commencement of the year. The problems connected with practical implications of the new system of Estimates, Budget, Accounts and Audit were examined and analysed in great detail by an Expert Committee set up in May 1860 and, as a result of its recommendation, the Accountant General to the Government of India was also designated as Auditor General of India. Under a scheme of further reorganisation in 1862, the departments of Accounts and Audit headed by the Accountant General were made a part of the Finance Department, of which the Financial Secretary was the head. It is interesting to observe that the Auditor and Accountant General was then charged with the duty of bringing the accounts of the Indian Empire together and was made responsible to the Government of India "for the correct performance of the mechanical duties of accounts and audit, as distinguished from administrative matters coming within the province of the Finance Secretary".*

64. The genesis of the post of the Comptroller and Auditor General as it exists today, is clearly traceable to the system devised in 1860—over a hundred years ago. Despite the changes that have taken place from time to time, in his status and designation and in the relationship between this high dignitary and the executive as well as the legislative limbs of the Government, the responsibilities for the maintenance and supervision of the Accounts and Audit system have remained in the hands of a single agency. The designation of the Auditor General of India and Accountant General to the Government of India was changed to the Comptroller General of Accounts in 1865, when a new system of a monthly, in place of annual, consolidation of accounts was introduced and a Central Office of Accounts was established. In 1880, a committee appointed by the Secretary of State for India to inquire into the system of Military accounts and estimates in India recommended that the existing departmental audit should be supplemented by an independent Appro-

*Government of India, Finance Department Resolution No. 82 dated 13th May, 1862.

priation Audit. The opinion on the question of the agency to conduct the Appropriation Audit was equally divided between the members of the Committee, half of them holding that the Comptroller General should be **charged with this responsibility, and the other half holding that the Comptroller General**, if entrusted with this duty, should not perform any executive functions in relation to accounts and should be placed directly subordinate to the Governor-General alone. The Secretary of State agreed with the view that the Comptroller General may be given additional responsibility for conducting the appropriation audit. Thus, with effect from 1882, the Comptroller General was designated as the Comptroller and Auditor General and the functions of supervising the accounting system as well as conducting an appropriation audit were performed by a single agency subordinate to the Government of India.

65. The next stage in the organisation of the accounts and audit system was reached with the passing of the Government of India Act, 1919. It was for the first time under this Act that the "Auditor General" was given a statutory recognition. The Government of India Act, 1935 made a small change in the designation from 'Auditor General in India' to the 'Auditor General of India', to signify that the Auditor of Indian Home Accounts in the U.K. was also to be under his administrative control. The Government of India Act, 1935 gave a discretion to the provinces to appoint Provincial Auditors General, subject to certain conditions and restrictions to the effect that the choice should be exercised only after the expiry of five years from the commencement of the Act. However, these provisions were never acted upon and the Constitution of 1950 does not confer any discretion on the States to have their own Auditor General.

66. A noteworthy feature of the Indian system is the 'principle of uniformity of the accounting structure for the transactions of Central and State Governments. The emergence of a highly centralised form of government in the nineteenth century greatly facilitated the establishment of a uniform system of accounts by Government agencies throughout the country. This aspect of the accounting system has survived many changes and developments in the political sphere, and even today the Union and the State Governments employ a uniform pattern for classification of their accounts. This stability is typical of the many fundamental features of the Indian accounting system, which have withstood the pressures of far-reaching economic and political changes and have still retained, in essential respects, their original form and content.

67. Whereas in fundamental aspects the accounting system has remained unaltered for a long time, it must be noted that many subordinate elements of the system have been amended and improved upon from time to time. Apart from the changes in the organisational matters, such as the separation of railway and defence accounts from general accounts, the form

and structure of the accounts has also been improved from time to time. Thus, after the 1919 Act, a number of changes were made with regard to the grouping of heads of accounts, lettering of the sections of the major heads to provide a link between capital and revenue sections relating to commercial services, and the abolition of the old as well as introduction of new heads of accounts. Similarly, several changes in the accounting classification were introduced during 1950-51, in recognition of the changes brought about by the Constitution. Later during 1961-62 and 1962-63, further changes were made, taking note of the increasing variety of Governmental activities in the field of development.

68. To sum up, the outstanding features of the general system are, as remarked by the Study Team on Accounts and Audit, "a combination of audit and accounting functions with an independent Comptroller and Auditor General, a decentralised 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". While conceding that "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". We agree with the following objectives proposed by that Team of a sound system of accounts and audit; "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. Secondly, the accounting system should be so organised as to produce readily all information necessary to enable the Executive to fulfil its accounting responsibility to the Parliament. Thirdly, 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". Our recommendations based on these views are set out in the next Section.

(ii) Reforms in Accounts and Payments' Set-up

A. Simplification of Central Accounts

69. Except for the Ministries of Defence and Railways which have their own accounting organisations and a few other Departments, including the Department of Supply, Food and Rehabilitation, where an experimental scheme for partial departmentalisation of accounts has been functioning since April, 1955, the accounts of other Ministries and Departments are compiled centrally in the accounts offices subordinate to the Comptroller and Auditor General. These Ministries and Departments are

required, nevertheless, to maintain a set of accounts internally for the purposes of expenditure control. The departmental accounts are reconciled monthly with the figures available in the accounts offices, which are regarded as the official figures. The degree of detail which is reflected in the central accounts compiled in the accounts offices goes far beyond the requirements of appropriation accounts which have, of necessity, to be compiled by a central agency for a comparison with the grants and appropriations authorised by Parliament. As stated in Chapter II, the Demands for Grants are presented to Parliament in terms of major heads of account, broken down further, in successive stages, into minor heads and other sub-heads and terminating at the lowest level into primary units of appropriation. For purposes of internal control and, sometimes, for statistical purposes, further subordinate details under the primary units of appropriation are often recorded in the accounts maintained by the departments, as also in the compilation done in the accounts offices; the detailed heads of office contingencies such as the maintenance of vehicles, service postage and telegram charges are usually included as separate items in the Government accounts. We are of the view that the central accounts to be compiled in the accounts offices should contain no more details than are necessary to account for the itemised appropriations authorised by Parliament and all the subordinate details required for administrative purposes as distinct from those for purposes of Parliamentary control may be recorded only in the departmental accounts. Indeed, as the accounting organisations within the Departments acquire the necessary experience and competence, more and more details should be transferred from the central accounts to the departmental accounts, so that only broader categories of information relevant for review at the national level are retained in the budget and central accounts.

70. Another reason for excessive detail in the central accounts is the rather detailed structure of the primary units of appropriation under which the grants have to be accounted for. The pattern of primary units of appropriation is prescribed by the Ministry of Finance and in its present form it was designed many years ago to provide for detailed control of expenditure at the departmental level. Much of the significance of detailed itemisation of primary units of appropriation is no longer relevant in view of the wider delegations for reappropriation which have been conferred on the administrative Ministries in recent years. As an instance of unnecessary sub-division of expenditure, we have in mind such primary units as 'pay of officers', 'pay of establishment', and 'allowances and honoraria' which all can appropriately be exhibited in the budget as well as in the accounts under only one sub-head "establishment charges."

71. The structure of the Demands for Grants and the corresponding accounts can be further simplified by a broader grouping of individual

schemes. Thus, the expenditure on a number of technical schools located at different places may be exhibited only under one sub-head 'industrial and technical institutions', instead of being accounted for under a separate sub-head for each individual institution. Furthermore, it does not seem to be necessary to give in the budget papers a detailed break-up of total expenditure on small schemes costing, say, upto Rs. 5 lakhs.

Recommendation 16

We recommend that the Budget Estimates included in the Demands for Grants and the corresponding central accounts compiled in the various accounts offices should be made more compact and comprehensible by the following measures :

- (a) The details containing the breakdown of primary units of appropriation into detailed heads may be eliminated from the central accounts compiled in the various accounts offices and to the extent considered necessary for administrative purposes be recorded only in the departmental accounts.
- (b) The entire structure of primary units of appropriation may be reviewed by the Ministry of Finance in the light of the wider powers of reappropriation now available to the administrative Ministries and consistent with the objective of simplifying the accounting structure.
- (c) The structure for the Demands for Grants may be simplified by a grouping of individual schemes within a homogeneous programme to the extent feasible and the detailed break-down for smaller schemes involving an expenditure of, say, less than Rs. 5 lakhs, may not be provided in the budget papers.

B. Agency for compilation of Central accounts

72. In Chapter III on 'Reforms in Organisation and Scope', the Study Team on Accounts and Audit has examined at length the various aspects of the issues arising out of the combination of the responsibilities for compilation of accounts and conduct of audit in the office of the Comptroller and Auditor General. As pointed out by the Study Team on Accounts and Audit, it is important to bear in mind that with regard to the maintenance of accounts, the Comptroller and Auditor General performs a somewhat limited function of compiling the central accounts of Government on the basis of information and data provided by the treasuries and, in certain cases, by the Departments themselves. We generally agree with the analysis of the Study Team on Accounts and Audit that the transfer of responsibilities for the compilation of accounts from the Audit Department to the administrative Ministries and departments is not

feasible as a matter of general policy. We are in agreement with the Study Team on Accounts and Audit that "there is no inherent conflict or disadvantage in the combination of the function of compilation of accounts with that of audit." Having regard to the institutional framework, particularly the decentralised system of payments and receipts through numerous treasuries dispersed throughout the country, the present arrangements as a general pattern are, in our view, satisfactory. The present system is flexible enough to permit of variations where the advantages of a change can be demonstrated to outweigh the disadvantages of higher cost. Thus, for the Departments of Supply, Food and Rehabilitation, the Lok Sabha and the Rajya Sabha, separate accounts offices have been established.

Recommendation 17

We recommend that as a matter of general policy the responsibility for the compilation of central accounts may continue to vest with the Comptroller and Auditor General, except in the case of the Departments for which separate Accounts Offices have already been established.

C. Maintenance by Department of the accounts required for managerial control

73. Article 150 of the Constitution invests the Comptroller and Auditor General with the authority to prescribe, with the approval of the President, the form in which the accounts of Union and of States shall be kept. The Comptroller and Auditor General is also required to compile and submit to the Governments concerned annual accounts designated as the Financial Accounts and Appropriation Accounts containing, respectively, a full account of receipts and expenditure classified under the various heads of account and actual expenditure during the financial year in relation to the appropriations made by Parliament. Thus, the Comptroller and Auditor General is the head of accounting administration for the Union as well as the States and it is he who is primarily charged with the responsibility for prescribing with the approval of the Government, the accounting principles, procedures and forms. As a consequence of this arrangement, the accounting system in India has been devised in such a way as to facilitate, first and foremost, the compilation of central accounts and the conduct of audit by the Comptroller and Auditor General. However, this does not absolve the Department or Government of the responsibility to establish adequate procedures for facilitating managerial control. Nevertheless, the administrative Ministries and Departments have taken little interest in developing accounting systems suited to their own managerial needs. Indeed, even

the maintenance of accounting records within the departments for the limited purpose of control over expenditure is known to be far from satisfactory; there is a tendency within the departments to regard the accounting functions as something alien to them and to place reliance for all practical purposes on the accounts kept by the Comptroller and Auditor General. Although there has been some recognition in recent years of the importance of developing and establishing modern accounting systems within the administrative Ministries, no appreciable progress towards giving a practical shape to this concept has been made so far. We are convinced that there is an urgent need as well as considerable scope for improvement of the accounting set-up within the Ministries with a view to enabling them to exercise better control over the expenditure incurred and results achieved by their officers. The modern techniques of cost accounting and management accounting are largely unknown in government departments. Nor has any systematic attempt been made to evolve accounting and reporting procedures which can produce a regular flow of current information in such a form that physical achievements and their financial costs can be correlated directly without much difficulty and remedial steps taken against deviations from expected norms. We envisage an integrated system of accounts in which only the Appropriation Accounts employing a uniform pattern with a minimum of detail will be maintained by the Comptroller and Auditor General and subsidiary or supplementary accounts to assist managerial performance will be organised and developed within the administrative departments in accordance with their varying needs. The existence of an efficient and programme-oriented accounting system is one of the prime pre-requisites of the introduction of performance budgeting. We have already referred to the manner in which the major and minor heads of accounts would need to be reorganised to meet the requirements of functional classification and performance budgeting. The accounting system within the departments would itself have to be so devised as to furnish timely and relevant data and analysis in terms of the requirements of the executive authorities at various levels.

74. As a supplement to an effective accounts system, it will be necessary to develop and instal within the administrative department, a proper organisation for internal audit. At present, much of the job of routine checks which ordinarily should be performed within the administrative agencies is left to the external audit agency under the Comptroller and Auditor General. The absence of an adequate set-up for internal audit in the administrative Ministries is partly responsible for laxity in financial controls within the departments and vast multitude of technical and routine objections with which the Comptroller and Auditor General is pre-occupied and over-burdened. An efficient organisation for internal audit will be of great assistance in relieving statutory audit of the necessity of detailed checks on individual transactions and will help to direct its attention mainly

on the weaknesses of the financial system as a whole and the substance of performance by administrative agencies.

Recommendation 18

We recommend that:

- (1) **The Internal Financial Adviser with proper assistance at subordinate levels should be charged with the responsibility for establishing and maintaining an efficient accounting set-up within the administrative agency. The accounting set-up should be such as to ensure the timely submission of accounting data and analysis to the executive authorities to assist their managerial performance and should include an efficient organisation for internal audit as well as the employment of modern techniques such as cost accounting and management accounting.**
- (2) **Adequate arrangements should be made for imparting suitable training to the accounting personnel at various levels.**

75. We agree with the Study Team that it is important to maintain an inventory of the immovable property belonging to Government. A programme for a systematic compilation of such an inventory may be put through. The accounts organisations referred to in para 76 may be entrusted with this programme in so far as their respective departments are concerned. From these departmental compilations a central compilation can be made out in the Finance Ministry.

Recommendation 19

We recommend that:

The accounts organisations set up in the various Departments should compile inventories of immovable property belonging to Government and administered by those Departments. A central inventory of the fixed assets of the Government as a whole should then be made out in the Finance Ministry on the basis of the departmental compilations.

D. Minimum Use of Exchange and settlement Accounts

76. The responsibility for the maintenance of accounts and the conduct of audit in respect of several departments of the Central Government are centralised in specific Accounts Circles. The transactions relating to these departments which occur in an Accounts Circle other than the one in which

their audit and accounting arrangements are centralised have to be adjusted through the medium of the Exchange Accounts. Delays in the adjustment of transactions included in the Exchange Accounts constitute a long-standing weakness in the procedures for final compilation of accounts. Similarly, the operation of Settlement Accounts for adjustment of certain types of transactions such as those relating to States which arise in Accounts Circles other than those in which their accounting transactions are centralised is usually another contributory factor for prolonged delays in the final adjustment of accounts. It is desirable that the device of the Exchange and Settlement Accounts should be resorted to only when absolutely necessary and the transactions between one Accounts Circle and another should be settled, as far as possible, through cash, cheques, or bank drafts. Another useful measure would be to entrust the Accountant General in whose circles the transactions arise with the responsibility for their final accounting as well as audit.

Recommendation 20

We recommend that:

- (1) As a general rule every Accountant General should be made responsible for the final accounting of the transactions which originate in his Accounts Circle.
- (2) The operation of Exchange and Settlement Accounts should be minimised with a view to avoiding delays in the final adjustment of accounts and the device of settling accounts between different Circles through cash, cheques or bank drafts should be utilised to the maximum extent.

E. Treasury Procedure

77. The treasuries are the pivot of the payment and accounting system in India. All the transactions of receipts and payments of the Central and State Governments are routed through them. The process of compilation of accounts is initiated in treasuries.

78. The Commission's Study Team on Accounts and Audit has found that the functioning of the treasuries in the matter of classification and accuracy of accounts and their timely submission has not been satisfactory. The Study Team has also made some recommendations to improve the working of the treasuries.

79. An important aspect of the treasury system concerns payment to and receipts from the citizens. The present system and procedures in this regard are very irksome and dilatory. They cause considerable inconvenience, even harassment, to the public. The citizens have to pay repeated

visits to the treasury and wait for long in the queue. For receiving payment the citizen has to first get a bill from the departmental office and then visit the treasury where he is asked to come after some days. After obtaining the pay order from the treasury he has in many places to go to the bank for getting the cash. Both at the treasury and at the bank the citizen has to furnish identification. Similarly, for making payments in the public account, the citizen has in most of the cases to go to the treasury in the first instance to get the challan. He has to get it countersigned by the departmental officer concerned where there is a departmental office located in the same place as the treasury. The citizen has to face considerable difficulty in getting and filling the challan. If the treasury is of banking type, the citizen has to go to the bank also to deposit the money. Further, it takes time to get the final receipt.

80. There have been some attempts in recent years to improve the existing procedure. In a few departments like the CPWD, the Forest Department, the All India Radio, and the Union Public Service Commission, a system has been evolved under which the departmental officers are vested with cheque drawing powers. They issue cheques directly on the bank. Further, some of the departments have started giving a chalan, duly filled in, at the very outset. Some even help in identification by countersigning the signature of the payee in the bill or the cheque. More recently, the Central Government have allowed their departmental officers concerned with the realisation of taxes and other Government dues to accept amounts remitted by money order or postal order.

81. The Commission is very particular that the existing treasury system and procedures should be thoroughly overhauled to remove the present delays, inconvenience and irritations to the citizens. In proposing the reform in the treasury system and the procedure, the attempt should be to make payments to the citizens either to his bank account or at his door.

82. However, any reform of the present system from the point of view of the citizens' convenience would also have a bearing on the role of the banks in government transactions with the citizens, and certain functions of the treasury other than those relating to the receipt and payment of money on Government account. We, accordingly feel that a more detailed examination of the treasury procedure is necessary. The Commission have, therefore, set up a working group of persons with actual experience of treasury work to enquire into the problem. The Commission would make its recommendations on the subject in one of its future reports, or, if necessary, in a separate report confined to this subject.

F. Payments of salaries and pensions to Government employees

83. It is a frequent complaint that the methods and procedures for payment of dues to Government servants are cumbersome, dilatory and

vexatious. The somewhat complicated producers that are in vogue at present are responsible for frequent and prolonged delays (a) in the payment of salaries to gazetted officers on their transfer from one Accounts Circle to another, (b) in the timely settlement of provident fund accounts and (c) in the determination and payment of pensions to retiring employees. The Study Team on Accounts and Audit has examined various aspects of these procedures and has made useful suggestions with a view to avoiding these delays. We are in broad agreement with the suggestions.

84. With regard to the payment of salaries and maintenance of the General Provident Fund, we recommend as follows:

Recommendation 21

- (1) (a) **The Individual Running Ledger Account system may be extended to cover all such gazetted officers of the Central Government departments like Income-tax, Customs, Central Excise, Central Public Works and Survey of India, as are liable to frequent transfers from one Accounts Circle to another.**
- (b) **Heads of Offices may be authorised to draw and disburse the salaries of gazetted officers, as they do for non-gazetted officers, in the case of those who are ordinarily not liable for transfer outside a specified Accounts Circle.**
- (2) (a) **The G.P.F. accounts of officers who are liable to frequent transfers between different Accounts Circles may be centralised in the case of those for whom I.R.L.As are not maintained for salaries. This system is already in vogue in some departments and can be extended to others.**
- (b) **The transfer of G.P.F. credits from one Circle to another may be effected by bank drafts and not through Exchange and Settlement Accounts which cause considerable delays.**
- (c) **In the case of deceased Government employees, Heads of Offices/Departments should themselves initiate action to obtain from the nominees of the deceased the applications for the final settlement of the G.P. Fund. They should also notify the event of death direct to the Accounts Officer maintaining the G.P.F. account concerned so that he may take prompt action for the settlement of the account on receipt of application for payment.**

85. As regards pensions, the Study Team on Accounts and Audit has referred to a number of proposals which have been put forward for the

simplification of the system in regard to payment of pensions. These relate *inter alia* to extraordinary leave being allowed to count in full as 'qualifying service', the condonation of interruption in service up to a limit, the discontinuance of annual verification of service books of non-gazetted employees and the remittance of pension by money orders at Government expense etc. The proposals have been made by a Committee set up by the Ministry of Home Affairs and also by the Comptroller and Auditor General. They are under the consideration of the Government of India. We attach very great importance to a thorough overhaul of the system and procedures for the payment of pensions. Often it is not fully appreciated that Government are under an obligation to promptly sanction and arrange for the payment of pensions to their retired employees. The quantum of pensions payable is so much smaller than the salary last drawn that the process of adjustment itself causes substantial hardship to the retired employees. Delay in sanction for payment of pension will be an oppressive addition to this hardship. We consider it the bounden duty of Government to ensure that every retired Government employee starts receiving his pension in the very next month after his retirement. On the quantum of pensions we propose to make detailed recommendations in a subsequent report which will deal with the conditions of service of Government employees. Meanwhile, we suggest for the urgent consideration of the Government certain measures for removing the hardships felt by pensioners.

Recommendation 22.

We recommend that:

- (1) As soon as a Government servant completes twentyfive years of service, his department and/or the accounts office should verify the service and intimate to him the then length of the qualifying service. If the Government employee does not get such an intimation within six months of the completion of qualifying service he should be entitled to ask for such an intimation, which should be given within a month of receipt of a requisition from him. This verification will expedite the settlement of the pension when the employee actually retires from service.**
- (2) All the formalities connected with the sanction of the pension should be completed well before the last month of service of the employee so that he may commence to draw his pension from the month succeeding.**

(iii) Mechanisation of Accounts

86. In India only a few organisations such as the Ministries of Railways and Defence, the Telecommunications Wing of the Posts and Telegraphs

Department and some Public Undertakings have replaced, to a limited extent, some repetitive processes of manual work by mechanised devices. No steps have, however, been taken yet to introduce modern data processing techniques either for the compilation of Government accounts or for providing analytical data for better management and operational control. The Study Team on Accounts and Audit has indicated certain areas where it may be feasible to replace routine types of manual work by data processing machines. It has also reported the result of a case study on the possibility of introducing mechanised processes in the office of the Accountant General, Central Revenues, for the classification and compilation of accounts relating to pay bills of government officials. However, as stated by the Study Team on Accounts and Audit, the mechanisation of accounts raises such far-reaching issues that it calls for a careful examination by an expert committee which may review the progress of the new technique within the country, assess the advantages that have so far accrued from it and recommend specific areas in which data processing techniques can be introduced with notable advantage.

Recommendation 23

We recommend that the feasibility of introducing modern data processing techniques within the accounting system may be entrusted to an expert committee for detailed examination.

(iv) Agency for implementing reforms

87. In the preceding pages we have offered a number of suggestions for review and reorganisation of the accounting system with a view to reshaping it into a better instrument for serving its manifold objectives. Many of the suggestions are inter-linked so as to necessitate a comprehensive and coordinated examination for their implementation. We may recapitulate here some of the major reforms we have adumbrated in the foregoing chapters. We have suggested a thorough reorganisation of the pattern of major and minor heads of accounts with a view to bringing the accounting structure into line with a functional type of classification and a performance type of budget. We have also suggested that the structure of demands for grants as well as the primary units of appropriations may be reviewed in detail in the interest of simplification of the budgetary documents as well as of the corresponding central accounts to be compiled in the Accounts Offices. We have laid special stress on more intensified efforts for improving the accounting set-up within the administrative departments. We are convinced that the type of reforms envisaged by us requires a sustained and well directed drive for which the initiative and responsibility must be specifically located. Under the Government of India (Allocation of Business) Rules, the responsibility of accounting and audit procedures including the classification of transactions has been entrusted to the Ministry

of Finance. The C&AG has been vested under the Constitution with the authority for regulating the accounting system. It is imperative that these two agencies, i.e., the Ministry of Finance and the C&AG should be jointly associated with a sustained programme for a speedy and purposeful implementation of our various recommendations on the reorganisation of the accounting system and procedures.

Recommendation 24

We recommend that :

- (1) The initiative and responsibility for a review and reorganisation of the accounting system in its various aspects may be located in the Ministry of Finance and a well equipped organisation may be set up there for this purpose.**
- (2) The C&AG may be closely associated with the Ministry of Finance in undertaking a joint programme for improvement in the accounting system.**

CHAPTER V

AUDIT

Scope of Audit

88. 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 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.

89. 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 the Government of India (Audit and Accounts) Order, 1936, as adapted, continues to delineate these duties and powers. We consider it desirable that they should be clearly defined by a Parliamentary enactment as early as possible. The enactment should provide for a more comprehensive statement of the functions of the C&AG, keeping in view the growth in the volume and complexity of Government's financial transactions. Thus, under the 1936 Order the Comptroller and Auditor General has to obtain the previous approval of the President or the Governor of the State, as the case may be, before taking up audit of the receipts of Government or the audit of the accounts of stores and stock maintained by Government. It is necessary and appropriate, in our view, to provide for audit of all Government receipts on a statutory basis. Again, the compulsion of circumstances has led, as, for example, in the case of local bodies, to the cumbersome and improvised device of audit by the Comptroller and Auditor General by consent of the concerned bodies. In recent years, large sums of grants have been given by Government to non-official bodies to aid the process of social and economic development. There is already an understanding between the Government and the C&AG that the latter would be entitled

to carry out in his discretion a test check of all grants-in-aid in excess of certain monetary limits. It is desirable to replace the existing understanding by a statutory provision enabling the C&AG to audit the institutions receiving grants with a view to satisfying himself that the grants have been utilised properly for the purposes for which they had been made. Again, substantial sums are invested in industrial and commercial concerns which are neither Government companies nor statutory corporations. We are of the view that there should be a specific provision for discretionary audit by the C&AG which will enable him to ascertain where necessary that the investments have been utilised for the purposes for which they were made. This discretionary audit should be made only when the investments amount to a substantial figure to be determined by the Government in consultation with the C&AG. Yet another field in which discretionary audit by the C&AG is desirable relates to the accounts of non-Government agencies which obtain contracts from Government on the basis of negotiations without recourse to open competitive tendering. Situations have arisen in the past and may arise in the future in which contracts for supplies and services have to be settled by Government through negotiations, the procedures for competitive bidding being either impracticable or inappropriate. It is necessary that in these circumstances there should be some machinery for ensuring that for arriving at the contracted prices, all relevant factors have been taken into consideration and the prices agreed to are fair and reasonable. We consider, therefore, that the proposed legislation should vest the C&AG with the authority to examine in his discretion the accounts of contractors and sub-contractors where prices have been settled without recourse to open competition. This provision should, however, be applicable only to the contracts of substantial value, say, exceeding a crore of rupees. As a corollary it will be necessary to incorporate a clause in the terms of such contracts to provide for the accounts being open for audit by the C&AG.

Recommendation 25

We recommend that :

- (1) The Parliamentary enactment envisaged in Article 149 of the Constitution may be passed as early as possible prescribing the duties and powers of the Comptroller and Auditor General in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by Parliament.
- (2) A specific provision may be made in this enactment for—
 - (a) the audit of all revenue receipts of Government;

- (b) the audit, in his discretion by the C&AG, of the accounts of bodies receiving Government assistance in the shape of substantial investments or grants-in-aid with a view to ascertaining that the funds provided have been used only for the purposes intended; and
- (c) the audit in his discretion by the C&AG of the accounts of contractors with whom contracts for a value exceeding a crore of rupees are settled by Government through direct negotiation and not as a result of open competitive tendering.

Submission of Annual Reports

90. The Comptroller and Auditor General is required to prepare annually the following documents:

1. Appropriation Accounts (except in case of Railways and Defence);
2. Finance Accounts; and
3. Audit Report.

It is necessary that the Appropriation Accounts, the Finance Accounts and the Audit Report thereon should be made available to the Parliament/State Legislatures as soon as possible after the close of the year to which they relate. In any case, these important documents relating to any one year should be presented to Parliament/State Legislatures a few weeks in advance of the presentation of the Budget for the second year thereafter. At present, considerable delay occurs in several of the States, though not at the Centre, in the presentation of the Appropriation Accounts and Audit Report to their Legislatures. The position with regard to the submission of Finance Accounts is unsatisfactory both at the Centre and in the States; and several months elapse after the presentation of the Appropriation Accounts of any year before the Finance Accounts of that year are submitted. We consider it a matter of utmost importance that all avoidable delays in the preparation and transmission of the Annual Accounts and the Audit Reports to Parliament and the State Legislatures are eliminated. A convention should be established and strictly adhered to for submitting these documents before a fixed date.

Recommendation 26

We recommend that :

- (1) Definite dates should be set for the submission of the Appropriation Accounts, the Finance Accounts and the Audit Reports by the Comptroller and Auditor General through mutual

discussion between the Comptroller and Auditor General and the Union and State Governments, as the case may be.

- (2) The Finance Accounts may be submitted simultaneously with the Appropriation Accounts and the Audit Report.
- (3) The Central and the State Governments may issue executive orders for placing of the Annual Appropriation Accounts and Audit Reports on the table of the House within a prescribed period after their receipt from the Comptroller and Auditor General. This period may be limited to, say, a week if the Parliament/State Legislature is in session.

Nature and Objectives of Audit

91. The nature and objectives of audit in relation to Government accounts are easily distinguishable from the professional or commercial audit in that it is not confined to verification and certification of the financial statements reflecting the activities of the agency under audit. The scope of Government audit is much wider, and its frontiers are continuously advancing into new areas and assuming new dimensions. The traditional forms of audit, commonly known as the appropriation audit and regularity audit, are the statutory responsibility of the C&AG. But even more important from the view-point of 'accountability' in a comprehensive sense are the discretionary forms of audit termed as the Propriety Audit and the Efficiency Audit, which look beyond the formality of the expenditure to its wisdom and economy and to a general examination of the efficiency with which an organisation is discharging its financial responsibilities. Further, there are two salient features of all audit operations, the Central Audit and the Local Audit and Inspection. The Central Audit is conducted in the Audit office itself and has reference to the vast multitude of vouchers and statements received there along with the initial accounts compiled in the treasuries or, in certain cases, by departmental authorities. The audit operations which are conducted in the offices of the agencies are categorised as Local Audit and Inspection.

Audit Objections

92. One of the chronic problems in the field of audit is the heavy arrears of audit objections and inspection reports pending with the various Ministries. At the end of the financial year 1965-66, as many as 67,900 objections were outstanding against the Central Ministries excluding the Railways, the Defence and the P&T Department. Out of these, over 16,000 had been raised prior to April, 1963. In addition, about 30,000 items (some of them pending for over fifteen years) are outstanding in the inspection reports of the Central (Civil) Ministries. The Study Team on Accounts and Audit has made an analysis of the various facets of the

problem of mounting audit objections. We generally agree with their findings in this regard and reiterate their main recommendations.

93. The operations of the Audit and Accounts Department are initiated, to a substantial extent, by officials in the lower rungs of the hierarchy. It may be noted that over 50 per cent of the total strength of the gazetted and non-gazetted officials in the Audit and Accounts Department consists of Upper Division Clerks. Although the comments which are incorporated finally in the Annual Audit Report are screened at very senior levels, the audit objections are initially raised by very junior officials. The scope and procedures as also the nature of these audit objections, and not only the ones that are finally incorporated in the Annual Audit Report, have a significant impact on the relations between the administrative agencies and the Audit Department at various levels. The impact will be effective and fruitful to the extent that not only the officials in the higher echelons but also those functioning at subordinate levels are properly motivated in the discharged of their functions.

Recommendation 27

We recommend that the Comptroller and Auditor General may review the internal organisation and procedures with a view to associating senior officers more effectively with the initial stages of audit operations.

94. It has been observed that the vast multitude of audit objections relate to individual instances of lapses and arise from deviations from administrative rules and regulations. While it is inevitable that individual instances should be exposed to the scrutiny of audit, it should be recognised that it is more important for audit to focus attention on deficiencies in the system of procedures as a whole with a view to making suggestions for remedial action. Audit, instead of being content with playing a negative and neutral role, should aim at a positive and constructive approach directed towards seeking improvements in organisational efficiency and in the effectiveness of the financial rules and procedures. Furthermore, it is desirable that the trend towards the institution of efficiency-cum propriety types of audit should be accelerated so as to concentrate on the overall objectives of the programmes and activities undertaken by the administrative agencies. The shift of emphasis from the regularity type of audit to performance audit would help enforce the principle of accountability of the Executive to the Legislature in a more significant and comprehensive manner, which is the *sine qua non* of a living parliamentary democracy.

Recommendation 28

We recommend that :

- (1) The Audit Department should give more pointed attention to an examination of the internal systems and procedures within administrative agencies and, where necessary, submit periodical reports to Government for consideration and implementation of the suggestions for reform.
- (2) The Comptroller and Auditor General should take necessary steps to strengthen and develop necessary competence and expertise for the conduct of propriety-cum-efficiency audit and generally extend the scope of this type of audit to cover all developmental activities of Government.

Scope of Audit Comments

95. The operations of audit conducted by and on behalf of the Comptroller and Auditor General concern only past transactions which have already taken place. This type of post-audit, as it is called, comes on the scene only after the event and has, therefore, access to a knowledge of later happenings. The exercise of 'hind-sight' by Audit is often criticised on the ground that the surrounding circumstances in which the decisions were taken are not given sufficient attention to by Audit in their assessment. Furthermore, the tendency is to focus attention only on the individual lapses or irregularities which are viewed in isolation from the overall objectives and achievements of the related programme of activity. We wish to emphasise that the concept of objectivity and fairness in the conduct of audit has to be applied in a realistic and imaginative manner so as to ensure that the individual instances are not viewed in isolation from the relevant circumstances prevailing at the time the decision was taken or from the overall performance of the administrative agency.

Recommendation 29

We recommend that Audit should endeavour to consider and present its comments against the background of the relevant circumstances existing at the time of the decision and the overall objectives and achievements of the related programmes and activities.

Annual Audit Report

96. The Comptroller and Auditor General has full discretion with regard to nature and extent of audit and the matters which should be reported to Parliament in his Annual Audit Report. Whether the audit objections initially taken should be pursued or dropped are decisions

which are taken at various levels in the Audit Department. As one of the primary objectives of audit, undoubtedly, is to ensure that the mistakes and irregularities detected by them are rectified and proper remedial steps taken to prevent the recurrence of similar mistakes in the future, it should be the general policy of audit not to pursue objections relating to omissions which have been rectified or with regard to which adequate steps have been taken to provide safeguards for the future. It will go a long way in improving the relations between the Audit and the Administration if matters in which remedial action has already been taken on the suggestion of audit and in which no major issues are involved, are not included in the Annual Audit Report.

Recommendation 30

We, therefore, recommend that the Comptroller and Auditor General should exercise his discretion in excluding from the Audit Report references to such objections in respect of which the necessary rectification has been made and adequate remedial action has been taken for the future. It should, of course, be open to him to report on these objections if a matter of substantial public interest or importance is involved.

Audit of Public Sector Undertakings

97. In our Report on Public Sector Undertakings which has already been submitted to Government, we have examined the various problems and issues relating to the audit of public sector undertakings. We have recommended that four or five Boards should be constituted under the general supervision of the Comptroller and Auditor General to deal with the audit of specified sectors of public enterprise. We have not considered it necessary for the Board to undertake a comprehensive review of the work of each undertaking every year; its programme can be so phased that a comprehensive review in respect of each undertakings is completed once in every five years. The scheme envisages that the comprehensive audit by the Boards would supplement the normal commercial audit, which will continue to be done by professional auditors every year under the guidance of the Audit Board. A doubt has been raised whether the pattern envisaged by us would affect the right and discretion of the Comptroller and Auditor General to conduct in special circumstances a supplementary audit of the account of Government companies for a period which is not covered by the comprehensive audit of the Audit Board. We wish to clarify that the provision for supplementary audit by the Comptroller and Auditor General which at present exists in the Indian Companies Act, 1956, may be allowed to continue even after the establishment of the Audit Boards. As the Audit Board would be functioning under the general supervision of the Comptroller and Auditor General, it would

be open to the Comptroller and Auditor General whenever he considers it necessary to conduct a supplementary audit and to entrust such work to the Audit Boards.

Recommendation 31

We recommend that even after the Audit Boards are established for a comprehensive audit of the public sector undertakings the Comptroller and Auditor General may continue to have the power to carry out a supplementary audit of these undertakings for a period not covered by the comprehensive audit, through the medium of the Audit Boards.

98. The Study Team on Audit and Accounts has referred to an important field in which audit criticism of a technical kind is likely to have adverse effects on the initiative and judgment of the executive, *i.e.*, audit objections to the award of contracts for supplies and services. They have suggested some procedural correctives which should go a long way in dealing with the existing difficulty and in ensuring that the fear of audit criticism does not lead 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 agree with the Team.

Recommendation 32

We recommend that every effort should be made by audit to settle objections arising out of award of contract of works, supplies and services through discussions with the management and, if necessary, with the concerned Ministry. The aim should be to resolve all disputed points between audit and administration at appropriate levels so as to obviate the need of their being included in the audit reports. This procedure for consultation with audit for the settlement of objections relating to contracts should be made widely known to the management by the administrative Ministries in consultation with the Comptroller and Auditor General.

Audit of Revenue Receipts

99. The divergence of opinion with regard to the interpretation of the tax laws and rules and regulations is occasionally a source of friction between the Audit and the Revenue Departments. It should be recognised that nothing should be done to dilute the responsibility of the executive in the matter of the application of tax laws. However, we understand that cases do continue to arise in which the Audit Department presses for the acceptance of their own interpretation of points of law. We do not consider it necessary or desirable for Audit to enter into controversies with

the Revenue authorities on questions of interpretation of the law though a lively and cordial discussion may at times be useful. In the first place, the decision on points of law is subject to challenge in Courts of Law and secondly, the Revenue authorities have to take certain decisions to execute the policy of Government. In our opinion, doubts with regard to the interpretation of the law should be finally settled by Audit in consultation with the highest administrative authority, namely, the Central Board of Direct Taxes and the Central Board of Excise and Customs, as the case may be.

Recommendation 33

We recommend that differences with regard to the interpretation of tax laws should be settled between the Audit and the Central Boards through consultations in a spirit of goodwill, understanding and appreciation of their complementary roles in pursuit of a common objective.

Audit of Panchayati Raj Institutions

100. Of late, the Panchayati Raj institutions have assumed great importance in the context of the Five Year Plans. In 1964-65, the grants and loans received by these institutions amounted to about Rs. 195 crores. The Study Team on Audit and Accounts has observed that "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 Panchayati Raj institutions have become too detailed, overlapping and burdensome". We agree with the Study Team that if the external audit conducted at present by the Examiner of Local Fund Accounts is adequately strengthened, it should be possible to reduce, if not altogether eliminate, the occasions for audit by the Comptroller and Auditor General. It is necessary for this purpose that the Examiner of Local Fund Accounts should be accorded a sufficiently high status and should be provided with a competent organisation under his control. In due course, it should be possible for the Comptroller and Auditor General to consider it sufficient to issue suitable directives to the Examiners for the discharge of audit duties on his behalf.

101. At present the Examiner of Local Fund Accounts is required to submit to the State Legislature a consolidated statement of Finance Accounts along with his audit review at the end of each financial year. This procedure has been introduced recently on the recommendation of a Study Team on Audit and Accounts of Panchayati Raj Bodies, set up by the Ministry of Community Development and Cooperation in June, 1964. We feel that the utility of the Consolidated Finance Accounts would be greatly enhanced if they are further supplemented by a detailed review of the

operation of various schemes and programmes executed during the relevant financial year. Further, the position with regard to the levying of taxes and cesses should also be summarised in the accounts.

Recommendation 34

We recommend that:

- (1) The post of the Examiner of Local Funds Accounts may be accorded a sufficiently high status and supported with a well-equipped organisation under his control, to enable him to discharge the responsibilities for the audit of Panchayati Raj institutions.
- (2) The Comptroller and Auditor General may, in his discretion, issue directive to the Examiner of Local Funds Accounts to discharge audit responsibilities on his behalf.
- (3) The Consolidated Finance Accounts of Panchayati Raj institutions be further supplemented with information on the progress of important schemes and programmes and the position with regard to the taxes and cesses levied and collected.

Audit of Cooperative Societies

102. We propose to make our recommendations with regard to the audit of Co-operative Societies in our report dealing with Co-operation.

CHAPTER VI

REVIEW BY PARLIAMENTARY COMMITTEES

103. Parliament, in addition to exercising a basic form of control over public expenditure through the discussion of the annual budget and the voting of grants, exercises further control through the working of three financial committees, namely, the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings.

104. The Public Accounts Committee was first set up in 1921 on the inauguration of the Montague-Chelmsford reforms and has since been in existence. As now constituted, it consists of 22 members—15 from the Lok Sabha and 7 from the Rajya Sabha. The main functions of the Committee are:—

- (a) To ensure that the moneys shown in the accounts as having been disbursed were legally available for application to the service or purpose to which they had been applied or charged;
- (b) That the expenditure conforms to the authority which governs it; and
- (c) That every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

However, in actual practice the scope of the Committee's work extends beyond a scrutiny of the expenditure from the point of view of formal regularity to an examination of the "wisdom and economy" of the expenditure.

105. The Estimates Committee was constituted in 1950. The number of members, originally twenty-five, was raised to thirty in 1955. The members are elected only from the Lok Sabha and for a period of one year. The functions of this Committee are:—

- (a) To report what economies, improvements in organisation and efficiency or administrative reform consistent with the policy underlying the estimates, may be effected;
- (b) To suggest alternative policies in order to bring about efficiency and economy in organisation;
- (c) To examine whether the money is well laid-out within the limits of the policy implied in the estimates; and

- (d) To suggest the form in which the estimates shall be presented to Parliament.

106. The third financial committee, namely, the Committee on Public Undertakings, started functioning in 1964. This Committee consists of fifteen members—ten elected from the Lok Sabha and five from the Rajya Sabha. The Committee seeks, *inter alia*, (a) to examine the reports and accounts of the public undertakings, (b) to examine the reports of the C&AG on public undertakings, and (c) to examine, in the context of autonomy and efficiency, if the public undertakings are being managed in accordance with sound business principles and proven commercial practices.

107. The Study Team on Financial Administration has recommended that the Public Accounts Committee, in addition to reviewing the expenditure of Government Departments, should examine the expenditure of public undertakings. The review of performance is, however, to be entrusted to a new Committee to be known as the Performance Committee, which will examine the performance of Government Departments as well as public sector undertakings. There will then be no need to have the Estimates Committee and the Committee on Public Undertakings.

108. We are not in agreement with these suggestions. A review of expenditure divorced from a consideration of the related performance will be artificial as the authority examining a particular item of expenditure cannot, and should not, close its eyes to the results which that expenditure has achieved. The report based on such a restricted review will provide but an incomplete picture of the activities involved. We have already, in our report on Public Sector Undertakings, recommended a more important role to the Committee on Public Undertakings which will include a review of performance. We do not, therefore, agree even to a restriction of the functions already proposed for that Committee, let alone to its abolition. As regards the review of performance in Government Departments it may be entrusted to the PAC, which has had a long and admirable record in the field of scrutiny of public expenditure. In fact, even today that Committee concerns itself, as already stated, with the "wisdom and economy" with which public funds are utilised and does not restrict itself to a scrutiny from the point of view of formal regularity. It will, therefore, be in the fitness of things that when performance budgeting is introduced, this Committee should also review the results of expenditure for the Government Departments from the point of view of performance. We also do not agree with the suggestion that the Estimates Committee may be abolished. There is an area now covered by the Estimates Committee which is not traversed by the Public Accounts Committee and the Committee on Public Undertakings, and the Estimates Committee

may continue to cover that area. Performance as such need not be gone into by the Estimates Committee, as that will be gone into by the other two Committees.

Recommendation 35

We recommend that :

The task of reviewing and assessing the performance of Government Departments, in relation to budgeted programmes should be entrusted to the Public Accounts Committee.

CHAPTER VII

SUMMARY OF RECOMMENDATIONS

CHAPTER II—THE BUDGET

1. (1) The departments and organisations which are in direct charge of development programmes should introduce Performance Budgeting. This should be done both at the Centre and in the States.
- (2) The performance budget documents should be prepared in the following manner. A programme and activity classification should be made for each department or organisation selected for the purpose of performance budgeting. Besides presenting the financial needs of those programmes and activities, the expenditure should be classified in terms of "object", e.g., "Establishment". This should be followed by a narrative explanation justifying the financial requirements under each activity. This explanation should include information on targets, achievements, relevant workload factors, comparative performance over the years, etc. All this will constitute the performance budget. It should be accompanied by the Demands for Grants which will continue to serve as the medium through which appropriation control is exercised.
- (3) The programme and activity classification referred to in (2) should be entrusted to a team consisting of officers drawn from the Ministry of Finance, the administrative Ministry concerned and an officer of the Audit Department.
- (4) In the departments and organisations where performance budgeting is to be introduced, the administrative and financial management system covering the planning, programming, budgeting, reporting and evaluation should be strengthened with a view to adapting these to the requirements of performance budgeting.
- (5) A suitable training scheme should be devised for those who, at different levels, will be concerned with the introduction of performance budgeting. The Finance Ministry should prepare a manual on performance budgeting covering the various issues involved and containing instructions of a practical nature for the guidance of all concerned with the budgetary process.

- (6) The report of the Working Group on Performance Budgeting may be taken as illustrating the lines on which a performance budget is to be prepared.
 - (7) In as many as possible of the departments and organisations selected for performance budgeting, the scheme should be introduced with effect from the Budget for 1969-70. For the others, the scheme may be introduced in the Budget for 1970-71.
 - (8) The Finance Ministry should assume responsibility for introducing the system, and give a lead to the States in the matter.
2. (1) The structure of major heads of accounts may be reviewed and recast in terms of broad functions and major programmes of Government. The heads of development adopted for plan purposes may also be reviewed with a view to establishing a direct correlation between these heads and the general accounting heads.
 - (2) Programmes, activities and projects of all the departments and organisation where performance budgeting is sought to be introduced should be clearly indentified and the minor heads connected with these programmes suitably recast so as to reflect those activities.
 - (3) Representatives of the C&AG, the Planning Commission, the Finance Ministry and the administrative Ministry concerned should be associated with the task of drawing up a programme for the implementation of recommendations (1) and (2).
 - (4) Statements should be prepared each year, as a supplement to budget documents, analysing the plan outlays under various heads of development into components corresponding to the accounting heads.
3. The Financial Year should commence from the 1st of November instead of the 1st of April as at present. This should be adopted both at the Centre and in the States.
 4. The arrangements for collection and study of statistical data having a bearing on taxation should be reviewed and improvements effected, keeping in view the need for up-to-date, accurate and comprehensive information necessary for preparing the estimates of revenue.
 5. (1) A system of forward looking budget should be attempted for each service and activity wherein requirements of manpower and materials for a few years should be ascertained in advance.

The budget so framed should be reviewed every year with a view to facilitating the process of formulation of financial requirements of each year.

- (2) During the course of construction of projects, systematic cash flow statements should be prepared and in this connection, modern control techniques like PERT should be made use of.
6. In order to overcome the reluctance of the Ministries/Departments to surrender funds in time the Finance Ministry should give an assurance through a circular that under-spending in one year would not prejudice the budget estimates for the next year.
7. (1) There should normally be a total ban on the inclusion of lump sum provisions in the budget. They should be permitted only in the most exceptional cases, e.g., where urgent measures are to be provided for meeting emergencies or where comparatively moderate amounts are to be spent on items like preliminary expenses in a project for which only a rough estimates can be made and details cannot be furnished.
- (2) The administrative Ministries should take steps to obtain the clearance of the budget proposals from the Finance Ministry well before the due date.
- (3) The Contingency Funds of both the Central and State Governments should be enhanced suitably to enable funds being found for urgent schemes or projects which cannot be postponed till the estimates of next year are placed in the Legislature.
8. Token grants should be asked for only when the approval of Parliament is necessary for a "new service" and the funds for that service can be found by re-appropriation.
9. (1) Economic classification should be extended to the budgets of the State Governments and to all the non-departmental public sector undertakings.
- (2) The economic classification should be integrated with the budgetary process itself and to every demand for grant there should be attached an economic classification of that particular demand.
10. (1) The Minister should invariably open the discussion on Demands for Grants pertaining to his Ministry and explain the policy underlying the estimates, the physical programmes planned and the performance etc. during the preceding year.

- (2) The Annual Reports of the ministries and departments should include a full exposition of their needs and a justification for the funds asked for.

CHAPTER III—FINANCIAL CONTROL AND MANAGEMENT

11. (1) It should be obligatory for each Ministry to have a whole-time Internal Financial Adviser of adequate seniority and rank. The officer should be placed in charge of the Finance and Budget Cell of the Ministry and should be responsible for the financial management and control within the Ministry's field of responsibility. He should not be entrusted with any other work of the administrative Ministry like personnel work or office management, etc. It should be open to the Government to entrust one officer with the work relating to more than one Ministry/Department.
- (2) The procedure for consultation with the Financial Adviser and the type of cases in which he would be consulted should not be left to the discretion of individual Ministry. A set of model rules should be framed for the guidance of administrative Ministries in this matter.
12. (1) The Finance and Accounts Branches of the administrative Ministries should be suitably strengthened wherever necessary and staffed with qualified and well-trained personnel.
- (2) The Finance Ministry should help the administrative Ministries to organise well-equipped internal Finance Branches. For this purpose it will be necessary to (i) ensure proper training of the junior officers, and (ii) to provide suitable opportunities for officers in the middle levels to acquire varied experience and knowledge of public administration.
13. (1) The Financial Adviser should bring to his assignment a background of field experience and at an appropriate stage he should be given such orientation as to equip him for the role and functions of Financial Adviser. The officers without a similar background should be provided with this experience as early as possible in their careers as Financial Adviser.
- (2) There should be a provision for periodical interchange between the officers of the Finance Branches and other branches of administration.
14. (1) If a feasibility report has been accepted by Government and the detailed scrutiny thereof is likely to take considerable time, the administrative Ministry should be allowed to incur ex-

penditure on preliminary work subject to specified financial limits.

- (2) A definite time limit, say, three months, should be prescribed for the consideration of schemes by the Finance Ministry. If the decision of that Ministry is not reached within the prescribed period, the case should automatically be put up to the Finance Minister who will decide upon the action to be taken and will communicate the decision to the administrative Minister concerned.
15. (1) Proposals of the administrative Ministries for additional staff or creation of new posts should be considered by an independent agency, namely, a well-equipped and well-trained Staff Inspection Unit.
- (2) In case of sudden unforeseen increase in work due to extraordinary circumstances, the Ministries and Departments should have power to create, only for very short periods not exceeding 3 months, temporary posts if funds can be found by reappropriation within the existing budget provision. Such powers may be made available to Heads of Departments also.

CHAPTER IV—GOVERNMENT ACCOUNTS

16. The Budget Estimates included in the Demands for Grants and the corresponding central accounts compiled in the various accounts offices should be made more compact and comprehensible by the following measures :
- (a) The details containing break-down of primary units of appropriation into detailed heads may be eliminated from the central accounts compiled in the various accounts offices and to the extent considered necessary for administrative purposes be recorded only in the departmental accounts.
 - (b) The entire structure of primary units of appropriation may be reviewed by the Ministry of Finance in the light of the wider powers of reappropriation now available to the administrative Ministries and consistent with the objective of simplifying the accounting structure.
 - (c) The structure for the Demands for Grants may be simplified by a grouping of individual schemes within a homogeneous programme to the extent feasible and the detailed break-down for smaller schemes involving an expenditure of, say, less than Rs. 5 lakhs may not be provided in the budget papers.

17. As a matter of general policy the responsibility for the compilation of central accounts may continue to vest with the Comptroller and Auditor General, except in the case of the Departments for which separate Accounts Offices have already been established.
18. (1) The Internal Financial Adviser with proper assistance at subordinate levels should be charged with the responsibility for establishing and maintaining an efficient accounting set-up within the administrative agency. The accounting set-up should be such as to ensure the timely submission of accounting data and analysis to the executive authorities to assist their managerial performance and should include an efficient organisation for internal audit as well as the employment of modern techniques such as cost accounting and management accounting.
- (2) Adequate arrangements should be made for imparting suitable training to the accounting personnel at various levels.
19. The accounts organisations set up in the various Departments should compile inventories of immovable property belonging to Government and administered by those Departments. A central inventory of the fixed assets of the Government as a whole should then be made out in the Finance Ministry on the basis of the departmental compilations.
20. (1) As a general rule every Accountant General should be made responsible for the final accounting of the transactions which originate in his Accounts Circle.
- (2) The operation of Exchange and Settlement Accounts should be minimised with a view to avoiding delays in the final adjustment of accounts and the device of settling accounts between different Circles through cash, cheques or bank drafts should be utilised to the maximum extent.
21. (1) (a) The Individual Running Ledger Account system may be extended to cover all such gazetted officers of the Central Government departments like Income-tax, Customs, Central Excise, Central Public Works and Survey of India, as are liable to frequent transfers from one Accounts Circle to another.
- (b) Heads of Offices may be authorised to draw and disburse the salaries of gazetted officers, as they do for non-gazetted officers, in the case of those who are ordinarily not liable for transfer outside a specified Accounts Circle.

- (2) (a) The G.P.F. accounts of officers who are liable to frequent transfers between different Accounts Circles may be centralised in the case of those for whom I.R.L.A.'s are not maintained for salaries. This system is already in vogue in some departments and can be extended to others.
 - (b) The transfer of G.P.F. credits from one Circle to another may be effected by bank drafts and not through Exchange and Settlement Accounts which cause considerable delay.
 - (c) In the case of deceased Government employees, Heads of Offices/Departments should themselves initiate action to obtain from the nominees of the deceased the applications for the final settlement of the G. P. Fund. They should also notify the event of death direct to the Accounts Officer maintaining the G. P. F. account concerned so that he may take prompt action for the settlement of the account on receipt of application for payment.
- 22 (1) As soon as a Government servant completes twentyfive years of service, his department and/or the accounts office should verify the service and intimate to him the then length of the qualifying service. If the Government employee does not get such an intimation within six months of the completion of qualifying service, he should be entitled to ask for such an intimation, which should be given within a month of receipt of a requisition from him. This verification will expedite the settlement of the pension when the employee actually retires from service.
- (2) All the formalities connected with the sanction of the pension should be completed well before the last month of service of the employee so that he may commence to draw his pension from the month succeeding.
23. The feasibility of introducing modern data processing techniques within the accounting system may be entrusted to an expert committee for detailed examination.
24. (1) The initiative and responsibility for a review and reorganisation of the accounting system in its various aspects may be located in the Ministry of Finance and a well equipped organisation may be set up there for this purpose.
- (2) The C&AG may be closely associated with the Ministry of Finance in undertaking a joint programme for improvement in the accounting system.

CHAPTER V—AUDIT

25. (1) The Parliamentary enactment envisaged in Article 149 of the Constitution may be passed as early as possible prescribing the duties and powers of the Comptroller and Auditor General in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by Parliament.
- (2) A specific provision may be made in this enactment for—
- (a) the audit of all revenue receipts of Government;
 - (b) the audit, in his discretion by the C&AG, of the accounts of bodies receiving Government assistance in the shape of substantial investments and grants-in-aid with a view to ascertaining that the funds provided have been used only for the purposes intended; and
 - (c) the audit in his discretion by the C&AG of the accounts of contractors with whom contracts for a value exceeding a crore of rupees are settled by Government through direct negotiation and not as a result of open competitive tendering.
26. (1) Definite dates should be set for the submission of the Appropriation Accounts, the Finance Accounts and the Audit Reports by the Comptroller and Auditor General through mutual discussion between the Comptroller and Auditor General and the Union and State Governments, as the case may be.
- (2) The Finance Accounts may be submitted simultaneously with the Appropriation Accounts and the Audit Report.
- (3) The Central and the State Governments may issue executive orders for placing of the Annual Accounts and Audit Reports on the table of the House within a prescribed period after their receipt from the Comptroller and Auditor General. This period may be limited to, say, a week if the Parliament/State Legislature is in session.
27. The Comptroller and Auditor General may review the internal organisation and procedures with a view to associating senior officers more effectively with the initial stages of audit operations.
28. (1) The Audit Department should give more pointed attention to an examination of the internal systems and procedures within administrative agencies and, where necessary, submit periodical reports to Government for consideration and implementation of the suggestions for reform.

- (2) The Comptroller and Auditor General should take necessary steps to strengthen and develop necessary competence and expertise for the conduct of propriety-cum-efficiency audit and generally extend the scope of this type of audit to cover all developmental activities of Government.
29. Audit should endeavour to consider and present its comments against the background of the relevant circumstances existing at the time of the decision and the overall objectives and achievements of the related programmes and activities.
30. The Comptroller and Auditor General should exercise his discretion in excluding from the Audit Report references to such objections in respect of which the necessary rectification has been made and adequate remedial action has been taken for the future. It should, of course, be open to him to report on these objections if a matter of substantial public interest or importance is involved.
31. The Comptroller and Auditor General may continue to have the power to carry out a supplementary audit of public sector undertakings even after Audit Boards are established for the audit of these undertakings.
32. Every effort should be made by audit to settle objections arising out of award of contract of works, supplies and services through discussions with the management and if necessary, with the concerned Ministry. The aim should be to resolve all disputed points between audit and administration at appropriate levels so as to obviate the need of their being included in the audit reports. This procedure for consultation with audit for the settlement of objections relating to contracts should be made widely known to the management by the administrative Ministries in consultation with the Comptroller and Auditor General.
33. Differences with regard to the interpretation of tax laws should be settled between the Audit and the Central Boards through consultations in a spirit of goodwill, understanding and appreciation of their complementary roles in pursuit of a common objective.
34. (1) The post of the Examiner of Local Funds Accounts may be accorded a sufficiently high status and supported with a well-equipped organisation under his control, to enable him to discharge the responsibilities for the audit of Panchayati Raj institutions.

- (2) The Comptroller and Auditor General may, in his discretion, issue directives to the Examiner of Local Funds Accounts to discharge audit responsibilities on his behalf.
- (3) The Consolidated Finance Accounts of Panchayati Raj institutions be further supplemented with information on the progress of important schemes and programmes and the position with regard to the taxes and cesses levied and collected.

VI—REVIEW BY PARLIAMENTARY COMMITTEES

35. The task of reviewing and assessing the performance of Government Departments in relation to budgeted programmes should be entrusted to the Public Accounts Committee.

Sd/-

K. Hanumanthaiya
Chairman

Sd/-

H. C. Mathur
Member

Sd/-

H. V. Kamath
Member

Sd/-

Debabrata Mookerjee
Member

Sd/-

V. Shankar
Member

Sd/-

V. V. Chari

Secretary

New Delhi,

Dated 13th January, 1968.

LIST OF ABBREVIATIONS

C & AG: Comptroller and Auditor General of India.

CPWD : Central Public Works Department.

G.P.F. : General Provident Fund.

I.R.L.A.: Individual Running Ledger Account.

P&T : Posts and Telegraphs.

P.A.C. : Public Accounts Committee.

PERT : Programme Evaluation and Review Technique.

