

**Administrative Reforms Commission's 14<sup>th</sup> Report Strengthening Financial Management Systems**

| Sl. No . | Recommendations made by Administrative Reforms Commission   | Decision of the Group of Ministers (GoM)                    | Action Taken by Administrative Ministries /Departments  |
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| 1.       | <p><b>1. (Para 4.5.8) Unrealistic Budget Estimates</b></p> <p>a. The assumptions made while formulating estimates must be realistic. At the end of each year the reasons for the gap between the 'estimates' and 'actuals' must be ascertained and efforts made to minimize them. These assumptions should also be subject to audit.(1)</p> | <p>(a) to (c): Accepted the recommendations of the ARC.</p> | <p align="center"><b>D/o Economic Affairs</b></p> <p>(a) With reference to the recommendation 4.5.8(1) on the issue of realistic estimation and taking efforts for minimizing the gap between the 'estimates' and 'actuals' by ascertaining the reasons for the gap, it is stated that even in the existing system for budgeting, all such efforts are made. Expenditure in a particular Demand/ schemes/ programmes in the previous year is an important consideration while deciding upon the allocation for the next budget. Similarly, performances on programmes/ schemes etc during the course of the year are kept into consideration while deciding the Revised Estimates for the year. The main reason that leads to vast differences between the budgeted estimates and Actuals is on account of the fact that while the Budget Estimates are made almost 6 months in advance of the commencement of the financial year, there are many times substantial alteration in ground realities with reference to the actual performance of schemes /programmes, by the end of the budget year</p> |

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|          |   |  | <p>(approximately 18 months) leading to re-setting of expenditure priorities by the Ministries / Departments. These are addressed largely through the mechanisms of Revised Estimates and Supplementary Budget ( by making token / technical provisions for re-aligning the expenditure provisions) through Re-appropriations.</p> <p>The above recommendation arising on the basis of C&amp;AG and PAC observations relating to unspent balances and surrenders / savings , as indicated in Paras 4.5.1 to Para 4.5.7 of the Report, is largely on account of technical factors and are explained as follows. The Audit reports of C&amp;AG point out the 'unspent provisions' occurring in any grant or appropriation on gross basis ( based on the Demands for grants and on unspent provisions / savings reported in grants or appropriations on technical grounds). They do not take into account the re-distribution of savings from one grant to another or from one section of the grant or appropriation( revenue to capital, voted to charged or vice-versa, etc.) done through technical supplementary. Apart from such technical transfers ( which entail additionality in one section and surrender / savings in other section), re-distribution of savings across the grants of</p> |

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|          |   |  | <p>appropriations after mid-year review ( which entail savings in certain grants) is also made. These technical adjustments are not reflected in individual grants or appropriations. Under the existing system of Audit, therefore, observations / audit paras on unspent balances, surrenders / savings become unavoidable , as these are based upon the Appropriations made in the Budge Estimates. These technicalities not being taken into consideration, Audit concludes these ‘ Surrenders/ Savings’ as incorrect estimations.</p> <p>Despite above technical issues, Ministry of Finance in pursuance of the ARC recommendation, is in favour of taking further action towards more accurate estimation. The recommendations made by the High Level Expert Committee (HLEC) on Efficient Management of Public Expenditure are relevant in this context. The committee in their Report submitted to the Planning Commission, apart from other issues, has recommended that in June/July of every year, output / outcome linked reviews of Ministry wise budget performance /IEBR component will be conducted by Planning Commission with participation from Ministry of Finance. This exercise will be in line with the ARC</p> |

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|          |   |  | <p>recommendation and a step forward towards more accurate estimation on Budget. The decision of the Government on the recommendations of the High Level Expert Committee relating to the detailed procedure of budgeting are however, awaited and Ministry of Finance will take suitable action keeping in view the decision made by the Government in this regard.</p> <p>On the issue of recommendation that the assumptions made for estimation should be subject to audit, it is brought to the notice of Department of Administrative Reforms that decision of GoM on this issue may perhaps be put up for review as its implementation may be unwarranted and not advisable. The estimation is made on various assumptions relating to requirements of Ministry / schemes / programmes which may or may not materialize depending upon the dynamic ground situations and which may undergo a change given the extended timeline between finalization of the estimates and close of the budget year. As such, putting such estimations for subject to scrutiny of audit will only lead to a flurry of observations from audit on incorrect/ inaccurate estimations, even if corrective actions for re-allocations as per</p> |

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| 2.       | <p>b. The method of formulation of the annual budget by getting details from different organizations/units/agencies and fitting them into a pre-determined aggregate amount leads to unrealistic budget estimates. This method should be given up along with the method of budgeting on the basis of 'analysis of trends'. This should be replaced by a 'top-down' method by indicating aggregate limits to expenditure to each organization/agency. <b>(2)</b></p> |  | <p>requirements would have been carried out by the Government during the course of the year. Further, such provisions for audit scrutiny will only encourage needless expenditure / releases in order to avoid audit observations, and are not prudent from the fiscal/ budgetary discipline point of view. In any event, performance of schemes/ Programmes are already subject to audit and any under achievement would be reflected in those audit observations.</p> <p>(b) Amendment to Fiscal Responsibility and Budget Management Act, 2003 has been approved by the Parliament and it got the assent of the President of India on 28<sup>th</sup> May, 2012. One of the features of the amendment to Fiscal Responsibility and Budget Management Act, 2003 is the introduction of Medium Term Expenditure Framework Statement along with the existing three FRBM Statements. This new statement would provide certainty of allocation to Ministries and Departments over three year time frame. This would help Ministries / Departments in undertaking do-novo exercise for allocation resources on prioritized schemes and weeding out such schemes</p> |

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| 3.       | c. Internal capacity for making realistic estimates needs to be developed.(3) |  | <p>which have outlived their utility. This statement would set forth a three year rolling target for expenditure indicators with specification of underlying assumptions and risk involved.</p> <p>(c) This is a continuous process. The Budget circular issued every year includes additional instructions issued with reference to emerging requirements. A Budget Manual was issued for the first time during 2010-11. Officers and staff were deputed to States during 2011-12 to study their budget processes. Individual staff members are deputed for various training programmes.</p> <p style="text-align: center;"><b><u>D/o Expenditure</u></b></p> <p>NIFM and NIPFP have been requested for proposal. They have already given the same which is under examination.</p> <p style="text-align: center;"><b>Govt of Andhra Pradesh</b></p> <p>It is agreed that the budget estimates must be realistic. Only a hard budget constraint will ensure that the formulation of the budget is carefully considered. Thus not only budget estimates, but also approach to the budget process including revision</p> |

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|          |  |  | <p>of budget numbers must be carefully considered. Internal capacity also needs to be developed.</p> <p>Budget Estimates are made based on the tend to actual expenditure during the previous years etc., to make them realistic. Detailed instructions have been issued to all the Departments to propose realistic Budget Estimates for the year 2012-13.</p>  |
| 4.       | <p><b>2. (Para 4.6.5) Delay in Implementation of Projects</b></p> <p>a. Projects and schemes should be included in the budget only after detailed consideration. The norms for formulating the budget should be strictly adhered to in order to avoid making token provisions and spreading resources thinly over a large number of projects/schemes.(4)</p> | (a) : Accepted the recommendation.       | <p><b>D/o Economic Affairs</b></p> <p>(a)To facilitate the concerned Ministries / Departments formulate budget proposal and avoid instances of token provision, instructions are contained in the General Financial Rules, 2005. The Budget Circular issued before the commencement of budget cycle every year also contains, among other things, procedure for preparing estimates of expenditure, important expenditure related instructions issued by the Planning Commission / Department of Expenditure / Department of Economic Affairs etc which needs to be kept in view while formulating and submitting estimates of expenditure, both Plan and Non-Plan. Efforts are made during Budget preparation process</p> |

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|          |   |  | <p>to ensure adherence to the above guidelines.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>It is accepted that the projects and schemes should be sanctioned only after detailed consideration and sanction should be within a reasonable proportion of budgetary allocations so that available resources are not spread too thin resulting in prolonged delays in completion.</p>   |
| 5.       | <p><b>3. (Para 4.7.8) Skewed Expenditure Pattern – Rush of Expenditure towards the end of the Financial year</b></p> <p>a. The Modified Cash Management System should be strictly adhered. This System should be extended to all Demands for Grants as soon as possible. <b>(5)</b></p> | (a) : Accepted the recommendation.       | <p><b>D/o Economic Affairs</b></p> <p>(a)Based on the recommendation of 51<sup>st</sup> Report of the Standing Committee of Finance on Demands for Grants (2012-13) of Ministry of Finance, it has been decided that henceforth, all the Demands for Grants irrespective of whether they are covered under the Cash Management System or not, are required to prepare and send their Monthly Expenditure (MEP) and Quarterly Expenditure Allocations (QEA) to the Cash Management Cell for better monitoring and compliance of the guidelines of the Ministry of Finance regarding expenditure management. In this regard, an OM dated 6.09.2012 had been issued to this effect.</p> <p><b><u>D/o Expenditure</u></b></p> |



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|              |  |  | <p>The Department issues economy measures from time to time wherein instructions regarding pace of expenditure are included.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>The recommendation is being examined as to how State Departments can be requested to project month-wise cash expenditure based upon which budgetary releases will be made to them on the lines of the modified Cash Management System in Gol.</p>  |
| 6.<br><br>7. | <p><b>4. (Para 4.8.26) Inadequate Adherence to the Multi-year Perspective and Missing Line of Sight between Plan and Budget</b></p> <p>(a) A high Powered Committee may be constituted to examine and recommend on the need and ways for having medium-term expenditure limits for Ministries/ Departments through the Five year Plans and linking them to annual budgets with carry forward facility. <b>(6)</b></p> <p>b. In order to bring about clarity, transparency and consolidation, the ways and means for implementing an 'alignment' project, similar to that in the UK, may also be examined by the high Powered Committee so constituted.<b>(7)</b></p> | <p>(a) &amp; (b):<br/>Accepted the recommendation.</p> | <p><b>D/o Economic Affairs</b></p> <p>(a)&amp;(b):For the purpose of strengthening of financial management system, amendments in the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, were presented in the Parliament on 16.03.2012 as part of Finance Bill, 2012. One of the important features of the amendment was introduction of Medium-term Expenditure Framework Statement (MTEF) alongwith the existing three FRBM Statements and this statement would set forth a three rolling target of expenditure indicators with specification of underlying assumptions and risk involved. As such a Gazette Notification for introduction</p> |

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|          |   |  | <p>of MTEF Statement was issued on 05.09.2012.</p> <p>As proposed by the ARC, for the purpose of strengthening financial management system, proposal to constitute a High Power Committee with representations from Ministry of Finance and other Ministries / Departments along with Planning Commission under the chairmanship of JS(Budget), keeping in view the facts and the focus on alignment of reporting formats and Budget related issues, is under consideration.</p> <p style="text-align: center;"><b>Planning Commission</b></p> <p>A High Level Expert Committee was constituted in 2010 on 'Efficient Management of Public Expenditure' under the Chairmanship of Dr. C.Ranagarajan with 5 Terms of Refence including Removal of Plan / Non-Plan distinction. The Report has been submitted to the Government. Some major recommendations of the Committee relating to ARC's recommendations are as follows:</p> <ul style="list-style-type: none"> <li>● Plan and Non-plan distinction in the budget should be removed (Para 2.20).</li> <li>● On the removal of Plan and Non- Plan distinction in the Budget, there should be a</li> </ul> |

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|          |   |  | <p>fundamental shift in the approach of Public Expenditure Management – from a segmented view of Plan and Non-Plan to holistic view of expenditure; from a one year horizon to a multi-year horizon and from input based budgeting to the budgeting linked to outputs and outcomes. This shift in Public Expenditure Management is necessary among all Stakeholders involved with planning, implementation, appraisal and review of Government and broader public sector expenditure (Para 2.23).</p> <ul style="list-style-type: none"> <li>•The shift to holistic view of expenditure would require change in organizational structure, mandates and processes as well as appropriate interventions in human resource development, information technology, intra and inter-Governmental communication and incentive structure of Public Expenditure System (Para 2.24).</li> </ul> <p>The Chairman of the Committee has submitted the Report to the Government. The Report was released in the Planning Commission on 1<sup>st</sup> September, 2011.</p> |

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|          |  |  | <p style="text-align: center;"><b>Govt of Andhra Pradesh</b></p> <p>While, in principle, the idea of <b>medium term budgeting</b> is attractive it is necessary to examine as to whether it would be in conformity with Constitutional requirement for an Annual Financial Statement. It has also to be examined to see whether such an expenditure framework will, in any way, dilute the prerogative of the Legislature to approve an Annual Financial Statement.</p> <p>The Punchhi Committee also recommended for the same. The framework are not, however, enacted into legislation.; they are planning documents that reflect the political commitment to fiscal discipline.</p> <p>In fact the tentative Budget Estimates for 5 years for Planning Commission an Finance Commission for the entire period of Plan period and Finance Commission are being prepared separately.</p> |
| 8.       | <p><b>6. (Para 4.12.6) Emphasis on Meeting Budgetary Financial Targets rather than on Outputs and Outcomes</b></p> <p>a. Outcome budgeting is a complex process and a number of steps are involved before it can be attempted with any degree of usefulness. A beginning may be made with proper preparation and training in case of</p> | (a): Accepted the recommendation.        | <p><b><u>D/o Expenditure</u></b></p> <p>(a): Outcome Budget for flagship programmes is being consolidated and being laid in the Parliament every year during the Budget session.</p>  |

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|          | the Flagship Schemes and certain national priorities.(9)   |   | <p><b>Govt of Andhra Pradesh</b></p> <p>This recommendation to emphasize outputs and outcomes rather than budgetary targets is accepted. However, both outputs and outcomes sometimes stretch into the medium term and financial targets often are only the measureable parameters in short term. A careful balance between the two which incorporates a milestone- based approach needs to be applied.</p>   |
| 9.       | <p><b>7. (Para 4.13.4) Irrational ‘Plan – Non Plan’ Distinction leads to Inefficiency in resource Utilization</b></p> <p>a. The Plan versus non-Plan distinction needs to be done away with.(10)</p> | (a): Agreed in principle. A Task Force is already examining it. | <p><b>D/o Economic Affairs</b></p> <p>Planning Commission had constituted a high level Expert Committee headed by Dr C. Rangarajan, with abolition of Plan /Non-Plan distinction as a separate Terms of Reference.</p> <p>The report of the Committee recommending Plan/ Non-Plan distinction to be abolished alongwith the suggested action plan has been submitted to the Planning Commission. Views of the Planning Commission are awaited.</p> <p>The implementation of the Committee’s recommendations would depend on the final decision of the Government in this matter after a proposal is moved by the Planning Commission.</p> |

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|          |   |  | <p data-bbox="1110 338 1423 371"><b>Planning Commission</b></p> <p data-bbox="1078 405 1457 936">A High Level Expert Committee was constituted in 2010 on 'Efficient Management of Public Expenditure' under the Chairmanship of Dr. C.Ranagarajan with 5 Terms of Refence including Removal of Plan / Non-Plan distinction. The Report has been submitted to the Government. Some major recommendations of the Committee relating to ARC's recommendations are as follows:</p> <ul data-bbox="1102 987 1457 2024" style="list-style-type: none"> <li data-bbox="1102 987 1457 1115">• Plan and Non-plan distinction in the budget should be removed (Para 2.20).</li> <li data-bbox="1102 1126 1457 2024">• On the removal of Plan and Non- Plan distinction in the Budget, there should be a fundamental shift in the approach of Public Expenditure Management – from a segmented view of Plan and Non-Plan to holistic view of expenditure; from a one year horizon to a multi-year horizon and from input based budgeting to the budgeting linked to outputs and outcomes. This shift in Public Expenditure Management is necessary among all Stakeholders involved with planning, implementation, appraisal and review of Government and broader public sector</li> </ul> |

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|          |   |  | <p>expenditure (Para 2.23).</p> <ul style="list-style-type: none"> <li>•The shift to holistic view of expenditure would require change in organizational structure, mandates and processes as well as appropriate interventions in human resource development, information technology, intra and inter-Governmental communication and incentive structure of Public Expenditure System (Para 2.24).</li> </ul> <p>The Chairman of the Committee has submitted the Report to the Government. The Report was released in the Planning Commission on 1<sup>st</sup> September,2011.</p> <p>The various recommendations of the Rangarajan Committee constituted by Planning Commission are under the active consideration of Planning Commission.</p> <p><b><u>Deptt of Expenditure</u></b></p> <p>A High Level Committee has submitted its report on the issue.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>The State Govt supports the recommendation that this distinction should be done</p> |

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|          |   |  | <p>away with.</p> <p>The Rangarajan Committee also recommended for removal of this distinction.</p> <p>The Punchhi Committee on Central-State Financial relations also recommended an experts committee for this purpose.</p>   |
| 10       | <p><b>8. (Para 5.2.12) Flow of Funds relating to Centrally Sponsored Schemes</b></p> <p>a. The Controller General of Accounts, in consultation with the C&amp;AG, should lay down the principles for implementing the system of flow of sanctions/approvals from the Union Ministries/ Departments to implementing agencies in the States to facilitate release of fund at the time of payment. After taking into account the available technology and infrastructure for electronic flow of information and funds, especially under the NeGP, and putting in place a new Chart of Accounts, the scheme should be implemented in a time bound manner.(11)</p> | (a) : Accepted the recommendation.       | <p style="text-align: center;"><b><u>D/o Expenditure</u></b></p> <p>Hon'ble FM in his budget speech (2008-2009) had announced launch of Central Plan Monitoring Scheme (CPMS), a scheme by Planning Commission. The scheme is being implemented by the office of Controller General of Accounts. The system is implemented to monitor fund flow form the Union Ministries / Departments to implementing agencies in the States for Central Plan Schemes. A proposal for full roll out in all States and Central Plan schemes has been approved by the EFC in October,2012 and has been placed before the Government for further approval.</p> <p>Govt of India constituted a Committee headed by Shri C.R. Sundamurthi (Ex-CGA) to review the existing chart of accounts and suggest a new one to streamline the existing classification structure for MIS on Accounts suitable to Public expenditure management. The Committee submitted its</p> |



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|          |   |  | <p>report to FM in January,2012. An implementation Committee has been set up in O/o CGA and MOF to look into the recommendations and chalk out a road map. Out of 326, 321 Pay &amp; Accounts Offices in 49 Ministries / Departments have commenced e-payments through (GePG) e-Payment Gateway.</p> <p style="text-align: center;"><b><u>Planning Comm</u></b></p> <p>Rangarajan Committee has recommended for transfer of funds from the Union to the States through State consolidated fund. While making recommendations for re-structuring of CSS, Chaturvedi Committee has also suggested transfer of funds through State consolidated funds.</p> <p>As regards monitoring of flow of funds from the Union to the States under CSS Planning Commission has launched a Central Sector Scheme known as Central Plan Scheme Monitoring Scheme (CPSMS) in April.2008 and being implemented by CGA. As mandated, the project has so far completed the following important activities :</p> <ul style="list-style-type: none"> <li>• Mapping of all plan schemes and flagship schemes with the Code of Accounts has been completed. State-wise,</li> </ul> |

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|          |   |  | <p>Agency-wise and scheme-wise / sub-scheme data on releases from Central Ministries / Departments are being made available for all plan schemes and flagship schemes. In other words, Release data for all Tier-I agencies is being captured.</p> <ul style="list-style-type: none"> <li>• The release data for Tier -2 agencies and below has been completed for some pilot schemes in Pilot States namely Madhya Pradesh, Punjab and Bihar. The pilot will capture all expenditure details from the lower levels on standardized formats including payments to the ultimate beneficiaries through the Banking channels.</li> <li>• CPSMS has established interface with the Core Banking Solutions (CBS) of 27 Public Sector Banks, 4 Private Sector Banks and 22 Regional Rural Banks for real time data exchange.</li> <li>• Treasury Integration is at an advanced stage with Maharashtra treasury.</li> <li>• Integration with other MIS systems such as Ocean (MoF) and PriyaSoft (Panchayati Raj) has begun.</li> </ul> <p style="text-align: right;">M/s. KPMG</p> |

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|          |  |  | <p>Consultants was engaged to prepare a Detailed Project Report (DPR) for pan India roll out of the scheme and submitted the DPR. The draft DPR was deliberated thoroughly in the meeting dated 29.09.2011 of the Project Implementation Committee (PIC). Now the DPR has been finalized for nationwide rollout of CPSMS involving a total estimated cost of Rs.1666.41 crore. The project with expanded scope drawn as per the DPR is under examination of the EFC. The appraisal note has been issued on 12.03.2012.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>The recommendation is accepted and State Government will support all proposals where flow of funds can be monitored. Once this is done, there is no case for Center to disburse funds directly to the implementing agency. It is strongly recommended that Government of India disburse all funds for all programmes through the State Government.</p> <p>The Chaturvedi Committee also recommended that the efforts should be made to move over to transfers through the State Budgets to ensure full accountability of States.</p> |
|          | <p><b>9. (Para 5.3.6) Development of Financial Information System,</b></p> |  |   |

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| 11       | a. A robust financial information system, on the lines of SIAFI of Brazil, needs to be created in the government in a time bound manner. This system should also make accessible to the public, real time data on government expenditure at all levels.(12) | (a) : Accepted the recommendation.       | <p style="text-align: center;"><b><u>Department of Expenditure</u></b></p> <p>To suggest a suitable IT framework and strategy for CGA- organization, M/s KPMG has submitted its report. On the basis of report O/o CGA is in process of associating a suitable System Integrator/ Developer who will develop this system in two to three years.</p> <p style="text-align: center;"><b>Govt of Andhra Pradesh</b></p> <p>The Government is in the process of putting in place a comprehensive Financial Information System which will consist of 6 modules- Revenue module, expenditure module, budget module, accounts module, debt and investment module, and ways and means module. An HRMS module incorporating personal data for all employees of the State will form part of the expenditure module. The process of preparing a RFP inviting tenders for setting up this system has begun.</p> <p>The State Govt is simultaneously taking steps to improve the transparency, integrity and credibility of the financial system. As part of this initiative on line details of all the payments made in the Treasury will be provided. This will also provide to the public status of their pending bills and reasons for pendency.</p> |

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| 12                     | <p><b>10. (Para 5.4.3) Capacity Building</b></p> <p>a. The capacity of individuals and institutions in government needs to be improved in order to implement reforms in financial management. To facilitate this, a proper programme of training needs to be devised and implemented in a time bound manner.(13)</p>   | <p>(a): Accepted the recommendation.</p>   | <p><b><u>D/o Expenditure</u></b></p> <p>A training policy for the ICAS cadre has been prepared within the ambit of National Training Policy,2012. The same is being examined in consultation with CGA.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>The State Training Academy is being requested to develop programmes specifically tailored to modern financial management.</p>   |
| 13<br><br>14<br><br>15 | <p><b>11. (Para 6.3) Accrual System of Accounting</b></p> <p>a. A Task Force should be set up to examine the costs and benefits of introducing the accrual system of accounting. This Task Force should also examine its applicability in case of the Appropriation Accounts and Finance Accounts.(14)</p> <p>b. Initially, a few departments/ organizations may be identified where tangible benefits could be shown to be derived within 2-3 years by implementing the accrual system of accounting, especially departmental 'commercial undertakings'. (15)</p> <p>c. The result of this initial implementation may be studied by a committee of experts which would recommend on its further implementation in all departments/ organizations at the Union/State</p> | <p>(a) to (e): Agreed in principle. Decision has already been taken to migrate to accrual system of accounting. M/o Finance with input from C&amp;AG to work out road map for taking Accrual System further in the government.</p> | <p><b>D/o Economic Affairs</b></p> <p>Following the recommendations of the Government Accounting Standards Advisory Board (GASAB) in its Road Map and 2<sup>nd</sup> Administrative Reforms Commission's 14<sup>th</sup> Report relating to 'Strengthening Financial Management System in Government' for setting up Task Force / Apex Body for implementation of accrual system of account, an Apex Committee has been constituted under the Chairmanship of Secretary (Expenditure). This Committee will work as the nodal agency for all matters relating to the formation of the policy issues, overseeing the</p> |

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| 16       | <p>level along with exclusions, if any. This may proceed in a phased manner.(16)</p>  |  | <p>implementation of and co-ordination of transition to accrual based accounting system in the Union and the State Governments.</p>  |
| 17       | <p>d. Prior to its implementation, training and capacity building needs of the accounting personnel and all stake holders in the decision making process would have to be addressed and a meticulous schedule worked out in line with the road map of implementation.(17)</p> <p>e. Before the new system is adopted, alignment of the plan, budget and accounts, as recommended in this Report elsewhere, needs to be achieved and a viable financial information system needs to be put in place.(18)</p> |  | <p>The first meeting of the Apex Committee has been held on 16.05.2012. It has been decided in the meeting that the initial steps would be chosen out of the short term measures suggested by C&amp;AG and short and medium terms measures approved by the Finance Minister.</p> <p style="text-align: center;"><b><u>Department of Expenditure</u></b></p> <p>An Apex Committee headed by Secretary (Expenditure) was set up in Sept,011 as the nodal agency for all matters relating to the formulation of policy issues, overseeing the implementation of and coordination of transition to accrual based accounting system in the Union and the State Government.</p> <p style="text-align: center;"><b>Govt of Andhra Pradesh</b></p> <p>The State Govt recognize the advantages of the Accrual System of Accounting. However, caution is necessary in its implementation given the need to ensure that revenues are recorded realistically and</p> |

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|   |  |  | <p>pragmatically. Guidance from Govt of India in moving forward on this recommendation would be required.</p> <p>Accrual System of Accounting is being implemented in Rural and Urban Local Bodies in Andhra Pradesh.</p>  |
| <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> | <p><b>12. (Para 7.5) Internal Audit</b></p> <p>a. An Office of the Chief Internal Auditor (CIA) should be established in select Ministries/ departments to carry out the functions related to internal audit. Its independence, duties, functions, mechanism of coordination with the CAG etc. should be provided by a statute.(19)</p> <p>b. CIAs should be directly responsible to the Secretary of the Department.(20)</p> <p>c. In the initial stages, personnel may be inducted from existing accounts cadres. Norms for recruitment and utilizing private sector expertise in select tasks may also be devised. Capacity building needs for proper functioning of this Office should be identified in advance. (21)</p> <p>d. The modalities for ensuring non-duplication of work vis-à-vis the C&amp;AG should be formalized. This should be aimed at assisting the C&amp;AG in concentrating on carrying out specialized audit/tasks. (22)</p> <p>e. Standards for internal audit should be prescribed by the Office of the C&amp;AG. (23)</p> | <p>(a) to (h) Agreed with the recommendation. The need for strengthening internal control &amp; audit is necessary. However, it was decided that creating an Office of Chief Internal Auditor is not desirable since the AS &amp; FA is already entrusted with the task.</p> | <p style="text-align: center;"><b><u>D/o Expenditure</u></b></p> <p>The Ministry of Finance, in pursuance of the decision of the GoM, and in order to develop a suitable model for planning, execution and reporting of internal audit within the Ministries and Departments, had set up a Working Group in the D/o Expenditure, Ministry of Finance with Additional Secretary (Expenditure) as the Chairperson.</p> <p>The Working Group submitted its report on 22.11.2011 and made fifteen recommendations.</p> <p>The recommendations of the Working Group report are still under consideration.</p> <p>Action taken on the strengthening Internal Audit wings in Central Civil Ministries / Departments.</p> <ul style="list-style-type: none"> <li>• A Centre of Excellence within Internal Audit Division has been</li> </ul> |

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| 25       | <p>f. The Accounting functions should be completely separated from Internal Audit.(24)</p> <p>g. The functioning and effectiveness of this new system may be examined after allowing a suitable period of operation. Based on the results of this examination, such offices may also be instituted in other Ministries/ departments/ organizations.(25)</p> <p>h. An Audit Committee should be constituted in each Ministry/ Department. It should consist of a Chairperson and two members to be appointed by the Minister in charge of that Ministry/ Department. The Chairperson should be a person of eminence in public life. The two members should be from outside the government. The Audit Committee should look after matters related to both internal and external audit including implementation of their recommendations and report annually to the respective Departmentally related Standing Committee of Parliament.(26)</p> |  | <p>established to guide the process of modernization of Internal Audit in Ministries. Guidelines issued for conduct of risk-based audit and for preparation of revised audit manuals. Risk based audits are being conducted by IAWs in several Ministries.</p> <ul style="list-style-type: none"> <li>• IAD has prepared and circulated an Internal Audit report Tameplate for compliance by Central Civil Ministries to ensure uniformity and consistency in presentation of Internal Audit reports.</li> <li>• Focussed training programmes have been instituted in modern internal audit practices at National Institute of Financial Management (NIFM),Faridabad and Institute of Government Accounts and Finance.</li> </ul> <p><b>Govt of Andhra Pradesh</b></p> <p>Govt of India has not supported creation of the CI post. We agree with Govt of India. State Govt already has a State Audit Department which audits all Urban and Rural Local Bodies as per a fixed time table. The Govt is examining how best issues relating to internal audit can be integrated with the Audit Department's functioning.</p> <p>Internal audit cells were provided in the District treasuries also. The issues</p> |







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|          |   |  | <p>the end of June every year, though the financial year ends on 31 March. Thereafter, CGA sets the time schedule by which accounts are to be compiled and then made available to Audit in stages between June to October. Cumulatively, audit requires approximately 90 days to conduct the audit and certify the accounts, at various stages of the compilation of accounts.</p> <p>d) Past experience shows that though, to some extent, the time schedule set by the CGA and other accounting authorities, is achieved in respect of Civil Ministries, Post Department and Defence Services, Railways is unable to adhere to it.</p> <p>e) In view of factual position explained in the foregoing paras, it may be mentioned that if the completed accounts are made available to Audit by the end of June every year, CAG will be able to audit and certify the Accounts of the Union by the end of September every year.</p> <p>f) It may be noted that the deadline of September end for finalizing CAG's Audit Reports can be applicable only to the Audit Report containing comments on the Accounts of the Union</p> |

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|          |   |  | <p>Government, provided the completed accounts are made available by the end of June every year. As such, the compliance and performance audit conducted by the CAG will continue beyond the 30<sup>th</sup> September timeline and the reports of these audits presented separately to Parliament.</p> <p style="text-align: center;"><b><u>D/o Expenditure</u></b></p> <p>i.The audits conducted by the C&amp;AG of India fall in following three categories –</p> <p>a)Financial Audit<br/>b)Performance Audit<br/>c)Compliance Audit</p> <p>ii.The audit process continues throughout the year and the reports also accordingly are presented to the legislature. As the recommendations of the ARC relates to strengthening the financial management system of the Union Government only, the issue of timeliness of audit would refer to the report on accounts of Union Govt, which falls in category of Financial Audit.</p> <p>iii. Union Government Accounts comprise of Finance Accounts and four appropriation accounts. Independent Accounting Authorities exist in under Department of Posts, Defence and Railways.</p> <p>iv. As per present practice, the accounts of Union</p> |

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|          |   |  | <p>Government are closed by the accounting authorities by the end of June every year, though the financial year ends on 31 March. Thereafter, CGA sets the time schedule by which accounts are to be completed and then made available to Audit in stages between June to October. Cumulatively, audit requires approximately 90 days for conducting the audit and certifying the accounts, at various stages of the compilation of accounts.</p> <p>v.Past experience shows that though, to some extent the time schedule set by the CGA and other accounting authorities, is achieved in respect of Civil Ministries; Postal Department, Defence Services and Railways are unable to adhere to it.</p> <p>vi. Audit process begins only after finalization of accounts. Once the completed accounts are made available to Audit by the end of June every year, CAG will be able to audit and certify the Accounts of the Union by the end of September.</p> <p>vii. Further, the deadline of September end for finalizing CAG's Audit Reports can be applicable only to the Audit Report containing comments on the Accounts of the Union Government, provided the completed accounts are made available by the end of June</p> |

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|          |   |  | <p>every year.</p> <p>As such, the compliance and performance audits conducted by he CAG will continue beyond 30 September timeline and reports of these audits presented separately to Parliament.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>The recommendation that the Audit Reports may be finalized by 31<sup>st</sup> December, should come into force after a period of time to enable the State PSUs (Public Sector undertakings ) to gear up to the challenges.</p>                             |
| 33       | <p><b>17. (Para 8.11.5) Inadequate Response to Audit</b></p> <p>a. The pending audit paras should be monitored by having a database on them in each Ministry/Department. In case of persistent default in submitting replies to the audit paras a procedure should be laid down for action against the concerned officer.(36)</p> | (a) Accepted the recommendation.         | <p><b><u>Department of Expenditure</u></b></p> <p>Monitoring mechanism for speedy liquidation of pending audit paras by Ministries / Departments has been adequately streamlined with the setting up of institutional mechanism by way of constitution of Standing Audit Committee (SAC) and ATN Adalat, review of progress of resolution of pending paras by COS meetings regularly, Finance Minister and Secretary (Exp)'s review meetings with the Financial Advisors of Ministries. It is expected</p> |

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|          |   |  | <p>that with the computerized monitoring system for timely / expeditious submission of ATN on audit paras at the level of Monitoring Cell become operational for User Ministries, Audit and PAC branch; Ministries / Departments will be able to show considerable improvement in the matter of reduction of the pending audit paras. As decided by the Committee of Secretaries, the SAC, as a nodal agency, will monitor and review the submission of ATNs on Audit Paras on a monthly basis.</p> <p><b>Govt of Andhra Pradesh</b></p> <p>Pendency is being monitored. In the Secretaries Conference held on 11.2.2011, the Principal Accountant General has requested all the secretaries to minimize the pendency of audit paras.</p> |

**Administrative Reforms Commission's 14<sup>th</sup> Report Strengthening Financial Management Systems**

**Recommendations not accepted**

| <b>Sl. No</b> | <b>Recommendations made by Administrative Reforms Commission</b>   | <b>Decision of the Group of Ministers (GoM)</b> | <b>Action Taken</b> |
|---------------|--|---|---------------------|
| 1.            | <p><b>5. (Para 4.11.2) Adhoc Project Announcements</b><br/>                     a. The practice of announcing projects and schemes on an ad-hoc basis in budgets and on important National Days, and during visits of dignitaries functionaries to States needs to be stopped. Projects/schemes which are considered absolutely essential may be considered in the annual plans or at the time of mid-term appraisal.(8)</p> | (a): Recommendation was not accepted.           | No action required. |
| 1.            | <p><b>13. (Para 7.6.5) Integrated Financial Adviser</b><br/>                     a. The role of the Financial Adviser as the Chief Finance Officer of the Ministry who is responsible and accountable to the Secretary of the Ministry/Department should be recognized and the trend of dual accountability should be done away with.(27)</p>  | (a) Recommendation was not accepted.            | No action required. |



**Recommendation deferred**

| <b>Recommendations made by Administrative Reforms Commission</b>  | <b>Decision of the Group of Ministers (GoM)</b>  | <b>Action Taken</b>  |
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| <p><b>14. (Para 8.8.7) Accountability to Parliament</b><br/>                     a. In order to further strengthen the Parliamentary oversight mechanism, as many audit paras as possible need to be examined by Parliamentary Committees. To facilitate this, the PAC and COPU may decide in the beginning of the year itself, which paras would be examined by them and which by their sub-committees (to be constituted for the purpose). They may consider assigning other paras to the respective Departmentally related Standing Committees. The objective would be to complete the examination of all paras within one year. In exceptional cases, Chairman, PAC/COPU may authorize keeping a para alive for more than one year. If still some paras are pending, it is for the consideration of the PAC and COPU to refer these to the Departmental Audit Committees (recommended vide paragraph 7.5 of this Report).(29)</p> | <p>(a): M/o Parliamentary Affairs to examine and give views, and a final decision will be taken later.</p> | <p>Views of M/o Parliamentary Affairs taken and the issue is being referred to GoM for decision again.</p> |