

Administrative Reforms Commission's 14th Report 'Strengthening Financial Management Systems'

Details of the Government's decisions on the recommendations of the Administrative Reforms Commission

Sl. No.	Recommendations made by Administrative Reforms Commission	Decision of the Group of Ministers (GoM)
1.	<p>1. (Para 4.5.8) Unrealistic Budget Estimates</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>2. 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. (2)</p> <p>3. c. Internal capacity for making realistic estimates needs to be developed.(3)</p>	(a) to (c): Accepted the recommendations of the ARC.
4.	<p>2. (Para 4.6.5) Delay in Implementation of Projects</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.
5.	<p>3. (Para 4.7.8) Skewed Expenditure Pattern – Rush of Expenditure towards the end of the Financial year</p> <p>a. The Modified Cash Management System should</p>	(a) : Accepted the recommendation.

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	be strictly adhered. This System should be extended to all Demands for Grants as soon as possible. (5)	
6. 7.	<p>4. (Para 4.8.26) Inadequate Adherence to the Multi-year Perspective and Missing Line of Sight between Plan and Budget</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. (6)</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.(7)</p>	(a) & (b): Accepted the recommendation.
8.	<p>5. (Para 4.11.2) Adhoc Project Announcements</p> <p>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.
9..	<p>6. (Para 4.12.6) Emphasis on Meeting Budgetary Financial Targets rather than on Outputs and Outcomes</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 the Flagship Schemes and certain national priorities.(9)</p>	(a): Accepted the recommendation.

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10.	<p>7. (Para 4.13.4) Irrational ‘Plan – Non Plan’ Distinction leads to Inefficiency in resource Utilization</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.
11.	<p>8. (Para 5.2.12) Flow of Funds relating to Centrally Sponsored Schemes</p> <p>a. The Controller General of Accounts, in consultation with the C&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.
12.	<p>9. (Para 5.3.6) Development of Financial Information System,</p> <p>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)</p>	(a) : Accepted the recommendation.
13.	<p>10. (Para 5.4.3) Capacity Building</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>	(a): Accepted the recommendation.
14.	<p>11. (Para 6.3) Accrual System of Accounting</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</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&AG to work out road map for

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15. 16. 17. 18.	<p>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 level along with exclusions, if any. This may proceed in a phased manner.(16)</p> <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>taking Accrual System further in the government.</p>
19. 20. 21.	<p>12. (Para 7.5) Internal Audit</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>(a) to (h) Agreed with the recommendation. The need for strengthening internal control & audit is necessary. However, it was decided that creating an Office of Chief Internal Auditor is not desirable since the AS & FA is already entrusted with the task.</p>

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22.	d. The modalities for ensuring non-duplication of work vis-à-vis the C&AG should be formalized. This should be aimed at assisting the C&AG in concentrating on carrying out specialized audit/tasks. (22)	
23.	e. Standards for internal audit should be prescribed by the Office of the C&AG. (23)	
24.	f. The Accounting functions should be completely separated from Internal Audit. (24)	
25.	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)	
26.	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)	
27.	<p>13. (Para 7.6.5) Integrated Financial Adviser</p> <p>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.
28.	b. Officers with sufficient training and experience in modern financial management systems should be posted as Financial Advisers in the Ministries/	(a): Accepted the recommendation.

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	Departments.(28)	
29.	<p>14. (Para 8.8.7) Accountability to Parliament</p> <p>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>	(a): M/o Parliamentary Affairs to examine and give views, and a final decision will be taken later.
30. 31. 32.	<p>15. (Para 8.9.7) Relationship between Audit and the Government/ Government Agencies</p> <p>a. There is need for better understanding and synergy between the audit and auditees for enhanced public accountability and consequently better audit impact.(30)</p> <p>b. There should be balanced reporting by the audit. Audit reports should not focus on criticism alone but contain a fair assessment or evaluation, which would mean that good performance is also acknowledged.(31)</p> <p>c. There is need for increasing interaction as well as coordination between the executive and the audit, including at senior levels. These should include regular and meaningful meetings where important issues could be discussed and conclusions reached on what needs to be done arising out of the recommendations made by the audit. There should also be quarterly communication from the Accountant General to Administrative Secretaries informing them</p>	(a) to (c): Accepted the recommendation.

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	about significant points and areas of improvement noted by Audit during their inspections.(32)	
33. 34. 35.	<p>16. (Para 8.10.4) Timeliness of Audit</p> <p>a. External audit needs to be more timely in inspecting and reporting so that their reports can be used for timely corrective action. All audits for the year under review should be completed by 30th of September of the following year. To start with, all Audit Reports may be finalized by 31st December and this date may be gradually advanced.(33)</p> <p>b. IT should be used increasingly and effectively for data collection and analysis.(34)</p> <p>c. Government agencies also need to be more prompt in responding to audit observations and ensure that the remedial and corrective action not only settles the irregularities reported but also addresses the systemic deficiencies.(35)</p>	(a) to (c): Accepted the recommendation. Accepting the goalpost of 30 th Sept. C&AG should work backward to fix other timelines for finalisation of internal accounts, etc.
36.	<p>17. (Para 8.11.5) Inadequate Response to Audit</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.