

CENTRAL GOVT. AUDIT REPORTS ON REVENUE RECEIPTS 1952

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1952, Pt 1.



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CENTRAL GOVERNMENT

AUDIT REPORT
(CIVIL)

1952

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AUDIT REPORT
(CIVIL)

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PART I

A.C.R. 2.2.1

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PREFATORY REMARKS

The Audit Report on the accounts of the Central Government including the Appropriation Accounts (Civil) is prepared in accordance with paragraph 13 (1) (i) and (iii) of the Government of India (Audit and Accounts) Order, 1936, as adapted under the India (Provisional Constitution) Order, 1947, read with Article 149 of the Constitution of India and Article 151 (I) of the Constitution of India. It includes also such comments as are considered to be necessary on the accounts of receipts and of stores and stock audited with reference to paragraph 13 (2) of the Order in Council. The Audit Report is submitted by the Comptroller and Auditor General of India to the President to be laid before each House of Parliament.

2. The Audit Report thus contains, apart from any comments of general interest, the following:—

- (a) A narration of cases involving financial irregularities, losses of public money due to fraud or negligence, wasteful or nugatory expenditure and criticisms or comments thereon, and
- (b) Comments and criticisms arising out of the Appropriation Accounts e.g. accuracy of budgeting, control of expenditure, excesses and savings, etc.

3. Matters falling under (a) in para 2 above are separable from (b), but the preparation of the latter part usually takes a much longer time owing to the fact that it has to await the completion of Appropriation Accounts. During the last few years this delay has been unavoidably greater than in the past for various reasons. Both the Comptroller and Auditor General and the Public Accounts Committee have been feeling that cases involving serious financial irregularities, and losses of public money involving fraud, negligence or inefficiency ought to come under the review of the Public Accounts Committee and Parliament in the minimum time possible after their occurrence. At the suggestion of the Comptroller and Auditor General, therefore, the Public Accounts Committee agreed in July, 1952 that whenever any delay is anticipated in the completion of the Appropriation Accounts, the Comptroller and Auditor General may, at his discretion, present an advance Audit Report, (to be described as Audit Report Part I), dealing with matters falling under (a) of paragraph 2, and a supplementary Audit Report (to be described as Audit Report Part II) dealing with matters falling under (b) *ibid* together with audit comments on any new or outstanding cases of financial irregularities etc., as are ready for report.

4. The Appropriation Accounts for 1950-51 are in the press and will take some time in their publication. In accordance with the new procedure, this Audit Report Part I contains only matters falling under (a) of paragraph 2.

5. Comments have been confined as far as possible to audit points of outstanding interest or importance. Cases of irregularities, etc., included in the Audit Report relate ordinarily to the year 1950-51. The Report includes also cases relating to previous years which could not be dealt with in the earlier reports as well as some matters relating to a later year than 1950-51. Every effort has been made to obtain an agreement on the statements of facts from the Ministries or Departments concerned to whom draft paragraphs are sent for the purpose.

CHAPTER I—FINANCIAL IRREGULARITIES, LOSSES, ETC.

Only important or typical financial irregularities, etc., have been mentioned in this Report; for convenience, they have been arranged according to Ministries.

The following table gives a summary of the other cases of losses, writes off, etc., mentioned below the Appropriation Accounts of the grants concerned.

Page No. (Accounts,)	No. and name of grant.	Total number of minor losses, irregularities, etc. under each grant.	Total amount of minor losses, etc. under each grant.	Brief subject.
I	2	3	4	5
	MINISTRY OF FINANCE		Rs.	
..	1. Customs	I	..	Non-settlement of objections regarding refund of customs duty for want of relevant records.
	MINISTRY OF EXTERNAL AFFAIRS			
..	37.—Tribal Areas	I	1,060	Damage to foodstuffs due to defective storage.
..	38.—External Affairs	I	37,413	Irrecoverable advances granted to destitutes from foreign countries.
..	73.—Miscellaneous	I	15,97,244	Irrecoverable advances to evacuees from war zones written off.
..	83.—Prepartition Payments	I	1,25,724	Write off of the cost of arms etc. supplied to a foreign Government in 1929.
	MINISTRY OF WORKS, HOUSING AND SUPPLY			
..	53.—Industries and Supplies	I	16,960	Loss occasioned by a daylight dacoity in the premises of a certain office.
	MINISTRY OF FOOD AND AGRICULTURE			
..	24.—Ministry of Food	I	444	Deposit of Government money into a private bank which went into moratorium.
..	108.—Capital outlay on Schemes of State Trading.	I	4,888	Waiver of the recovery of the cost of re-ploughing from a State Government.
	MINISTRY OF LABOUR			
..	81.—Resettlement and Development.	3	48,795	(a) Loss of Rs. 930 owing to non-observance of prescribed procedure for custody and verification of cash. (b) Utilisation of departmental receipts to the extent of Rs. 765 to meet departmental expenditure. (c) Losses on various items amounting to Rs. 47,100 written off as irrecoverable.
	MINISTRY OF REHABILITATION			
..	110.—Interest Free and Interest bearing advances.	I	5,77,000	Irrecoverable loans and advances to displaced persons decided to be written off.
	MINISTRY OF STATES			
..	91.—Tripura	I	5,77,938	Loss of Government property burnt and plundered by armed hooligans from the bordering region.
	MINISTRY OF NATURAL RESOURCES AND SCIENTIFIC RESEARCH			
..	39.—Survey of India	I	1,159	Loss in transit of a part of field contingent advance.
	Total	14	29,88,625	

MINISTRY OF FINANCE

2. (a) *Irregularities in Mint Account.*—The local audit of the accounts of a Mint revealed the following irregularities :—

(i) A sum of Rs. 21,917 was paid in excess to the workmen due to wrong fixation of wages. Recovery of Rs. 18,120 was waived by Government and a sum of Rs. 1,385 written off as irrecoverable. The balance is in course of recovery.

(ii) A very large quantity of consumable stores valued at Rs. 4 lakhs on the 31st March, 1950 has been lying unused for a long time. Many of the items were purchased afresh even though there was very little demand for them and the balance already in hand was sufficient for the requirement of several years to come.

(iii) In a number of cases the lowest tenders were not accepted and the reasons for their non-acceptance were not recorded. The extra expenditure involved on this account has been calculated at Rs. 18,429.

Steps have, however, been taken by the Administration to dispose of or utilise the stores in hand to the best advantage of Government and also to record, in future, the reasons for not accepting the lowest tender.

(b) *Ex-gratia compassionate allowance.*—A widowed daughter of a subscriber to the Madras Military Fund was, following the death of her father, awarded as an act of grace, in relief of destitution, a compassionate allowance of £ 36 per annum from 30th July, 1925 which was increased to £ 50 upon the death of her mother in 1941 and to £81-5s. per annum from 1st January, 1944, under the Pension Increase Act 1944. When the award, which was subject to the production of a quarterly declaration that the beneficiary had not acquired any private property, was first sanctioned, she had some small private income from the letting of rooms, allowance from her mother etc., but from 10th March, 1949 she was awarded by the authorities in Australia whither she had migrated, an old age pension of £58-11s.-2d. per annum. The payment of the compassionate allowance from the date she became entitled to the old age pension was held in Audit to be inconsistent with the condition attached to the original award. The Government on a reference being made to them decided that the allowance should be discontinued from a current date. The grant was accordingly withdrawn from 1st July, 1951.

(c) *Compassionate allowance.*—The son of a deceased subscriber to the Indian Navy Fund was awarded a special pension (compassionate allowance) of £40 per annum from 2nd May, 1898 subject to the annual production of a medical certificate that he was wholly incapable of earning his livelihood, and of a statement of income. This was the first grant of its kind in respect of the Indian Navy Fund, the rules of which do not provide for it, but the sanction was

expressly based on the fact that similar grants had been made in respect of subscribers to the Indian Military Service Family Pension Fund and the Madras Military Fund (the rules of which also made no provision for them). In these cases, means limits are applied, £150 a year, with or without the inclusion of pension, being a standard figure. In 1946, the pensioner's total income having increased to £236 per annum from 18th July, 1946 Audit suggested that the entitlement to compassionate allowance from that date onwards should be reviewed on the basis of a means limit of £150.

This review was, however, delayed and it was only in March, 1951 that a reference was made to the Government suggesting that the means limit of £150 in this case was too low and should be increased to £250 per annum, but before a decision was taken the pensioner died. Thus payment of the compassionate allowance continued for about 4½ years after the increase of means which called for its review.

(d) *Fraudulent payments.*—During December, 1947 to February, 1948 three fraudulent payments aggregating to Rs. 1,29,123 were obtained by a clerk of an Audit Office in collusion with some outsiders against contracts for supplies of stores to Government. Payment of Rs. 1,27,373 was obtained on bogus bills, while the balance of Rs. 1,750 was obtained against an abandoned claim of a displaced firm of Pakistan by fraudulent presentation of a bill in the name of the firm with a Delhi address. The fraud came to light as a result of Police investigation conducted in collaboration with the Audit Office on receipt of a report from an informer and the men were prosecuted. Many of the relevant documents relating to the case were either found missing or had been tampered with, but the paid cheques were available which helped to establish the fraud.

The court held that possibly in the first case the bogus bills had been supported by genuine certificates of inspection which had not perhaps been cancelled when they were attached to the original bill. The cheques amounting to Rs. 1,27,373 relating to bogus bills were paid into a spurious account opened at the bank in the name of the original contractor and the entire amount was withdrawn from there in the course of a year. In the second case, the address of the contractor on the bill was altered and a cheque thus obtained fraudulently was cashed by forging the contractor's signature. The Audit Clerk and an outsider who was his accomplice were sentenced to five years' rigorous imprisonment and a fine of Rs. 25,000 each or in default to further rigorous imprisonment for 1½ years. An appeal was preferred by the accused, but it was rejected by the High Court.

The trying Magistrate had remarked "that the Bank could not escape responsibility" and Government is accordingly considering further action in the matter.

Disciplinary action against other officials considered responsible for negligence of duty is under consideration.

Measures have also been adopted to tighten up the rules of procedure for dealing with contractor's bills with a view to avoid possibility of a recurrence of such frauds.

MINISTRY OF HOME AFFAIRS

3. *Misappropriation of receipts.*—The local audit of the accounts of a Supply Office in a State for the period ended 31st December, 1950 disclosed a misappropriation of about Rs. 57,000 by the Cashier-cum-Accountant of that office. The embezzlement was mainly made in the following manner :—

The Store Keeper used to make over the sale proceeds of mutton and ice to the Cashier for crediting to Government Account in the Treasury. Under the Rules the Cashier was required to issue receipts in prescribed forms to the persons concerned and enter the amounts in the Cash Book as receipts but he neither issued any receipts nor made any entries in the Cash Book and thus misappropriated a sum of Rs. 2,675.

Similarly sale proceeds of milk coupons aggregating Rs. 2,201 and a sum of Rs. 183 received by the Cashier were not brought to account by him.

The misappropriation was rendered possible because no check was exercised by the officer-in-charge to ensure that the amounts received by the cashier were brought to account.

Amounts to the extent of Rs. 21,207 were shown by the Cashier in the Cash Book as having been deposited in the Treasury though they were not actually deposited but misappropriated. Under the rules the entries in the cash book in respect of moneys deposited in the Treasury have to be attested by the officer-in-charge by reference to the receipted challans given by the Treasury. In the present case, however, the cashier got the entries in the cash book attested by the officer-in-charge with reference to the challans prepared by him without actually sending the money to the Treasury.

Certain entries in the Cash Book purporting to show payments to various parties either in cash or by Bank Drafts were found to be fictitious as no payment had actually been made. The amount so misappropriated was Rs. 18,134.

The amount of some bills after they had been passed by the Supply Officer for payment, was altered by the Cashier before presentation to the Treasury. A sum of Rs. 12,000 was thus fraudulently drawn and misappropriated.

Non-observance of the rules and lack of supervision on the part of the officer-in-charge and the entrusting of duties of accountant and cashier to on and the same person facilitated this misappropriation.

Audit immediately brought the matter to the notice of the Local Administration. The Cashier-cum-Accountant was prosecuted and sentenced to a total term of imprisonment for $27\frac{1}{4}$ years. The Government have since issued instructions that the functions of Cashier and Accountant should be entrusted to different persons.

As a result of departmental investigation the store-keeper was dismissed from service and his security deposit of Rs. 1,500 forfeited to Government. As the officer-in-charge had no hand in these defalcations and his lapses were due to his inexperience, the Administration decided that the ends of justice would be met by reversion to his substantive appointment in a lower cadre which in itself would mean reduction in pay.

MINISTRY OF EXTERNAL AFFAIRS

4.(a) *Outstanding recoveries.*—It was decided in 1943 to supply to a Foreign Government some material controlled under the Iron and Steel (Control and Distribution) Order, 1941. On receipt of firm orders from the Foreign Government the Department (now the Ministry) concerned placed indents on the Supply Department.

The Indian Legation was to obtain payment for the stores from the Foreign Government before handing over the export licences but in a number of cases the stores were supplied without obtaining payments therefor. The matter was specially reported to the Department (now Ministry) with the requisite information and details. But it has not yet (April 1954) been found possible for the Ministry to effect the recovery from the Foreign Government. The total amount outstanding on this account is Rs. 3,62,186.

(b) *Overdrawal of Exchange compensation allowance.*—After the devaluation of the rupee in September, 1949, India-based officers and staff serving in our missions abroad were allowed exchange compensation allowance of an amount sufficient to bring up their *net* monthly emoluments (*i. e.*, after deduction of all their remittances to India on account of provident fund subscriptions, insurance premia, family maintenance in India, etc.) to what they would have been in terms of the foreign currency prior to devaluation. The claims for exchange compensation allowance were required to be supported by certificates countersigned by the

Head of the Mission, showing the amounts remitted to India and the deductions on account of funds, etc. It was specifically made clear that serious notice would be taken of false certificates or of any tendency to abuse the privilege.

The staff and officers of a certain Mission, including the Head of the Mission, were remitting their entire pay and allowances to India during a period of 16 months from October, 1949 to January, 1951 and were drawing exchange compensation allowance calculated on the major portion of their pay and allowances, by furnishing false certificates. A sum of Rs. 15,600 thus overdrawn has been recovered in full. The question of taking suitable remedial measures and disciplinary action is under the consideration of Government.

(c) *Lease of residential premises.*—The lease, expiring in 1990, of residential premises for the use of the High Commissioner in London was acquired in June, 1949, at a cost of £60,000, and an additional payment of £ 9,250 was made for the furnishings. Expenditure on maintenance including ground rent, at £585 per annum upto 31st March, 1951 amounted to £ 3,000.

The possibility of using the premises, pending their occupation by the High Commissioner (who took up residence there on 13th July, 1952) had been considered including the accommodation of distinguished visitors, or of senior officers of the commission, but apart from a resident caretaker, the premises were unoccupied except for a short period in the beginning of July, 1952, when the Commander-in-Chief and other high ranking army officers were accommodated at the premises. A major constituent of the cost of upkeep while the premises were unoccupied was expenditure on domestic gas, which for the period to April, 1952, amounted to £1,489, viz. for the year and nine months to April, 1951, £771 and for the year to April, 1952, £718, the figure for the last quarter (January to April, 1952) being £219. This expenditure on premises occupied only by a caretaker, was *prima facie* excessive. It has been stated in explanation that it is necessary to keep the building generally heated for the sake of its valuable contents. Excessive expenditure on gas in the summer months when the need for space heating would be small is explained by the statement that owing to the peculiar construction of the heating plant it was necessary to retain the whole system in operation during the summer months, to enable hot water to be obtained for the cleaning of the premises and for the daily use of the resident care-taker. It is also pointed out that the thermostatic device controlling the boilers was not functioning properly. The boiler arrangements in the building whereby the same boiler has been used both for central heating and for domestic hot water has been recently renovated and separate boilers, one for hot water and one for central heating, which will enable shutting down the space heating boiler completely during the summer months, have now been installed with the approval of Government.

(d) *Use of Diplomatic Air Mail Bag.*—In view of the high cost of despatch by the Diplomatic Air Mail bag, its use was restricted by Government to signed letters of high security classification. Instances were, however, noticed in the course of a test examination, where bulky packages weighing several kilogrammes not falling under this category, were despatched by the Diplomatic bag in contravention of these instructions. The extra expenditure involved has not been accurately assessed, but must be appreciable; for example, between London and New Delhi, it is approximately £3-10s. per Kilogramme. Appropriate remedial measures are stated to have been taken.

(e) *Demurrage Charges.*—An officer posted at an Indian Mission abroad proceeded on home leave and left his kit at the place of his posting as it was not then known that he would not return to duty at that place. On the expiry of his leave he was posted to India. His luggage including a car was held up at Bombay because it arrived after the period of four months of the transfer of the officer and could not, therefore, be cleared without special orders of the Central Board of Revenue. This took time, with the result that a sum of Rs. 2,651 had to be paid as demurrage charges to the Port Trust authorities. Government re-imbursed this amount to the officer as he was not at fault and it was for the Government to arrange for the timely clearance of the luggage.

(f) *Exchange of cars.*—The Audit of Log Books of the High Commissioner's Transport Pool disclosed that in 1950-51 new cars had been substituted for 7 old cars. The exchange had not appeared in the accounts. Both the sale of the old and the purchase of the new cars required the sanction of the Government of India which had not been obtained. *Ex-post-facto* sanction to the exchange has since been given. There are also other financial objections to an exchange in this manner. The sale and purchase should be kept separate. The High Commissioner has explained that the transactions took place before the receipt of instructions on the subject of the disposal of old cars.

(g) *Advance payment for acquisition of premises.*—In May, 1950, the High Commissioner, in view of the need for additional office accommodation in London, received Government approval to negotiate for the acquisition of a lease of premises to be built on a site near India House. In July, 1950, the High Commissioner advanced £17,000 to a company floated in December, 1949 with a nominal capital of £1,000 and issued capital of £2 which had entered into a contract with existing lessee for the purchase of his rights in the property for a sum of £170,000. The company proposed to demolish the existing building and erect new premises to the High Commissioner's requirements, the major portion of which was to be leased to the High Commissioner. At the time advance payment was made it was apparently expected that the sum would be repaid in six weeks. *Ex-post-facto* sanction of Government was accorded to the advance payment in February, 1951.

The record is incomplete but the circumstances of the advance payment appear to have been as follows. Mr. 'X', a solicitor who had become a director of the above mentioned property company on the 11th July, 1950, told the High Commissioner on the morning of that day that unless he, Mr. 'X', who had not got the money paid the lessee £17,000, namely, 10 per cent. of the purchase money, before 3 P.M. that day, the lessee would close with another party, and the site would be finally lost to India. The payment was made to the company with the concurrence of the Financial Adviser and the Legal Adviser, against a promissory note signed by Mr. 'X' "for and on behalf of the Company" and the deposit with the High Commissioner of the Company's contract with the lessee. The contract was due for completion originally on 11th October, 1950, but successive extensions were allowed by the lessee and it has not been completed. It is understood that the lessee's rights in this property were sold by his mortgage creditors by foreclosing the mortgage and the property is no longer with the lessee. It is stated that the money was paid by the company to the solicitors of the lessee as stakeholders, but that it is now in the hands of the lessee who forfeited it on the failure of the company to complete the contract.

The site, which was almost contiguous with India House, was regarded as an exceedingly desirable one, and it is understandable that the High Commissioner, looking rather to the spirit than the letter of his instructions, might regard himself, in circumstances of extreme urgency, as justified in making the payment, without which the site would have been lost. It is impossible to appraise the whole transaction in the absence of the full record, but audit criticism must be directed against the payment of a large sum without security to a firm without credentials or financial backing which had been floated with £2 paid up capital six months previously, conceivably for the express purpose of putting this transaction through. There is no explanation for not negotiating direct with the lessee, and for the interposition of an intermediary with little or no financial backing or guarantee. There is a striking family resemblance to other highly objectionable contracts which resulted in serious financial losses to the State.

An unsatisfactory feature of this case is the incompleteness of the record. Not only are the files relating to this particular transaction incomplete and so badly constructed that it is exceedingly difficult to ascertain the course of events, but there is evidence on the papers produced that other negotiations relating to this site and possibly bearing on this transaction were conducted by the then High Commissioner of which no record is preserved.

MINISTRY OF PRODUCTION

5. (a) *Review of expenditure incurred on a Fertilizer Project.*—In 1944 it was decided by Government, on the advice of an expert Technical Mission, to take action to establish indigenous production of nitrogenous fertilizers to the extent of 3,50,000 tons a year. A contract was accordingly entered into with an American firm to design the complete factory, supervise its constructions and bring it into production. Another contract was concluded with a British firm to erect the factory under the supervision of the American firms, supply speciality plant and act as Agents of Government for procurement and erection of the plant.

Administrative approval for the execution of the project at an estimated cost of Rs. 10.79 crores was accorded in the year 1945. By the end of November 1949 the expenditure on the project stood at Rs. 11.23 crores necessitating revised administrative approval. Expenditure, however, continued to be incurred without the necessary approval till the 31st July, 1951 when revised administrative approval for Rs. 23 crores, was given. This was merely a covering sanction mainly based on sanctions to component parts already accorded by subordinate authorities and commitments already entered into by them.

This factory has been placed under a private limited company formed in December, 1951 with an authorised capital of Rs. 30 crores. The assets and liabilities of the Project have been transferred to this company. Out of the sum of Rs. 22,14,30,641 (Provisional) spent by the Government of India on this factory a sum of Rs. 17 crores will represent the issued, subscribed and paid up capital of the company. The balance of the sum will be secured by redeemable debenture bonds issued by the company.

Attention is invited in this connection to paragraph 14 of the statement made by the Comptroller and Auditor General of India to the Sub-Committee of the Public Accounts Committee in the "Exchequer Control over Public Expenditure" which has been printed as Appendix I of the Third Report of the Public Accounts Committee of 1952-53 on "Exchequer Control over Public Expenditure". The remarks of the Auditor General in that paragraph regarding the conversion of a Government concern into a Private Company as being unconstitutional and the other objections to such action hold good in this case. It is open to Government to establish by Legislation a Statutory authority for their adequate management. In the case of concerns which are wholly the property of the State and therefore the responsibility of Government, the law setting up a Statutory authority will doubtless contain adequate provisions for securing the requisite degree of Parliamentary control, including audit by the Comptroller & Auditor General, while ensuring at the same time the efficient management of the business without undue centralisation of authority. It does not appear to be appropriate to designate such bodies as Corporations.

Some important financial irregularities and other interesting points that came to notice during the course of audit of the project are mentioned below :—

(i) A lump sum price for a completed piping system for the power Station was quoted by a Sub-contractor on the basis that 669·5 tons of steel would be used. Actually, however, only 538 tons were used but no adjustment in price was made, as it was a lump sum contract. The excess estimate of steel which apparently was not properly scrutinised resulted in excess payment of Rs. 2·7 lakhs.

(ii) The work of construction of a storage silo was let out to a firm at a lump sum cost of Rs. 21,03,000 subject to price adjustment in respect of some of the main items of materials such as cement, steel and bitumen. Extra work not covered by the lump sum quotation was to be paid on the basis of separate agreed schedule of rates. The price increase was, however, paid on the total quantities of materials used including those used on extra items of work for which payment was to be made on the basis of the agreed schedule of rates only. This has resulted in an overpayment of about Rs. 43,000 to the firm. The recovery is still awaited.

The lump sum quotation referred to above included the cost of about 350 tons of structured steel the bulk of which was used by the contractors on inside and outside travellers, a special type of structure used as scaffolding. Price increase on these travellers was also paid by Government. Although the full cost of these travellers, about Rs. 3·5 lakhs, was included in the lump sum quotation, the firm took away the travellers as their property. Since full payment was made, (it is reasonable to expect that) the travellers were Government property but no action was taken in the absence of a clear provision in the agreement to that effect. A further payment of Rs. 9,775 on shuttering and setting out travellers has also been made.

(iii) The benefit of the concessional I.S.D. running rate contracts for supplies to Government was not secured as in some cases the contracts were actually placed by the firm and not by the Government. Some of the instances are :—

(a) For the construction of the storage silo, 5,800 tons of cement were used and the difference of cost between public supply rate and running contract rate works out to about Rs. 40,000 on the basis of an average difference of Rs. 7 per ton.

(b) Red lead paint required for painting of fabricated steel structures was, generally obtained through the fabricators at varying market rates plus 10 per cent. profit instead of against the I. S. D. rate contract.

(c) An order for the supply of 400 tons of standard cast iron pipes was placed with a firm against running rate contract in consultation with the Director General, Industry and Supply. The order was to be met out of Government quota for works of high priority on the

understanding that I. S. D. Contract rate will be charged. The actual orders, however, against this quota were placed by the constructing firm and not by any officer of the Government. On this ground the firm refused to give the benefit of the I. S. D. concessional rate and charged the full public rate. Failure to observe the prescribed method of indenting resulted in an avoidable loss of Rs. 50,000 for which no responsibility has been fixed so far.

(iv) One of the raw materials required for production of the fertilizers was gypsum which was intended to be imported from another State. Before, however, the Government of India could do so, the mining rights were acquired by private interests from that Government. The Government of India therefore negotiated for re-acquiring these mining rights for Rs. 8 lakhs out of which Rs. 6 lakhs were paid in November, 1946. Before, however, any mining operations could be undertaken the area became Pakistan territory and the payment made has now become a total loss since the Pakistan Government have refused to accept any liability for it.

(v) On considerations of economy seven Californian Red wood cooling towers were installed at a cost of £ 272,000 as a part of the water cooling system in preference to cement concrete shell structures with wood inside costing £ 335,850. The Red wood towers will, however, require replacement every 15 years against the more or less permanent cement structures. This point as well as the fact that Californian wood would require initial and periodical heavy dollar expenditure had not apparently been considered at the time of making a choice.

(vi) Almost all the steel fabrication contracts let out were 'cost plus' contracts with a profit fixed on percentage basis. This form of contract provides no incentive for economy on the part of the contractor. Even the conditions which bind the contractor in regard to time, payment of security or payment of penalty were relaxed in many cases with the result that there was a tendency to inflate the cost of the contracts. At the time the contracts for Sindri Fertilisers were entered into the conditions were most unstable in the immediate post-war years, a fact which may be held to mitigate the force of the criticism.

(vii) A hostel was started to cater for the needs of persons employed on the Project. The department retained the management of the hostel in its own hands instead of entrusting it to a professional caterer. The expenditure on meals and services was not related to the charges recovered from the tenants and this resulted in an estimated loss of Rs. 69,000 to Government up to March, 1951. The rate of recovery has since been revised.

(viii) In para 41 of the Audit Report, 1951 it was stated that the setting up of an adequate machinery for internal check calculated to prevent and detect errors and irregularities in the financial proceedings of the organisation so as to guard against waste and loss of public money and stores was under Government's active

and urgent consideration. No such machinery was set up to the date the Project was converted into a Private Limited Company. A high-level Chief Accounts Officer with the necessary staff has since been appointed. The Comptroller and Auditor General has entrusted the audit on his own behalf to the Chief Auditor of the Damodar Valley Corporation in addition to his other duties.

(ix) In August, 1949, the Chief Technical Adviser (subsequently the General Manager) of a Fertiliser Project was declared a public works disbursing officer. He was required to render monthly compiled accounts in P.W.A. forms and *inter alia* to exhibit expenditure on individual works against detailed estimates sanctioned for each work in accordance with the Central P.W.D. Rules. As a result of discussion with the audit representative the General Manager promised in June, 1950 that estimates would be prepared for works executed by him from 1st April, 1950. But expenditure continued to be incurred even thereafter without sanctioned detailed estimates, on a number of works, such as installation of telephones, provision of temporary accommodation and maintenance of Hostels, supply of furniture and running departmental canteen, experiments and tests etc., for the execution of which the General Manager was responsible. The total amount of expenditure so incurred from August, 1949 upto the date the Project was transferred to a company was Rs. 31.35 lakhs.

Large supplies of coke were obtained by the General Manager. The agreement for the supply of coke was not furnished to Audit by Government inspite of repeated requests. The agreement is stated to have been finalised only in February, 1953.

(b) *Delay in disposal of Government buildings.*—In order to increase the production of coal during the War, it was decided to raise coal by Open Cut Mining methods and the Director of Open Cut Coal Mining entered into agreements with five Market Collieries for these operations for a period from 1st February, 1945 to 31st March, 1946, subsequently extended to 31st May, 1946. The D. O. C. C. M. constructed both departmentally and through the C. P. W. D. several buildings at a cost of Rs. 6.5 lakhs approximately. It was provided in the agreements with each of the Market Collieries that Government will have the right to dispose of all Government properties including the buildings at the Collieries at any time during the currency of the agreement, or within 12 months of its termination, *i. e.*, up to 31st May, 1947 after which the ownership of all such properties would automatically vest in the owners of the Collieries.

A private firm was appointed as agents of Government from 1st January, 1946 to 31st May, 1946 to do the work on behalf of the D. O. C. C. M. Organisation. It was stipulated that the firm would be responsible for the safe custody and proper maintenance of the Government properties entrusted to it.

From 1st June, 1946 the firm, on its own behalf, entered into fresh agreements with the Market Collieries for two years during which period Government permitted the firm to use their buildings on payment of Rs. 50,000 as rent on lump sum basis. The firm's agreement with the Market Collieries specified that the stipulation in the original agreement with the Collieries about the ultimate transfer of ownership of the Government buildings to the Market Collieries would remain suspended until the completion of firm's contract with them, *i.e.*, until 31st May, 1948. On the termination of this agreement, the firm did not hand over nor did any officer of Government go to take over possession of the buildings. The firm paid rent only upto 31st March, 1948. For quite a long time the location and existence of these buildings had not been verified and even their plans and blue prints were not available either with the Administration or the C. P. W. D.

Action to arrange for the disposal of these buildings was, as stated, initiated in January, 1949 when the Market Collieries were asked for the particulars of the buildings, etc., at the colliery sites but no useful information was furnished by them up to 31st May, 1949. Since then, the matter has been under reference to Government Solicitors, Local Finance, C. P. W. D., the Ministry concerned and the Ministry of Law for clarification of the various issues arising out of the case. The location and physical existence of the buildings was traced by the Departmental Officers in November, 1951 when they were offered for sale to the Colliery owners, who denied the Government's right to the property and invoked the provision of the time limit in the original agreements with the D. O. C. C. M. In June, 1952, the Administration asked for instructions from Government about the steps to be taken for the disposal of the buildings. Under the instructions of Government and in consultation with the Government Solicitor, the Administration requested two of the colliery owners in December, 1952 to refer the dispute to arbitration in terms of clause 19 of their agreement with the Director of Open Cut Coal Mining. Only one of the two parties has accepted the proposal and instructions of Government have been sought by the Administration about the appointment of an arbitrator as well as the action to be taken in the other case.

Action for the recovery of rent from the Colliery owners for the period they have occupied these buildings has been stayed pending receipt of instructions from Government.

There appear to have been negligence and delay in looking after government's interests and no action has been taken to locate responsibility.

MINISTRY OF WORKS, HOUSING AND SUPPLY

6. (a) *Payment of Railway freight.*—In December, 1946, the Disposal Organisation invited tenders for the sale of 5,200 tons of surplus Iron Bars inadvertently described as lying in Jodhpur, whereas they were actually at Jubbulpore. An offer was received from a firm at Rs. 205 per ton and the sale letter issued on the 21st

December, 1946, correctly showed the location at Jubbulpore. Almost immediately on receipt of the sale letter, the firm represented that as their offer was F. O. R. Jodhpur the stores should be railed at Government expense from Jubbulpore to the various destinations specified by them, the excess over the freight between Jubbulpore and Jodhpur only being payable by them. This modification was promptly accepted on behalf of Government and the firm was informed accordingly within two days of the issue of the original sale letter without consulting Finance or the Special Solicitor, attached to the Disposal Organisation at Headquarters. Because of this modification Government had to bear an expenditure of Rs. 2,08,971 on freight against the sale value of Rs. 10,66,000.

The Department's Special Solicitor who had occasion to examine the case in February, 1949 opined that irrespective of the mention of Jodhpur in the tender as the location of the stores, the sale letter was the actual contract document. As it showed the correct location (Jubbulpore), it was open to the tenderer to accept or reject it and Government was under no obligation legally to bear the freight charges. While this was the initial position, the ready acceptance of the claim of the firm for re-imbusement of railway freight by the officers acting on behalf of Government, modified the original contract and constituted a fresh contract from which Government could not legally resale.

The senior of the two officers whose decision to accept the firm's claim for railway freight involved Government in the extra expenditure of Rs. 2,08,971 has left for Pakistan. The junior officer (an Assistant Director Grade I) who promptly recommended the acceptance of the firm's request has since left the Disposal Organisation and joined another department. He pleaded that he recommended the firm's claim under the verbal orders of the senior officer, and although there was no documentary evidence it was accepted as it was not possible to disprove it.

The Assistant Director passed one claim of this firm for freight not covered by even the modified terms, resulting in an excess payment of Rs. 3,175. For this lapse the displeasure of the Director General was communicated to him in December, 1950 and a copy of the communication has been forwarded to the head of the office where he is now employed.

(b) *Erroneous quotation of reserve prices.*—In a regional office of the Disposals Organisation, reserve prices were wrongly entered in the statements furnished for the guidance of the officer supervising auctions, in respect of (i) a big lot of lamps signalling with equipment and (ii) a lot of 240 reels of paper brown, with the result that the lots were sold much below their reserve prices as shown below :—

	Book Value	Correct Reserve Price	Reserve price shown in the statements	Amount for which sold in auction
	Rs.	Rs.	Rs.	Rs.
First Case	74,500 (Approx.)	37,696	816/8/-	4,100
Second Case	38,276	20,000	11,500	15,500

The supervising officer accepted the highest bids obtained for the items as they were above the reserve prices intimated to him. It was only after the auctions were over that it came to notice that the sales were made below the correct reserve prices.

In the first case the rates per unit of the items were shown in the statement instead of the total for the whole lot. The administrative authorities, however, held that the supervising officer failed to exercise an elementary scrutiny of the reserve prices and also the proper judgment normally expected of him. In the second case, the reserve prices of two items were interchanged by mistake. The loss to Government in this auction calculated on the basis of the reserve prices works out to Rs. 38,095.

The persons responsible for the mistakes were warned. In order to prevent recurrence of such mistakes administrative instructions tightening up the procedure for the preparation and check of the statements to be sent to officers supervising auctions and laying down the latter's responsibility in regard to these statements have been issued.

(c) *Stock Accounts.*—In a number of Central Public Works Divisions Half Yearly Registers of Stock and/or Annual Tools and Plant Returns were not submitted to Audit. Some of the outstanding Tools and Plants Returns related to the year 1944-45. The non-submission of the returns was brought to the notice of the Chief Engineer from time to time and reported to Government in June, 1951. As a result of protracted correspondence with the Executive many returns were subsequently sent. The submission of the returns was, however, abnormally delayed in 21 Divisions, the delay being more than one year in 38 cases, two years in 20 cases and three years in 19 cases. Nineteen Tools and Plants Returns were awaited from four Divisions in the audit office even at the end of February, 1954 and of these ten returns were reported to have been lost and were required to be reconstructed from the initial records. In the absence of these returns it could not be ascertained if the articles of Tools and Plants had been correctly brought to account and the balances physically verified.

(d) *Loss due to conflicting legal opinion.*—In an auction held in August, 1946, for the sale of surplus stores, one lot of timber was sold for Rs. 24,100. The purchaser deposited Rs. 5,000 as earnest money with the auctioning agent, who deducted his commission of Rs. 482 and deposited the balance of Rs. 4,518 into the Treasury. The purchaser failed to deposit the balance within the stipulated period. Consequently, the sale was cancelled and the stores resold in December, 1946 for Rs. 14,350. The earnest money deposited by the purchaser was forfeited.

The purchaser appealed against the forfeiture and Government sanctioned the refund of the amount on the ground that the auctioneers having omitted to print in the auction catalogue the usual conditions of sale, Government were precluded from exercising their rights of forfeiture. Legal opinion obtained at this stage also held that the right to forfeit was doubtful. It was, however, decided to recover the amount from the auctioneer.

The auctioneers refused to accept the liability and also to pay the sum of Rs. 482 previously retained by them as commission. The case was referred to the Special Solicitor who opined that Government would have been perfectly right in law to forfeit the earnest money from the purchaser, but the auctioneers could not be held liable in any case. The claim against the auctioneers was also dropped.

The over-all loss to Government due to conflicting legal opinion was Rs. 9,750 excluding the amount of ground rent due from the original purchasers.

(e) *Disposal of Machine Tools.*—In May, 1943 a factory owned by an Industrial Corporation near Calcutta was taken over by Government and converted into a Civil Maintenance Unit for War Purposes by installing Government machinery in addition to those of the Corporation. The Corporation were appointed the holding contractors of the unit. It was laid down in the Agreement that on its termination, the Government will be at liberty to dismantle and take away their machinery or sell and dispose of the same. In the latter event Government were to give the Corporation the first offer to purchase the machinery at a value to be fixed by Government having regard to the prevailing market conditions. When the Civil Maintenance Unit was closed down in September, 1945 Government machinery comprised 141 Machine Tools and 84 items of accessories with a book value of Rs. 20,45,773 and Rs. 36,353 respectively but no action for their immediate removal or disposal was taken. In November, 1945, the Corporation were permitted by an officer of the late Supply Department to use the machinery while with them for any work which they wished to undertake in lieu of their safe custody and maintenance and in return, they agreed to waive their claim of Rs. 1,000 per month as nominal rent for the building and space occupied by the machinery. The papers containing discussions leading to the issue of the above authority are stated to be not available. The Corporation reported in May, 1947 that certain machine tools were not in their factory. Action to reconcile the discrepancy was taken but the need to dispose of the available items was lost sight of. It was only in August, 1948 when the case was brought to the notice of the Ministry through a short notice question in the Constituent Assembly (Legislative) that steps were initiated to decide about the disposal of the machinery. A decision to retain some of the machinery not required by the Corporation for a machine tool project and to declare the balance to the Disposal Organization for disposal was, however, reached only in February, 1949. But for the commitment made in November, 1945 the Corporation would have been liable to pay hire charges to the extent of

Rs. 9 lakhs and depreciation about Rs. 3,73,000 for the use of the Government machinery for their own purpose against a sum of Rs. 36,000 (approximately) payable by Government to the Company by way of rent for the building and space occupied by the Machinery.

The Ministry held that no disciplinary action was called for at this late stage.

(f) *Disposal of Surplus American Stores.*—In 1946, Government entered into an agreement with a private firm for the disposal of surplus stores such as Air craft, spare parts, etc., left by the Americans on the termination of War.

The agreement provided for the setting up of a small Consultative Committee consisting of representatives of the Government and the firm to fix as expeditiously as possible minimum selling prices and special terms of sales in respect of the stores entrusted to it. In case of large block sales or in special circumstances, the firm was permitted to sell at 5 per cent. below the minimum price so fixed in respect of individual classes and categories of stores. It was noticed in audit that the agent firm actually sold the stores in a number of cases at prices which were more than 5 per cent. below the minimum prices. Audit scrutiny of a small percentage of the total transactions disclosed that during the period from 1st April, 1948 to 31st March, 1950 stores having a book value of Rs. 30.44 lakhs but priced at Rs. 24.14 lakhs by the Consultative Committee were sold for Rs. 7.21 lakhs. While admitting that stores had from time to time been sold much below the minimum prices fixed by the Committee, the firm contended that the prices so laid down by the Committee were mere guides and did not circumscribe their discretion in any way to regulate them in consonance with the market rates. This contention of the Agents, not being covered by the agreement, was not accepted in audit. The firm's action was later approved *ex-post-facto* by the Sales Consultative Committee.

(g) *Sale of motor vehicles to an Indian State.*—In June, 1947, the Foreign and Political Member of a small Indian State made an urgent demand for a large number of motor vehicles of various types said to be required by the State, and requested that facilities for the purchase of these vehicles be allowed to a firm which was the State's representative for the purpose. The Regional Commissioner of Disposals decided in July, 1947 in consultation with local Financial Adviser to sell the vehicles to the firm at the concessional rates allowed to priority buyers, provided the State furnished a formal indent and a certificate that the vehicles were required for its use. An unsigned list with the particulars of 197 vehicles was forwarded by the Foreign and Political Member with a covering letter which did not mention the number of vehicles required. The Regional Commissioner with the concurrence of the local Financial Adviser sold 177 vehicles to the firm for Rs. 3,20,000 without verifying the bonafides of the State's requirements.

An enquiry was later instituted as to how such a small State could require so many vehicles. It transpired that the State had not retained any vehicle for its own use and had allowed the firm to dispose of all the vehicles to other parties.

Government lost about Rs. 70,000 in the transaction as the sale was made at concessional rates allowed to Indian States. In consultation with the Ministries of Law and States, it was decided not to launch any prosecution against the firm as there was no evidence to show that they had made any false representation or any illegal gain by the deal. No action was also taken against the *Ex-Foreign* and Political Member of the State as the evidence was considered insufficient to secure his conviction.

The officers in the Regional Commissioner of Disposals, who handled the case having opted for Pakistan, no disciplinary action could be taken against them. The procedure for the release of vehicles to State authorities has since been modified and all indents from the States are routed through the Ministry of States and no purchasing agents are recognised.

(h) *Loss of a Demand Draft.*—A sum of Rs. 4 lakhs representing part of the sale proceeds of certain surplus stores was not realised for nearly $4\frac{1}{2}$ years. That the payment was outstanding was lost sight of till the purchaser himself pointed out after about $3\frac{1}{2}$ years that the Demand Draft presented by him at the time of purchase had not been cashed. The Disposals Organisation had authorised the delivery of the stores before the draft was encashed. The depot stock holder to whom the draft was sent, lost it. Audit also could not detect this as no sale account was sent in respect of the sale.

A severe censure has been administered to the officer responsible for the irregularity.

(i) *Disposal of U. S. A. Surplus Stores.*—Certain U. S. A. surplus stores of the book value of Rs. 19,50,031 were sold by auction for Rs. 63,170 during July and September, 1947 from two Depots without either fixing Reserve Prices or obtaining prior financial concurrence as required under the rules.

It has been stated that no disciplinary action could be taken against the officer responsible for the irregularity, as he had opted for Pakistan.

(j) *Loss by fire of Surplus U. S. A. Stores.*—In 1946, Government appointed a private firm as their agents for the disposal and safe custody of surplus aircrafts, aircraft parts and other allied materials left under the Indo—U. S. A. Agreement of May 16, 1946 by the Government of the U. S. A. Under the Agreement with the firm, while the Government were to assume all risk normally covered by insurance, the agents undertook to take the same care of the Government property entrusted to them as they would take of their own property. The terms of the agreement provided *inter alia* for the payment by Government to the Agents of a custody fee at $\frac{1}{2}$ % on the total net realisation subject to a minimum of Rs. 5 lakhs in addition to a selling agency fee at the rate of 2% on sales up to Rs. 5 crores plus 5% on the excess over Rs. 5 crores. They were also to be reimbursed the

whole of the expenditure incurred under or by virtue of the agreement with the Government including payments for all security measures taken for the safe custody of the stores entrusted to them.

Shortly after the agreement was executed, a series of fires broke out on the 4th March, 1947, the 2nd April, 1947, and the 7th April, 1948 in one of the Depots under the Agent firm, involving a loss of stores of the book value of Rs. 47·20 lakhs.

The reports of each of these fires were sent by the agent firm to the Disposal Authorities but no steps were taken by the latter for personal inspection on the spot, appointment of Enquiry Committees to investigate into the causes of and responsibility for the fires and to assess the actual damage sustained by the Government or to devise means against a repetition of the fire on receipt of reports on the first two fires. The extent of the loss was estimated, in all cases, by the agents themselves by the physical verification of the stores after the fires with reference to the stock cards and inventories available before the fire. As no enquiry into the causes of the fires was made, the real cause or causes of the repeated fires were not known, and the question of establishing whether the agents had failed to take all reasonable precautions against fire, did not arise. The outbreak of the fires was attributed by the agents to mere accident, though it was admitted that the arrangements existing at the time the first two fires broke out, were inadequate, to a certain extent. The probable reason for the third outbreak of fire was stated to be the leakage of cylinders containing acetylene which, in contact with air, become explosive at a certain stage. The impropriety of keeping acetylene cylinders in the store was, however, not suspected as the system was in vogue even when the stores were in the custody of the Americans. The stores, most of which were of an inflammable nature, were kept in thatched huts.

No report of the fires and loss was made to Audit as required under the Rules. Audit came to know of the outbreaks only towards the end of 1949. The agency agreement with the firm expired on the 28th February, 1951.

The Ministry held the view that, as the fires were accidental and not due to negligence or carelessness on the part of the Agent firm, the question of disciplinary action against any one did not arise.

(k) *Infructuous expenditure on godown rent.*—61,417 lbs. of yarn sent to a firm for dyeing and proofing remained as surplus with the firm since July, 1946, on cancellation of the Web Equipment contracts. While efforts were being made by the Textile Commissioner to dispose it of, the whole stock was frozen by Government in the expectation of its possible use for displaced persons. The stuff was allowed to lie with the firm, Government incurring godown rent and insurances charges. At the instance of Finance its removal to a Government godown was

considered from December, 1948, but a decision was reached in March, 1949 and actually implemented only in May, 1949.

This delay of about six months from December, 1948 to May, 1949 has not been satisfactorily explained.

The infructuous expenditure on godown rent and insurance charges amounted to Rs. 11,681, a considerable portion of which could have been avoided, had the material been transferred to Government godowns earlier.

(l) *Overpayment to a contractor.*—A final payment made to a P. W. D. contractor in April, 1947 was found to include a net overpayment of Rs. 6,909 due to errors in the rates allowed for extra items of work. As the security deposit had already been refunded in January, 1947 the recovery of the amount overpaid was rendered difficult. In May, 1953, the Ministry stated that the case was under arbitration but the award was not delivered till the end of March, 1954. Although more than six years have elapsed recovery or write off of the amount is still (April, 1954) awaited.

(m) *Purchase and disposal of Salwood.*—Out of a bulk supply of 36,272 cft. of Salwood obtained mostly from the Forest Department by a C. P. W. Division in 1945, 23,215 cft. were issued to works leaving a book balance of 13,057 cft. which included 3,780 cft. as wastage, in sawing. Against this, the quantity actually found on stock-taking was 15,208 cft. (including 827 cft. received back from different works) valued at Rs. 41,820. In December, 1949, the entire stock was declared surplus to requirements and auctioned for Rs. 2,800 resulting in a net loss of Rs. 39,020.

The large surplus was attributed to excess supply of 10,356 cft. by the Forest Department over the indent, and reduced demand due to unexpected transfer of certain Coal Mines Works from the C. P. W. D. The excess supply from the Forest Department was accepted as there was a huge construction programme in view and timber was not quickly forthcoming then from the Forest Department and was generally scarce in the open market.

Despite the availability of salwood in stock, contractors were allowed to make their own arrangements for several thousand cft. of salwood at higher cost to Government for works at Burm during 1945.

(n) *Ex-gratia payment.*—An *ex-gratia* payment of Rs. 2,72,000 was made to contractor in October, 1951 in the circumstances mentioned below :—

In a C. P. W. Division a contract for the construction of some residential quarters in a Colliery area at a cost of Rs. 23 lakhs was entered into with a firm early in 1947. The work was to be completed by the end of that year, but was actually completed in 1949. Shortly after its commencement, Government

promulgated certain orders enhancing the minimum wages of colliery labour in the area, which indirectly affected the labour the firm was to employ. The contractor claimed a proportionate increase in the labour rates, failing which he wanted to have the contract terminated.

In terms of the contract, Government could have legally refused to increase the rates, and rescinded the contract and claimed from the contractor compensation for the extra cost, if any, of completing the work by engaging another contractor. Tenders, actually invited from other firms for the unfinished part of the work disclosed that a fresh contract with any other firm would entail an extra cost of Rs. 4 lakhs to Government. As termination of the contract at that stage might have led to prolonged litigation with unpredictable results apart from delay in the completion of the work, Government decided on grounds of expediency and equity, in August, 1948 to consider the question of an *exgratia* payment on the satisfactory execution of the work, the maximum amount payable being determined according to the usual formula adopted in such cases, *viz.* the amount of the loss incurred by the contractor on all Government works done during the complete accounting years covered by the work or his loss on the particular contract, whichever was less.

On the basis of the contractor's audited accounts and income tax assessment orders, Government were satisfied that the contractor had incurred a loss of Rs. 3,67,000 and that the extra cost on account of increase in wages alone amounted to Rs. 3,44,496. As the contractor was expected to have completed 21 per cent. of the entire work before the promulgation of the Government orders increasing the wages, an *exgratia* payment of Rs. 2,72,000 as compensation, computed at 79 per cent. of the extra cost of Rs. 3,44,496 was sanctioned and paid in October, 1951.

Government considered that the grant of *exgratia* payment in this case might constitute an embarrassing precedent in similar other cases, where the contractors' costs might increase as a result of governmental action taken after the execution of contracts and decided that individual cases could always be considered on their merits but the present case was distinguishable in as much as the contractor had beforehand been assured that the question of making an *exgratia* payment on satisfactory completion of the work would be considered.

(o) *Reduction of Security Deposit.*—In 1947, 1,50,168 pieces of mosquito nets Bivouac were sold, by negotiation, to a certain firm, for Rs. 10,81,134 at the rate of Rs. 6-12-0 per net. Against the usual security deposit at 10 per cent. of the tendered price, Rs. 50,000 only was taken from the firm by an officer who was not competent to reduce the deposit. The sale value was to be paid by the firm before 10th February, 1947 and the stores were to be removed by the 22nd February, 1947. The firm was later allowed to pay it in 10 instalments and to remove the

stores in lots after the payment of each instalment. Several further extensions were also given. Finally, after taking delivery of 90,000 nets, the firm defaulted in making payment for the balance. The sale was thereupon cancelled at their risk and expense and the Security Deposit of Rs. 50,000 was forfeited. The quantity not removed by the purchaser, was subsequently withdrawn by the reporting authority. Had the full amount of security deposit of Rs. 1,08,113 been taken, Government could have forfeited the whole of it. Finance refused to accord *ex post facto* sanction to the short receipt of the earnest money deposit,

The increment of the officer concerned, who was also involved in several other irregularities was stopped for two years. He was also transferred to a post where he would not exercise any financial powers.

(p) *Loss of sale-proceeds and stores.*—In a Disposal Retail Shop, the sale proceeds to the extent of Rs. 7,419 were not deposited into the Bank in March, 1949. About the same time it was detected in Audit that sale accounts had been supported by faked treasury challans to the extent of Rs. 3,495. The cashier of the shop and a daftry were prosecuted for misappropriation of Rs. 7,419. The former was sentenced to 2 years' rigorous imprisonment with a fine of Rs. 1,000 or in default 6 months' further rigorous imprisonment while the latter was acquitted. The cashier was also prosecuted in connection with the loss of Rs. 3,495 as well but the case was subsequently withdrawn for want of evidence. The cash security of Rs. 500 furnished by the cashier was appropriated towards the loss of Rs. 7,419 and the balance of Rs. 6,919 was written off by Government.

A box of clips sun glasses valued at Rs. 3,000 was found missing from the shop in December, 1948. Stock verification after the closing down of the shop in July, 1949 disclosed a shortage of stores worth Rs. 4,480. The former loss of Rs. 3,000 was reported to the police who closed the case as "true but undetected" and was written off by Government. No criminal proceedings were initiated in respect of the latter.

In an investigation conducted by a departmental enquiry committee in these two cases, the Accountant of the shop was held to have been negligent in his duties and his increment was stopped for six months. As he quitted service shortly afterwards his dues from Government to the extent of Rs. 190 were adjusted against the loss of Rs. 4,480. Although he had executed a fidelity bond for Rs. 5,000 from an Insurance Company, no recovery was possible from the Company, as the Bond which was in an obsolete form did not cover shortages of stores. Although Government had revised the standard form it would appear that the orders had not been communicated to the officer-in-charge of the shop. In the absence of the relevant papers it has not been possible to fix responsibility for this lapse on any official.

The services of the sales-man who was held responsible for the loss of the sun glasses and of the officer-in-charge of the shop who was found guilty of gross-mismanagement, were terminated.

(g) *Surplus materials issued to fabricating firms.*—Early in 1945, it came to the notice of the then Supply Finance that in a large number of cases of fabrication contracts for P. O. L. containers the raw materials supplied to the firms free according to prescribed scale but surplus to the requirements owing to reduction or cancellation of orders were not being properly accounted for.

A special Audit investigation undertaken at the instance of Supply Finance disclosed that in one case an order placed with a fabricating firm for the manufacture of one lakh of 4 gallons drums was subsequently reduced to 30,181 numbers and as a result material worth Rs. 44,848 proved surplus with the firm. This position was accepted by the firm's representative at a meeting held in Calcutta on 30th November, 1945. Prompt and vigorous action was not, however, taken by the Executive thereafter either to take possession of the surplus material or to make a cash recovery from them but the matter was allowed to drag on till August, 1950, when it was reported that the firm could not be located even with police help. One of the partners was later granted insolvency in a court of law with directions to deposit Rs. 50 per month in the Court for a year, out of which if realised, the Official Receiver would make distributions.

The officers concerned are no longer in the Ministry. One of them was reverted to his parent department and no disciplinary action is proposed to be taken against him. The services of another officer were terminated in January, 1946 and his present whereabouts are not known.

(r) *Loss of Audit Notes.*—99 Audit Notes on the initial rent accounts for some months of the pre and post partition periods are reported to have been lost in an Estate Office. These Audit Notes were issued in original and it is not possible to reconstruct them or to ascertain the nature of the irregularities and objections mentioned therein. This loss, therefore, has virtually nullified the results of audit of the Estate Office for the period to which the Audit Notes relate. The Ministry examined fully the circumstances under which the Audit Notes were lost but could not fix the responsibility for the loss in the absence of any internal procedure in that Office for ensuring prompt and appropriate action on such notes. The officers who were responsible for this defect are no longer employed in that office. A suitable procedure is stated to have been prescribed now under which it will be possible to allocate responsibility and to take adequate disciplinary action for any delay in the disposal of the "Audit Notes" in future.

The position of arrears of rent of Government property for the past few years ended 1949-50, was as detailed below:—

Period of Account	Arrears as on 30-6-1951 (in thousands of rupees)	Arrears as on 1-3-1954
Up to March 1946	1,96	24
1946-47	2,35	79
1947-48	3,58	1,96
1948-49	3,00	1,33
1949-50	11,51	1,06
Total	22,40	5,38

The accumulations of the subsequent four years amounted to Rs. 12,72 thousands. Thus the total arrears on 1-3-1954 stood at Rs. 18,10 thousands. The Ministry have been requested to take special steps for the speedy clearance of the old arrears which are pretty large.

(s) *Waiver of recovery of rent.*—Office accommodation was obtained by a semi-Government Organisation from an Estate Office through a Ministry. No assessment for recovery of rent for the period from May, 1945 to February, 1948 was made by the Estate Officer as the point that rent was recoverable from the Organisation was overlooked. Subsequently, assessment of rent for the period from March, 1948 to March, 1950 was made but no recovery was effected from the Organisation. The recovery of Rs. 1,16,659 being the amount of rent due from the Organisation for and up to March, 1950 was waived by Government. The reason for the waiver was stated to be that the Organisation had rendered certain services mainly in the field of research during the last war for which no cash payment was made by Government. The effect was that Government instead of giving cash Grant-in-aid to the Organisation with the vote of the Legislature waived the recovery of rent by executive orders.

(t) *Contract for pre-fabricated buildings.*—Government entrusted a Construction Company of U.K. with the construction of nine blocks of pre-fabricated hospital buildings as a demonstration of their Patent System of construction, which was claimed to be cheaper, quicker and more durable than the traditional methods. If the demonstration proved successful under Indian conditions, the intention was to follow it up by a contract for five years, under which a company financed by the Government was to be floated to undertake similar construction, with a license for the use of the patents of the Company on payment of a guaranteed minimum royalty of £10,000 per year.

The work was given to the Company in September, 1949, without any final agreement. A letter from Government addressed to the Company in September, 1949 was taken as the "Letter of intent" and the Company's reply as the "Acceptance". In that letter Government agreed to pay the company a fixed sum of Rs. 2.66 lakhs (£20,000) as "Overheads" viz., charges for (i) supervisory establishment including European staff and their cost of subsistence and travelling, (ii) plant and vehicles including special equipment from abroad and (iii) contractor's yard ; in addition, Government were to pay the actual cost of building materials and local labour, upto a ceiling limit of Rs. 6.41 lakhs, which was subsequently, on a representation from the Company, treated only as a dimensional limit. It was also decided later that even the sum of Rs. 2.66 lakhs, fixed for "overheads", could be exceeded though the Company admitted it to be liberal. In its final form, it turned out that the work was executed on actual cost basis. The amount paid to the Company up to the 29th February, 1952 was more than Rs. 12 lakhs, with a further commitment of Rs. 79,600 as repatriation charges of its staff. Against this may be set off the residual value of the capital equipment including 5 portable houses, estimated at Rs. 1.75 lakhs.

The hospital buildings have been taken over by Government but the final settlement of accounts is under dispute. The amount already paid, is, as estimated by the C.P.W.D., almost double of what the work would have cost had it been executed by traditional methods.

The normal processes of audit could not be applied during the execution of the work as neither the letter of intent nor the estimates, etc., were communicated to audit.

The whole expenditure has been held under objection.

MINISTRY OF IRRIGATION AND POWER

7. *Hirakud Dam Project.*—The execution of the multi-purpose project in Orissa was undertaken by the Government of India on behalf of the Government of Orissa, the execution being entrusted to the Central Water and Power Commission. As the project is a subject which falls within the sphere of the Orissa Government, special arrangements were necessary for the Government of India undertaking the work as an agent on behalf of the Orissa Government. These were concluded in 1948 after preliminary investigations had been completed by the CWINC. According to the financial and other terms of agreement entered into with the State Government, the Government of India agreed to advance the entire money required for the construction of the project as interest bearing

loans to the State Government, which are repayable in one instalment after 40 years from the date of obtaining the loans, unless any arrangement for earlier repayment is agreed to between the two Governments. The estimated cost of the project as the result of preliminary investigations was Rs. 47·81 crores. This was very rough estimate, but administrative approval was accorded on that basis. The work on the project was commenced early in 1948 before a proper detailed project estimate had been prepared and financial and technical sanction thereto were accorded.

Series of objections were taken both by the Chief Accounts Officer and the Accountants General, Central Revenues, and Orissa against the authorities responsible for the project. Besides these objections, a number of financial malpractices attracted public attention and resulted in questions and discussions in Parliament. The principal features of the irregularities were:—

- (1) Continuance of the incurring of expenditure on the project without prescribed sanction to the Project estimate and sanction to detailed estimates. The expenditure thus incurred amounted to several crores. Such action results in total absence of control over the expenditure and the cost of the project.
- (2) Large excesses over the estimates of the Rail-Road bridge across Mahanadi and other irregularities in connection with the execution of that work.
- (3) Execution of works without sanction and infructuous expenditure, e.g. abandonment of Navigation-cum-Power Channel and the Subsidiary Dam.
- (4) Grave irregularities in connection with the purchase of sleepers, bullocks, etc.

In connection with the examination of the Appropriation Accounts of the Central Water and Power Commission, the Central Public Accounts Committee, during the year 1952-53 interested themselves in all the major aspects of this project, and after investigation of all the facts in collaboration with the Comptroller and Auditor General of India and the Accountant General, Orissa, and after examination of the departmental witnesses and documents, have produced a complete report of the various irregularities and defects of procedure. The Sixth Report of the Public Accounts Committee for 1952-53 was submitted to Parliament in March, 1953 and action thereon has been taken or is being taken by the Government of India. The report of the Public Accounts Committee covers matters which would otherwise have been dealt with in the Audit Report.

In connection with the implementation of some of the recommendations of the Public Accounts Committee, the Comptroller and Auditor General paid a visit to Hirakud in July, 1953 and the Memorandum of the Comptroller and Auditor General as a result of his visit was presented to Parliament by the Government of India on 24th December, 1953. The Government have undertaken the implementation of the recommendations of the Comptroller and Auditor General. The Memorandum prepared by the Comptroller and Auditor General as a result of his visit in July, 1953 to Hirakud is printed as appendix I to this report.

The implementation of the recommendations of the Public Accounts Committee and of the Comptroller and Auditor General by Government and other executive authorities will be watched in Audit.

MINISTRY OF FOOD AND AGRICULTURE

8. (a) *Barter agreement for Maize.*—In September, 1945, Government entered into an agreement with a foreign country for securing export permits for shipping to India 1,40,000 tons of Maize purchased there and in exchange they undertook to supply 30,000 tons of Hessian manufactured in India at a fixed percentage above the prevailing control prices. Government anticipated a profit of Rs. 31,58,336 in the deal. The control over the price of Hessian having been lifted within 4 days of the conclusion of the agreement there was a sudden rise in the market prices. As Government could not obtain the entire quantity of 30,000 tons before the control was lifted they had to procure a part of it at prices considerably higher than the rates agreed upon. The transaction finally resulted in an extra expenditure of Rs. 9,36,519.

According to legal advice Government could demand the market prices for the quantities actually purchased after the lifting of the control but as such a demand would have involved the risk of losing the grain or incurring greater financial losses on the Maize still left in the foreign country, they decided not to take the risk of making such a demand and agreed to bear the consequential loss themselves.

(b) *Misappropriation through forged bills.*—A clerk of a certain office drew from a treasury a total amount of Rs. 8,210 during the years 1945 and 1946, by submitting forged bills. The fraud was detected by Audit in 1947 and reported to the Ministry concerned. After considerable correspondence and investigation, the Ministry has passed orders for writing off a sum of Rs. 7,960, as the clerk concerned committed suicide. The remainder of Rs. 250 was recovered from a treasury clerk who was negligent. As a disciplinary measure a warning was issued to a Superintendent and the Cashier of the

office concerned and the increment of the latter was stopped for six months without affecting his future increments; the increments of three clerks of the treasury were stopped for one year with cumulative effect. One of the two treasury officers and the head clerk opted for Pakistan and no action on the other Treasury officer was considered desirable as he had retired.

(c) *Barter agreement for wheat.*—In 1948, Government entered into a barter agreement with a foreign country for the exchange of 5,000 tons of tea to be provided by India *f. o. b.* Calcutta against 50,000 tons of wheat to be supplied by the foreign country, *c.i.f.* Indian Ports. The wheat was supplied in seven shipments, three of which landed in Calcutta and the remaining four at Bombay. In respect of these shipments, Government agreed to bear the stevedoring charges amounting to Rs. 68,599 as the foreign country disclaimed this liability and the legal officer who was consulted in the matter did not think it worthwhile to press the claim by carrying the matter to arbitration in the foreign country in accordance with the terms of the Agreement.

(d) *Loss on purchase of condensed milk.*—About 35 tons of condensed milk were purchased by the Ministry of Food from a Calcutta firm in July, 1948, at the instance of the Ministry of Rehabilitation. The Director General, Health Services needed it urgently for distribution to Relief Camp hospitals. Out of the quantity purchased, only 7 tons were distributed during a period of one year after the receipt of the supply, and the balance of 28 tons costing about a lakh of rupees was destroyed during and after September, 1950 as being unfit for human consumption. The Ministry of Food did not obtain a warranty regarding the keeping quality of the milk on the ground that the demand of the displaced persons was urgent and the supplies would be consumed quickly. The Ministry did not consult the Director General of Health Services, who was the indenter, before accepting such large quantities of the product without a warranty. There was bound to be a time lag between the despatch of the milk tins at the Calcutta factory and the actual consumption of the milk at the various Refugee Centres located at distant places. The Ministry of Food generally obtains a year's warranty in respect of supplies intended for the Defence Services.

All the three parties concerned with this deal have disowned responsibility for the loss which has yet to be fixed.

A case of loss of Rs. 21 lakhs in the purchase of milk powder by the same Ministry was reviewed by the Public Accounts Committee *vide* para 34 of the Public Accounts Committee's Report on the accounts of 1948-49 and unfinished accounts of (Civil) 1947-48 (post-partition).

(e) *Purchase without competitive tenders.*—It came to the notice of the Comptroller and Auditor General during his visit to U.S.A. that the Ministry made independent arrangements for purchase of a pilot plant from a certain firm in the U.S.A. without consulting the India Supply Mission at Washington. The plant was required for conducting research on the production of different types of papers and boards from indigenous raw materials. The negotiations for the purchase were conducted in U. S. A. in October, 1947 by one of the officers of the Ministry specially deputed for the purpose. After settling the price question and authorizing the contractor on 19th April, 1948 to start manufacturing the machine, the Ministry sent an indent in June, 1948 to the India Supply Mission for placing a formal order with the firm. On receipt of the indent, the Supply Mission called for competitive tenders but the Ministry stopped it from taking any action in that direction and directed it to finalise the prices with the firm with whom commitment had already been made by the Ministry. The manufacturers had originally promised some reduction in the settled price of 3,25,498 dollars if the order was placed with them immediately, but when the order was actually placed they increased the price to 3,62,000 dollars on the ground of changed specifications.

The India Supply Mission was requested to settle the price on the basis of the finalised specifications but it pleaded its inability to negotiate in view of the commitment of the Ministry and its refusal to permit it even to obtain the benefit of competitive quotations which would have strengthened its hands in negotiating the price.

The purchase was accordingly effected at a price *viz.* 3,60,784 dollars which was finally increased to 391,807.08 dollars in terms of the price variation clause.

As competitive tenders were not invited and as the purchase was not handled by the purchase agency set up by Government, it is not possible to say whether the supply was obtained at the most economical price.

(f) *Barter Agreements.*—In recent years, the Government of India have been entering into trade agreements with foreign countries generally of two kinds, namely,

(i) Agreements in which each country undertakes to supply specified quantities of the commodities according to an agreed programme, the price of the commodities being determined by the market price prevailing at the time the commodities are purchased. In these cases usually either Government which is party to the agreement, makes its own arrangements for purchases in the other country, the other arranging merely to provide the necessary facilities such as export licenses etc. for fulfilling the terms of the agreement ; and

(ii) Barter agreements in which two Governments undertake to supply to each other certain specified commodities according to an agreed schedule of deliveries on the basis of prices prevailing at the time of the agreement. Under this



type of agreement, a certain equivalence is established between the commodities to be exchanged, and the exporting country procures the commodities for export in the internal markets, pays also whatever customs and export duties are payable at the time of export and delivers the commodities to the other country on *f.o.b.* basis at a port in the exporting country. There may be variations in the details of such an arrangement, for example, the customs and export duties as well as incidental charges up to the stage of placing the goods on board a ship may be paid by the importing country, but in such a case, these duties and charges are frozen at the level prevailing on the date of signing the barter agreements, and any subsequent increase in them is borne by the exporting country.

Recent instances of agreements of the first kind are those made with Pakistan, while those of the second kind are those made with Argentine Government since 1946. A review of the working of the agreements with Argentine showed that since 1949, Argentine escaped the payment of large amounts of the enhanced export duty on jute which came into force since that date. Two barter agreements were signed on 20-12-1949 and 10-10-1950 with Argentine for supply of specified quantities of jute to that country in exchange for specified quantities of wheat to be imported from that country. The export duty on jute on the date of signing these agreements was Rs. 350 per ton. It was successively increased thereafter first to Rs. 750 per ton on 21-10-1950 and next to Rs. 1,500 per ton on 20-11-1950. Under the terms of the agreement, the increase in export duty on jute after the date of signing the agreements had to be borne by the Government of India itself. The total amount of loss to India due to such increase was Rs. 10.84 crores on the jute goods supplied to Argentine and to that extent jute goods cost less to Argentine than to the other purchasers who had to pay the duty on jute at the enhanced rates. This gave an unexpected advantage to Argentine.

A similar agreement was made with the Egyptian Government current from 7-9-1950, and the loss incurred in that connection amounted to Rs. 1.15 crores.

In the light of what has happened in the case of these barter agreements, it is important that agreements entered into with foreign Governments in future take the form of simple trade agreements of the first kind. This will ensure the supply of the desired commodities to each other without involving fortuitous gains to either party at the expense of the other.

(g) *Canadian Gift Wheat.*—Under the Colombo Plan for Mutual Aid between the Commonwealth countries, Canada undertook to make a gift of five million Canadian dollars to the Government of India during 1952-53. This gift was subject to the condition that the Government of India should utilise the dollars to buy wheat only

from Canada within the year outside the International Wheat Agreement quota. The price of Canadian wheat was 2.17 dollars per bushel in the open market, whereas the rate under the International Wheat Agreement was 1.8 dollars per bushel. At that time, the position regarding food stocks in the country was such that Government did not require the wheat and could very well have refrained from purchasing the Canadian wheat in the open market. Further, India had already purchased the maximum quantity which she was entitled to take under the Agreement during 1952-53. The condition attached to the gift that it should be utilised for the purchase of wheat only during 1952-53, resulted, in the circumstances explained, in India having to pay 37 cents per bushel extra. The excess amount thus paid was of the order of Rs. 40 lakhs. If the Government of India could have at least deferred the transaction to the year 1953-54, Government could have saved about Rs. 13-14 lakhs.

The Government of India have, however, brought to the notice of the Canadian Government that the wheat received under the Colombo Plan Aid had to be subsidised by the Government of India and that the deposits into counterpart funds (*i.e.* the funds set up in the Government of India accounts out of the Canadian Aid, to finance the Projects started by Government under the Colombo Plan for Mutual Aid) should, therefore, be on the basis of the sale price of the wheat. The agreement of the Canadian Government to this proposal has not yet been received, and in the absence of such agreement, the full Indian equivalent of 5 million Canadian dollars cannot be regarded as a gift from Canada to India for purposes of accounting.

It is considered that in accepting foreign aid, under any of the Plans intended for purposes of development of the country, Government should be careful to see that the terms of the aid are such that it could be utilised to the best advantage and that the real value of the commodities which India gets under such aid is not inflated as has happened in this transaction. If under the terms of the gift the purchase of commodities at inflated prices is unavoidable, Government should treat only the real value of the commodity as the amount of the grant or foreign aid, and treat the excess as a contribution from Indian revenues for development. In the case referred to in sub-para. 1 at least Rs. 13 lakhs would have to be so treated, if the Canadian Government do not accept the suggestion of the Government of India.

MINISTRY OF COMMERCE AND INDUSTRY

9. (a) *Storage of articles in a private warehouse.*—Goods and materials including shellac and other articles, which had been used for exhibition and publicity purposes, were stored in a private warehouse in September, 1947. As a result of an enquiry initiated in November, 1949, it came to notice that most of the articles were in a dilapidated condition and unfit for further use. Action was finally taken in September, 1950 to clear the goods partly by transfer to Government building and partly by disposal as free gift. The expenditure incurred on the storage of these articles amounted to £527 besides transport and other charges amounting to £59 ; of this £354 was borne by the Ministry and the balance by a non-Government body.

(b) *Transport of Cloth.*—A Regional Purchase Organisation entered into a contract with a shipping firm, early in 1944 for transport of cloth by country craft. One craft carrying a cargo of cloth and bound for two ports in Southern India, reported leakage soon after it left Bombay in March, 1944. It therefore anchored at the nearest port and under the instructions of the Purchase Officer the cloth was brought back to Bombay in June 1944. A part of the cloth was kept in a godown and the balance in bales and loose bundles, was left in the open docks exposed to the monsoon. No steps were taken for opening any of the wet bales or for drying and salvaging the cloth with the result that the cloth deteriorated considerably. The entire cloth valued at Rs. 5,61,220 was sold by auction in September/October, 1944 for Rs. 1,76,811. Two technical experts who inspected the cloth on the 1st September, 1944 expressed the view that only a small percentage of the cloth could then be salvaged and that too, as rags and fents, but that 80 per cent. of the cloth could have been salvaged had necessary action been initiated on the day the cargo arrived.

A quasi-judicial enquiry was instituted in September, 1945 and it was decided in May, 1947 that the firm was responsible for the loss, as the vessel was unseaworthy when it commenced the voyage. No claim could be preferred against the Insurance Company with whom the cargo was insured as the Policy did not cover the partial loss due to any leakage of the craft. At the time Government wasted to press the claim for the recovery of the loss from the carrier, the claim was time barred as it was not made within the period prescribed in the Carriage of Goods by Sea Act, which governed the contract with the shipping firm.

The loss to Government was thus due to the omission on the part of the Purchase Administration—

- (i) to take prompt action for the salvage and disposal of the damaged material,
- (ii) to take quick decision on the question of liability of the firm for the loss and
- (iii) to put in a legal claim on the firm within the prescribed period.

The firm is pressing for its dues amounting to Rs. 1,39,294 which has been withheld. If this has to be paid the loss to Government will amount to Rs. 3,84,409 otherwise to Rs. 2,45,115.

No disciplinary action has been taken against any of the officials in this case. At the instance of Audit, the Ministry have issued instructions to prevent the recurrence of such omissions.

MINISTRY OF TRANSPORT.

10. *Compensations to Shipping Companies.*—At the instance of the Government of the United Kingdom, a number of ships borne on the Indian Register were requisitioned by the Government of India during the last war exclusively for the service of the United Kingdom Government, but before undertaking the work, no agreement was arrived at with the United Kingdom Government for the recovery of amounts to be paid to the Shipping Companies. The position of shipping companies and the other relevant conditions in India being different from those in the United Kingdom, the Government of India were not successful in persuading the shipping interests in India to accept compensation exactly on the basis adopted by the United Kingdom Government in respect of ships registered in the United Kingdom. The compensation paid by the Government of India included 35 per cent. for "return on capital" and 6½ per cent. for "depreciation" against 5 per cent. for each item admissible under the United Kingdom Liner Requisition Scheme. The Government of the United Kingdom, however, refused to assume liability at the higher rate. Against a sum of Rs. 801·32 lakhs paid to the shipping companies, the United Kingdom Government accepted liability for Rs. 594·57 lakhs only, being the amount payable at the United Kingdom rates. The Government of India agreed not to press the United Kingdom Government for the payment of the difference of Rs. 206·75 lakhs. It has been stated that the higher rates charged by Indian shippers were accepted by the Government of India as including a measure of assistance to the Indian shipping industry towards its postwar rehabilitation.

MINISTRY OF LABOUR

11. *Irrecoverable stipends.*—The recovery of a sum of Rs. 16,657 due from trainees on account of stipends, etc., drawn by them while under training under the War Time Technical Training Scheme in Bombay State was waived by the Government of India, as the whereabouts of the trainees were not known or they were reported to be too poor to pay. The Regional Directors of Resettlement and Employment concerned have, however, been asked to make every possible effort to recover the amounts from the trainees if they are subsequently traced.

MINISTRY OF EDUCATION

12. *Working of Hostels.*—(i) In November, 1945, Government agreed to the acquisition of premises in Edinburgh for use as a hostel for 30 to 35 Indian students at a cost not exceeding £8,000 inclusive of redecoration, repairs, etc., on the understanding that “the purchase of the house is a good investment, and that its resale price would not fall short of the total amount of £8,000 to be paid.” Government ordered that full economic rent should be levied from the occupants.

After the opening of the Hostel with effect from 1st October, 1946, Government sanctioned expenditure of £1,000 for improvements to the Hostel.

It had been arranged that the Hostel should be run by the Edinburgh University authorities, and as a result of their representation that under no circumstances could they assume responsibility for any deficit arising from the working of the Hostel, Government agreed that any deficit in the first year's working should be met from Indian revenues and the position subsequently reviewed.

The loss in the 1st year's working amounted to £1,124 and this sum was repaid to the University in March, 1948. The loss was attributed by the University Authorities mainly to the small number of students which could be accommodated and to the low charges. It was intimated that the charges would be increased, but that an annual deficit of approximately £500 was still to be anticipated.

It was decided in July, 1948, to close the Hostel with effect from 1st August, 1948. The property was sold in March, 1949 for £6,500 and the furniture stored. The deficit on the Hostel for the remaining 10 months of its existence was £675 which was refunded to the University in April, 1950.

The total net expenditure on the purchase and equipment of the Hostel was as follows :—

Purchase of Hostel	£5,013
Repairs, Furniture, Re-decorations, etc.	£3,972
Legal charges	£ 312
	<hr/>
Total	£9,297
Less-Sale of property and Sundry Credits	£6,688
	<hr/>
	£2,609
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The expenditure on furniture, etc. was approximately £1,800. This was sold by auction on 8th August, 1952 for a gross amount of £925 3s. from which must be deducted £517 2s. (sale expenses £115 13s. plus storage charges £401-9s. at the rate of £10 a month) leaving a net realisation of £408-1s.

It seems clear that the forecasts made to Government regarding the undertaking before its inception were unduly optimistic, and that the accommodation available—at the most for 22 students compared with the estimate of 30 to 35 students—was insufficient to enable the Hostel to be run as an economic unit.

The Hostel was open for 22 months, and the overall loss inclusive of recurring charges such as feu, duty, local rates, etc. was £4,362.

(ii) Premises in London were with the sanction of the Government of India leased for 5 years with effect from 1-10-1945 for use as a Hostel for Indian Students at a rental of £450 p.a., it being agreed that the University of London should undertake the running of the Hostel on the understanding that any loss on the first year's working should be borne by the Government of India. The latter also agreed to an initial capital expenditure of £3,500 on redecoration, furnishings, etc., to prepare the premises for occupation. Further expenditure of £1,000 for the provision of additional amenities was also sanctioned by Government in 1947. The Hostel was closed with effect from 1-10-1950.

The loss on the first year's working of the Hostel amounting to £728-14-5 was repaid to the University. Further loss were shown in the Hostel's Accounts for the year 1948-49 and for the subsequent period to 30-9-1950. It was considered in the High Commissioner's office that the University's claim in February, 1951 for repayment of the sum involved must be met and payment of £1,536-2-11 was accordingly made in March, 1951. Government have not yet accorded sanction to this payment which was reported to them in October, 1952.

A claim for £1,078-6-0 in respect of rates for the period of the lease was paid in March, 1953 with the sanction of the Government. The total outlay in respect of the Hostel for the 5 years of its existence has amounted to £10,410-1-3. The average number of students accommodated was 38. Enquiry by Government into a number of matters relating to the Hostel, including apparent shortages of furniture is proceeding.

MINISTRY OF HEALTH

13. (a) *Acceptance of higher tenders.*—A hospital did not accept the lowest tender in many cases while purchasing dietary and non-dietary articles. The difference in money value of the estimated requirements at the accepted rates and the lowest rates was Rs. 30,600. No reasons are on record for not accepting the lowest tenders for non-dietary articles, while the reason given for accepting the higher tenders in respect of dietary articles were that the existing contractors did their work satisfactorily and that the rates quoted in the other tenders were too low.

(b) *Mispostings in store accounts.*—During the stock verification conducted in 1942 and in the early part of 1943 in a Supply Depot a large number of discrepancies were noticed between the book balances and the actual balances in respect of certain items of stores. The discrepancies were due to the cumulative effect of errors in posting in the books of large quantities of stores received in abnormal circumstance which resulted in surpluses in some cases and shortages in others. There was a net shortage of stores valued at Rs. 1,35,626 which was written off by Government in January, 1951.

MINISTRY OF REHABILITATION

14. (a) *Unvouched expenditure.*—Government sanctioned Rs. 1,568 for the publicity of their positive achievements in the rehabilitation of displaced persons. The expenditure was to be incurred by an officer of the Ministry under orders of the Joint Secretary and was to include payments to hotels and vendors of fancy goods and for cinema shows. Against Rs. 1,568, vouchers have been furnished to Audit in respect of Rs. 264 only. Vouchers for the balance of Rs. 1,304 were not obtained by the spending officer and could not therefore be made available for Central or local audit. The Ministry has stated that it would have been extremely embarrassing for the spending officer to obtain bills or cash memos from the hotels, vendors, etc., while making payments in the presence of the guests and invitees. He has, however, certified that he actually incurred the expenditure and the Ministry is also satisfied that the amount was spent for the purpose for which it was sanctioned but audit was not in a position to satisfy itself about the propriety of the expenditure in the absence of any vouchers.

(b) *Loss on a Rehabilitation Scheme.*—In 1948, the Ministry launched a scheme for permanently rehabilitating displaced persons in a village near Delhi at an estimated cost of Rs. 17·5 lakhs. After an expenditure of Rs. 1·8 lakhs had been incurred the scheme was abandoned in November, 1949 as the facilities contemplated therein were far in excess of those sanctioned elsewhere for agricultural resettlement

Although long-term rehabilitation was the objective, the scheme was proceeded with in a hurry. A sum of Rs. 1 lakh was spent on Capital Works without getting out the detailed estimates sanctioned or prescribing proper financial and accounting procedure. Timber worth Rs. 30,000 approximately was purchased direct from the market without inviting tenders, log books and duty slips relating to transport accounts were not maintained in the prescribed form and securities were not obtained from officials handling cash and stores, etc. Capital works costing Rs. 12,000 which were in the stage of partial construction at the time of the abandonment of the scheme, were damaged or destroyed by rains. Materials such as cement, kutch bricks, coal, wood, etc., worth Rs. 29,410 were rendered surplus. A portion of this valued at Rs. 23,648, got damaged in the rains. Out of this, a sum of Rs. 21,146 has been written off as loss along with another sum of Rs. 3,510 spent on repairs to the constructions. The write off of the loss on cement damaged in the rains as also on the disposal of other materials is awaited.

The process of winding up the scheme went on for about a year after its abandonment and entailed an additional expenditure of Rs. 11,364. Even in November, 1951 there were some stores still to be disposed of by auction. The services of the officials mainly responsible for the irregularities were terminated and instructions were issued by the Ministry to guard against a recurrence of such irregularities in future.

(c) *Drawal of money to avoid lapse of grant.*—The Director of Relief and Rehabilitation of a Part 'C' State had drawn in March, 1951, a sum of Rs. 8,12,757 for payment of loans to displaced persons. Out of it, a sum of Rs. 3,82,867 only was reported to have been disbursed within the year and the balance was deposited with a Bank for withdrawal and disbursement as and when claims arose. By November, 1951, the entire balance of Rs. 4,29,890 was withdrawn from the Bank for payment of loans but detailed account for Rs. 7,68,083 only had been submitted to audit till March, 1954 in respect of the total disbursements. The balance of Rs. 44,674 is stated to have been credited into the treasury and the Treasury Officer concerned has been asked to point out the credit.

The drawal of money in advance of requirements at the fag end of the financial year to avoid lapse of budget grant and its retention outside the Government account were highly irregular. The matter has been brought to the notice of the Finance Department of the Administration concerned and also to the Government of India, Ministry of Rehabilitation. It has been emphasised by the Ministry of Rehabilitation that a recurrence of such irregularities should be strictly avoided in future.

(d) *Misappropriation of funds.*—A cashier of the Ministry of Rehabilitation was found to have embezzled funds totalling Rs. 27,089-9-6 of which Rs. 13,462-7-6 related to a private account of the Minister for Rehabilitation who had been allotted a certain sum of money from the Prime Minister's National Relief Fund for expenditure on displaced persons at the Minister's discretion.

A cheque for Rs. 13,462-7-6 was issued by the Accountant General on the 31st March, 1950 in favour of the Ministry in payment of a contingent bill on account of certain expenditure which had been initially met out of the Rehabilitation Minister's account but was later accepted as debitable to the Government of India. The Ministry endorsed the cheque in favour of the cashier who encashed it on 26th April, 1950 and misappropriated the money instead of crediting it to the Private Account of the Rehabilitation Minister. The embezzlement came to light as a result of an intimation from the Bankers on the 29th June, 1950 of an over-draft in the private account of the Rehabilitation Minister.

In the investigation that followed this discovery it was found that there was a further shortage of Rs. 13,238-10-0 in the actual cash balance that should have been in the hands of the cashier on 3rd July, 1950. There was also a complaint from a firm that they had not received payment of their bill for Rs. 338-8-0 for supplies made by them. The cashier had, however, shown in the cash book that he had paid Rs. 388-8-0 to the firm on the 8th October, 1949.

The embezzlements were facilitated by the following acts of commission and omission :—

- (a) The cheque for Rs. 13,462-7-6 should not have been endorsed by the Ministry in favour of the cashier, leaving it open to him to cash the cheque and misappropriate the money. The cheque should have been crossed and endorsed for credit to the personal account maintained by the Minister, for Rehabilitation purposes.
- (b) The cash accounts were not checked on the prescribed dates.
- (c) It is stated by the Ministry that the entry in the Cash Book was checked with the pay-in-slip (which proved to be a forged one) produced before the supervisory Officer by the cashier. This was not sufficient to meet the requirements of the Rules. The credit of the amount in question, to the personal account of the Minister should further have been watched by the supervisory officer by reconciling promptly, the monthly statement received from the Bank on 14th June, 1950 with the cash book, as required under Rule 77 (v) of the Treasury Rules. This would have prevented the second fraud which is said to have taken place between 1st and 3rd July, 1950.
- (d) Apparently very large sums of money used to be kept in cash in the Ministry's office which again points to laxity of control.

Ordinarily, only a permanent employee who has given an adequate deposit is entrusted with the duties of a Cashier. In this case, a temporary employee, who had only given Rs. 1,000 as deposit, was employed as a cashier, and he was allowed to handle sums out of all proportion to the security deposit.

It has been explained by the Ministry that a temporary clerk had to be employed in view of the scale of pay and allowances sanctioned for the post being inadequate to attract a permanent Assistant. It has also been explained that a permanent employee has been employed as cashier now, and he has furnished a security of Rs. 10,000.

The employment of low paid temporary officials in the responsible post of cashier proves to be false economy in the long run and unwise.

The cashier was criminally prosecuted for both cases. In one case he was sentenced to 5 years rigorous imprisonment and a fine of Rs. 13,462-7-6 or in default 6 months further rigorous imprisonment; in the second case he was awarded 3 years rigorous imprisonment and a fine of Rs. 13,238-10-0 or in default 6 months further rigorous imprisonment. The sentence of 3 years in the latter case will run concurrently with 5 years awarded in the first case.

The Ministry have held that the supervisory officer was not to blame and have not taken any action against him.

(e) *Construction of houses for displaced persons living in Camps.*—At one of the Camps a large number of displaced persons were living in tents. With the approach of the monsoon a non-official Relief Committee started construction of Kuchapucca shelter. To provide shelter as a relief measure against rain without delay, the Ministry of Rehabilitation advanced "on account" payments amounting to Rs. 1,50,000 to the Committee without settling any terms and condition either as regards construction of houses or the method of adjustments of "on account" payments. The Committee employed untrained refugee workers at rates higher than those usually paid by the C. P. W. D., without inviting tenders. For the construction of 293 houses the Committee submitted a claim for Rs. 2,38,805 which was reduced to Rs. 1,90,278 by Government after a scrutiny of the measurements and rates by the C. P. W. D. Government, however, agreed to pay a further sum of Rs. 19,958 on the basis of the enhanced rates paid by the Committee in order to save it from loss.

← This additional payment would have been avoided if the rates had been fixed in time in consultation with the C. P. W. D. or the work had been entrusted to that Department. It has been explained that in order to improve the morale of the inmates of the Camp the Committee had to employ untrained labour of the Camp on rates higher than those paid by the C. P. W. D.

(f) *Infructuous Expenditure.*—In June, 1949 Government sanctioned an expenditure of Rs. 15 lakhs, to be incurred by a Camp Commandant on the immediate construction of 5,000 mud huts at a cost not exceeding Rs. 300 per hut. The Camp Commandant was instructed by the Ministry to use displaced labour as far as possible. Under the ordinary rules, a work of this magnitude is required to be executed through the agency of the Central Public Works Department who

have to do it either departmentally or through private contractors after calling for competitive tenders. There was a deviation from these rules in view of the urgency of [the problem of finding shelter for displaced persons before the monsoon of 1949.

The estimated amount of Rs. 300 per hut was split up into two parts, *viz.* Rs. 180 for mud work and flooring and Rs. 120 for timber roof and doors. The mud work of 54 huts was entrusted to a contractor without calling for tenders, and that of 173 huts was entrusted to the displaced persons on payment of Rs. 180 for each hut by [the Commandant of the Camp. Timber material costing over Rs. 38,000 was purchased direct without tenders or reference to the Supply Department.

Out of a total number of 227 huts for which payments amounting to over Rs. 25,000 excluding cost of materials were made, 54 only were completed and the rest, which were incomplete, were abandoned or washed away by rains. The construction of mud huts was attempted when the monsoon was about to break. There was no record of measurements of the actual work executed for audit inspection.

The scheme involved Government in an infructuous expenditure of about Rs. 64,000, which has been regularised by an *ex post facto* sanction of the Ministry of Finance.

It was stated that the loss was due to circumstances beyond control and as such, the responsibility could not be fixed on any officer.

MINISTRY OF INFORMATION AND BROADCASTING

15. *Expenditure on Press cables.*—After partition certain arrangements which were previously the responsibility of the Information Department of the late India Office were transferred to the control of the High Commissioner for India. These arrangements included *inter alia* the repetition by cable to the Information Department in Washington of press cables transmitted from New Delhi to London. Although the practice of routing these cables to Washington through London was, with the establishment of morse transmissions from New Delhi, discontinued in August, 1948, the necessary instructions were not conveyed to the G. P. O., London, in the absence of explicit directions on the point to the High Commissioner by the Government. In consequence the G. P. O., London continued to repeat to Washington the press cables addressed to the High Commissioner for India until attention was drawn to the matter in November, 1950 by the Government. The expenditure involved in this unnecessary duplication amounted to £450.

MINISTRY OF COMMUNICATIONS

16. *Wrong payment of municipal tax.*—According to Section 154 of the Government of India Act, 1935 (now defunct) and Article 285 of the Constitution the property of the Union shall, save in so far as Parliament may by law otherwise provide, be exempt from all taxes, imposed by a State or by any authority within a State. An Aerodrome Officer, however, paid and charged to Government a sum of Rs. 37,555 on account of local municipal taxes for four years commencing from 1947-48 in respect of Central residential and non-residential buildings constructed after 1st April, 1937 in the aerodrome area located in a State. The recovery of the irregular payment thus made to the municipalities is awaited.

CABINET SECRETARIAT

17. *Repayment of dues by an Officer.*—Rent for the occupation of a Government residence was not recovered from a gazetted officer for the period November, 1945 to March, 1951. On investigation it was found that the omission to assess rent was primarily due to failure to open a new Rent Card (personal ledger account of a tenant) on the part of the office responsible for the proper accounting of the rent. The three officials responsible for this lapse, were awarded punishment, one by demotion and the other two by postponement of their future increments. But no action was taken against the allottee by the Administrative Department concerned who although a responsible officer, did not care to ascertain the reasons for the non-assessment and non-recovery of rent for the residence occupied by him. It was only in 1951 that the officer paid up the arrears of rent from November 1945 to the extent of Rs. 2,914.

In October, 1949 the Government sanctioned an advance of Rs. 4,200 to the same officer for the purchase of a motor car and the amount was drawn by him in the same month. When audit pressed for the dealer's receipt for verification, a receipt was furnished in May, 1950 after protracted correspondence, but it was in respect of a car purchased by him 5 years back *i.e.*, in September, 1943.

As, evidently, the officer did not utilise the advance for the *bona fide* purpose for which it was sanctioned and drawn, the drawal of the advance was in disregard of the accepted standards of financial propriety. The irregularity was reported to Government and the balance of the advance which had meanwhile come down to Rs. 800 was finally recovered from the officer's pay in April, 1951.

These facts were reported to Government for disciplinary action but they did not pursue the matter further and the officer was allowed to retire finally from Government service on 1st July, 1951 on the expiry of a period of re-employment for six months from 1st January, 1951. It is understood that the officer has since died.

CHAPTER II—OTHER TOPICS OF INTEREST

18. *Difficulties in Implementing Certain Provisions of the Constitution.*—(a) Under Article 114(3)/204(3) of the Constitution, no money can be withdrawn from the Consolidated Fund of India/the State, except under Appropriation made by law passed in accordance with the provisions of that Article. Article 266(3) further provides that no moneys out of the Consolidated Fund of India or the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution. It is unconstitutional, therefore, for any authority to withdraw from the Consolidated Fund, money not covered by or in excess of a Grant and the Appropriation included in the relevant Appropriation Act. Under the existing financial and accounting system in the country, withdrawals from the Consolidated Fund are not all in cash and are also spread out over various treasuries etc. Inter-departmental transactions are adjusted by book transfer in the Accounts offices direct or through Accounts rendered to them by Departmental disbursing officers which leads to delays in book adjustments for services or supplies. Inter-governmental transactions also take time to get settled through the system of settlement accounts. Thus the spending authorities and departments are unaware of the actual progress of expenditure upto-date. The position is the same in the Accounts Office. What is more, there is no arrangement whereby the Banks or Treasuries can regulate the disbursements with reference to credits issued out of the authorised appropriations. All this is wholly inconsistent with the various responsibilities of the spending departments, namely effective control over financial transactions and the discharge of their responsibilities to the Parliament/State Legislature to keep within the budget Grants and Appropriations. Indeed the existing arrangements blur the responsibilities of the various authorities concerned under the provisions of the Constitution whereby withdrawals from the Consolidated Fund in excess of Appropriations made by law, should not be made.

Subject to the foregoing remarks, Appropriation Audit is being conducted and Appropriation Accounts and Audit Reports thereon are prepared annually for presentation to the Parliament/Legislature.

(b) In this connection, mention should also be made of the practice adopted at Centre and in all the States of passing separate Appropriation Acts in respect of 'Vote on Account' under Article 116/206 of the Constitution. In respect of such Appropriation Acts it is not even possible to

prepare separate Appropriation Accounts and thus bring to notice of the Legislature excess over grants made in the 'Vote on Account' Appropriation Act for the following reasons:—

(1) It is difficult for the Audit Department to deal with the Vote on Account separately since the final vote will, in almost all cases, have been granted well before the vote on Account is exhausted and it would not be possible to distinguish the expenditure incurred from the Vote on Account from the rest of the expenditure. This difficulty cannot be got over, even if it were possible to keep a separate account for the expenditure incurred from the Vote on Account.

(2) The 'Vote on Account' Appropriation Act does not invariably state definitely that it is intended to cover the expenditure for a specified period of the financial year. If the Act specified the period definitely, the actual expenditure within that period can be audited against the Vote, but such audit cannot be extended to the expenditure incurred during those months and adjusted in the accounts in subsequent months by book transfer. If these adjustments are also to be taken against the Vote on Account, it will necessitate the closing of the Government accounts formally for the expenditure connected with the Vote on Account Appropriation Act in the same manner in which the accounts of the complete year are closed. Closing of the accounts in this formal manner twice a year is a needless waste of effort and will throw a heavy burden on the various authorities responsible for the maintenance of accounts. Further, such *ex-post-facto* examination of expenditure against Vote on Account serves no useful purpose, so long as the Exchequer Control itself is not introduced in the country.

(c) The Public Accounts Committee have in their Third Report for 1952-53, already recommended the early separation of Audit from Accounts and the introduction of a system of Exchequer control. Pending the implementation of this, the Comptroller & Auditor General has under examination the introduction of some important reforms in the existing method of withdrawal or disbursement of money and accounting.

(d) Under the Constitution, the Consolidated Fund, the Contingency Fund, and the Public Account, of the Union or of any State are separate. It is therefore necessary to keep their balances distinct from one another. Before the commencement of the Constitution there was no such distinction between these balances. It has not yet been possible to separate these balances on account of the difficulty in closing the pre-partition accounts of India and of some of the States. All the same, the transactions of respective Funds have been separated with effect from the commencement of the Constitution.

Under the Constitution only the balances of the Consolidated Fund are available for expenditure by the Union or a State Government *vide* articles 114 and 204. The appropriations for Government expenditure can be made only out of the Consolidated Fund. This necessitates continuous watching of the balances of the Consolidated Fund and the flow of expenditure therefrom. As explained in the Memorandum of the Comptroller and Auditor General to the Public Accounts Committee, *vide* Appendix I to the Third Report of the Public Accounts Committee, 1952-53, on Exchequer Control, in the absence of separation of Audit from Accounts and the introduction of a system of Exchequer Control, it has not been possible to apply the necessary checks. Under the present arrangements the Governments have been frequently utilising moneys from the Public Account for purposes for which the Consolidated Fund alone is available. This defect, which is considered to be a serious one, can be remedied only with the introduction of Exchequer Control.

19. *Verification of pre-merger Balances*.—The test-audit of the pre-merger transactions of a Part C State, conducted to verify the cash etc., balances on the date of integration with the account balances, disclosed that the Ruler had destroyed most of the useful pre-merger records. The Chief Commissioner stated that the alleged destruction was said to have been effected before the integration of the state into the Indian Union for political reasons. Only the cash book from April 14, 1948 to October 12, 1948 was available. In the absence of important initial records, the opening balances of the cash, debt and deposit heads of account cannot be certified in audit as correct.

Incidentally, it may be mentioned that the expenditure under "Miscellaneous" during the financial year preceding the merger was Rs. 6,25,444 against budget provision of Rs. 10,000 made by the State.

20. *Audit of Central Grants for Development*.—The Development Grants given to the State Governments since 1945 by the Central Government, as a part of post-war Five Year Plan, were discontinued with effect from 1950-51. From 1951-52 grants are made for specific development purposes to State Governments as part of the Five Year Plan. The accounting and audit arrangements of these grants are given below :—

The expenditure on the development schemes is initially incurred by the State Governments from their own revenues. This expenditure is subject to usual audit by the Accountant General, as in the case of other expenditure incurred by the State Governments. Only so much of the audited expenditure as is incurred on schemes approved by the Government of India, is then reimbursed by the Accountant General to the State Government concerned by debit to the Central Government. This ensures that the Grant from the Centre is actually spent by the State Governments on the objects for which it was sanctioned.

Page 44—Insert the following as para. 18-A:—

Integration of former Princely States with the Union of India.

18A. Prior to August 15, 1947, the Princely States known as Indian States numbered 562 units and constituted nearly 45 per cent. of the total area of pre-partition India. They were in a sense independent of British India and enjoyed internal autonomy which varied with State to State, the nature of its treaties with the paramount power, and the exigencies of the prevailing political and other conditions. Their finances were entirely separate from those of what was known as British India. The Ruler of each State enjoyed full powers in regard to the financial affairs of his State, namely, taxation and expenditure, subject only to certain excepted items, such as Customs, Salt, Currency and Post Offices, in regard to which special treaty arrangements existed. The audit and accounts of the States were also regulated by the Rulers of the States in any manner they thought fit.

2. Except in very few States such as Mysore, where owing to historical accidents, there was, more or less, a clear cut distinction between the private property of the Ruler, his Privy Purse, the Civil List etc., and the property of the State, its revenues and expenditure debitable to such revenues, there was no such clear cut distinction.

3. The White Paper on Indian States issued by the Ministry of States contains a historic account of the relationship of Indian States to the Central authority of India, commencing with the East India Company, and the various developments in connection with the constitutional changes of India and the integration of the Indian States in a Federal India. The various changes which were effected resulting in the formation of a complete Union of the Indian States with the rest of India are also described briefly in the White Paper. It will be noted that until the 15th of August 1947 none of the Indian States was subject to Legislative control of either the British Parliament or the Central Legislature of India. With effect from the 15th of August, 1947, practically all the States acceded to the Union of India in regard to 3 subjects, namely, Defence, External Affairs and Communications. In the period intervening between the 15th of August 1947 and the establishment of the Union of India on the 26th of January 1950, an intermediate change was made whereby the vast number of Indian States merged into a smaller number of units. The whole body of Indian States, with the exception of Kashmir which forms the subject matter of special treatment, were merged with other Indian States so as to form larger Units, or with the neighbouring Part A States so as to form compact territories. Thus, the result was the formation of varying larger blocks consisting of wholly former Indian States, namely, Himachal Pradesh, Pepsu, Rajasthan, Madhya Bharat, Vindhya Pradesh, Saurashtra, and Travancore-Cochin. Hyderabad, Mysore, Cutch, Bhopal, Tripura and Manipur remained unaltered in boundaries and the last four were converted into Chief Commissioners' provinces. Some of the States in former Western India were merged with Bombay. Rampur, Tehri-Garhwal and Banaras were merged with Uttar Pradesh. The Eastern States were either merged with the provinces of Bihar or Madhya Pradesh.

4. The merger of the enormous number of Indian States into compact units was effected some time before the commencement of the new Constitution. The main feature which was of great political and administrative consequence was the transfer of Legislative and Executive power by the Rulers of the merged States to the newly constituted State with a view to the establishment of responsible Government in the new States and their ultimate absorption in the Union of India. This extremely

delicate and difficult task involved some important financial and monetary consequences which were of considerable importance both to the Princes as well as to the newly constituted units. The successor States and Governments assumed, as a result of the merger and subsequent union with the rest of India, full responsibility for the administration of the former princely territories and for promoting the welfare of the people to the same extent as in the case of the rest of India. The Union Government also assumed similar responsibilities in its own sphere. It is therefore right to expect a just and proper transfer of all the assets and liabilities of the Rulers of the Princely States to the Successor States and Governments along with future rights and obligations in regard to Taxation and Administration subject to an equitable settlement of what may be regarded as the Rulers' private property, his Privy Purse, Civil List and other privileges and easements. This principle is hardly debatable bearing in mind the fact that the various merger operations extinguishing smaller States and constituting them into larger units were designed solely in the interests of the people of the States and the unification of India on a Federal basis. It is obvious that with the extinction of an enormous number of individual States in the process of consolidation, a final settlement of compensation to be given to the individual Rulers in a manner equitable in all the circumstances to the resulting new States and its people as well as to the Ruler himself, was a matter of considerable difficulty as well as of importance. It necessitated a most careful and accurate stock-taking of the assets of the States and of the Rulers including all cash and securities and properties of various kinds, their equitable apportionment between the State and the personal property of the Ruler, and a careful and accurate transfer to the successor State of whatever was rightly adjudged to belong or should have belonged to the State and not to the Ruler. The solvency of the Successor State and the well-being of the people were involved. While appreciating the patriotism of individual Rulers in facilitating the momentous political and constitutional change; it was necessary to avoid excessive leniency to the Ruler for that would have involved penalising the new State and its people.

5. Although the responsibility of the Auditor-General of India in regard to the audit of the transactions of the Indian States commenced only after the commencement of the new Constitution, and doubts have therefore been expressed whether he is competent to go into any of the State transactions before the 26th of January, 1950, he considers that, as the new States did not start on a clean slate with zero assets and liabilities, and the correctness of the assets and liabilities of the new States depends upon the correctness of the original transactions in which the balances have their roots, and as, moreover, the Auditor-General becomes the successor to the Audit and Accounting authorities of the extinguished States and has certain continuing responsibilities, he cannot turn a blind eye to the various transactions which immediately preceded the merging of the States and their unification. The Comptroller & Auditor General therefore directed his local officers to satisfy themselves in every possible way that the balances stated to have been taken over by the new authorities at the time of the merger of the smaller States were correct in the following respect:—

- 1) in regard to the correctness of the certificates of balances; and
- (2) in regard to whether the values of cash and securities received were the values which should have been properly transferred on the dates of transfer.

Naturally, checking of the above involves scrutiny of previous accounts

of each of the States merging into a province or forming part of a Union or a Chief Commissioner's Province, and auditing them in regard to the essentials, for a brief period. He directed that even though some small laxities or minor irregularities might be anticipated, Audit should thoroughly satisfy itself that no serious misappropriations or irregularities had occurred in any case.

6. The circumstances differed from State to State. There were many States which had no proper system of accounting or audit and the records were either not available or if available were in a state of chaos. In view of the varying difficulties from State to State and availability and authenticity of records, the Auditor General left the extent of the test-check to be carried out to his local authorities. There had been a certain interval between the dates of the Rulers signing their merger Covenants and the actual dates on which the administration of the States was taken over by the successor authorities. Experience showed that this interval was a potential source of temptation and could be utilised by or under the authority of the Rulers of the acceding States for entering into transactions resulting in sudden and appreciable depletion of the cash balances, dissipation of States Assets, transfer of properties from the State to the Royal Household and other questionable transactions as for instance,

- (a) transfer of expenditure debitable to the Ruler's Civil List to the State Funds, or overdrawal of Civil List and the Civil List Reserve Fund;
- (b) transfer of State investments to the Rulers' accounts;
- (c) transfer of articles purchased for State purposes to Ruler's private property;
- (d) expenditure on private property of the Rulers being debited to the States;
- (e) Loans and Advances being irregularly written off; and
- (f) over-generous commitments, such as the sanction of advance increments and higher scales of pay with retrospective effect, payments of rewards, grants, gratuities, leave salaries, pensions etc. State property was, at times transferred to private bodies, and irregular grants of leases and lands made.

7. It was not possible to delve in audit into the past expenditure for any length of time. The Audit Department, which was already sorely depleted, had to take on the responsibility for audit and accounts in the Indian States with little or no trained machinery in most cases beyond a collection of heterogenous untrained staff from a multitude of States. In the circumstances, the local authorities were expected to attempt no more than a rigorous test-check of transactions of substantial financial magnitude or those presenting peculiar features round about the period of the original merger; i.e., the period between the signing of the Covenants and the actual transfer of the administration. For the rest, Audit was confined to the extent necessary to verify balances. Having regard to the fact that the Part B States Accounts offices have themselves to be organised almost from scratch for the discharge of their normal functions and the difficulties inherent in the audit of the transactions of this kind in States which have been dis-membered, audit has not been completed in regard to all the States. The more important irregularities

of various kinds that have so far been noticed have been reported to the Ministry of States and Finance with a view to their taking such action as is possible consistent with the Agreements entered into with the Rulers. The following statement gives some idea of the type of more important irregularities which have been discovered, the number of States involved and the financial implications. Indication is given also of the amounts which have been ordered by the States Ministry to be recovered so far. The cases included in the Statement are mainly those in which there has been an infraction of the broad principles of settlement said to have been followed by Government in the settlement with the Princes.

8. The speed and the manner with which the negotiations for the transfer of power by the multitude of Princely States were conducted and the omission to consult Financial and other authorities appeared to have resulted in terms which were more generous than just to a number of individual Rulers, but it has been advanced in reply that a momentous change was being effected in the history of India and the price which had been paid for its unification was not on the whole excessive.

A further report will be made on the completion of audits, and the results of discussion with the Ministry of States.

Brief particulars of transactions.	Reference to para in the white Paper or other document contravened.	No. of States involved	AMOUNT		Other items	Amount Ordered to be recovered.
			Recurring (per annum)	Non-recurring		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
State Cash and investments retained by the Ruler.	Para 158(v) of the White Paper	39	..	7,11,32,114 + Loan due from Gondal ruler realised by the ruler of Nawanagar.	..	1,15,81,200
Additions etc. to Civil List Reserve Funds after signing Covenants/Agreements.	Para 158(vii) of the White Paper	23	..	1,16,95,712	..	13,10,000
Unusual additions to Civil List Reserve Funds before signing Covenants/Agreements.		16	..	1,04,99,013	..	2,00,000
Trust Funds not created for religious funds.	Para 158(viii) of the White Paper.	2	..	48,87,877	..	..
New Jagirs to Consorts and Children of the rulers (including the Rulers themselves).	Para 158(iv) of the White Paper.	12	Annual revenue of 139 Santis of land.	1,27,770	12565 acres 39 villages.	..

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Civil List overdrawn.		52	..	72,16,940	..	..
State properties allowed to be retained by the rulers, even though there was a separation in the pre-merger period.		4	..	29,84,466	One farm and some houses.	..
Property purchased out of State funds for the private use of the Rulers after signing Agreements/Covenants.	Against Agreements/Covenants.	12	..	31,51,884	..	6,00,000
Rewards, donations, write offs sanctioned on the eve of handing over administration.	Para 25 of the Memorandum on personal privileges of the Rulers issued by the States Ministry.	57	2,14,643	2,56,28,013	3409 acres, four motor cars one printing press, one power house and one dak bungalow.	..
State assets etc. transferred to the relatives of the rulers, on the eve of mergers.	Do.	21	5,42,930	15,05,019	14816 Bighas, 5 Bungalows.	..
Houses purchased or constructed for the private use of the Rulers and their family on the eve of mergers.	Do.	9	..	11,87,574	..	..

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Cash and other property transferred to rulers, on the eve of mergers on one pretext or other.	Do.	41	..	89,03,530	71 cars and some other property.	14,50,000
GRAND TOTAL			Rs. 7,57,573 (Excludes annual revenue of 139 Santis of land)	14,89,19,912	21,900 acres, Cars-75, Vil- lages-39, 5 bungalows, one dak bungalow, one Power- house, one printing press, one farm and some houses.	1,51,41,200

Where the sanctions to the grants are subject to any conditions, the Accountant General satisfies himself that the conditions are fulfilled before payment is made.

21. *Contribution to International Organisations.*—The principal contributions to International Organisations included in the accounts for 1950-51 are as follows:—

Grant No.	Sub-head	Rs.
38-External Affairs	J. 5	United Nations Organisation . . . 50,81,468
„	J. 9	United Nations Technical Assistance Scheme . . . 11,90,476
73-Miscellaneous	H. 2	World Health Organisation . . . 22,22,690
„	H. 4	U.N.R.R.A. 1,03,604
„	H. 6	Food and Agriculture Organisation of the United Nations. . . 10,54,682
„	H. 7	International Labour Organisation 12,03,502
„	H. 8	International Civil Aviation Organisation. 3,04,381
„	Z. 12	United Nations Educational, Scientific and Cultural Organisation. . . 13,54,053
„	Z. 28	Commonwealth Agricultural Bureau 1,00,000

Smaller contributions of an aggregate amount of Rs. 2,19, 969 were paid to 13 other International Organisations.

22 *Income-tax concessions in anticipation of Legislations*—In August, 1950, Government decided that the “Death *cum* retirement gratuity” payable under the Revised pension Rules should be completely exempt from income-tax, and issued orders in January, 1952, to all disbursing officers that pending legislation to that effect they should not deduct tax at source at the time of paying the gratuity. Orders were also issued to the Income Tax Department that, if tax had already been deducted at source refund should be given.

In January, 1951, Government introduced the 3½% Ten Year Deposit Certificate Scheme by declaring that the interest on the deposit would be completely exempt from tax.

In both the cases, the action taken by Government was in anticipation of passing the necessary legislation. Amendments to the Income Tax Act were proposed through a Bill introduced in the late Constituent Assembly on the 6th June, 1951, but that Bill was allowed to lapse. A new Bill was again introduced in Parliament in May, 1952 and was passed in May, 1953.

The grant of the above concessions by executive orders in anticipation of legislation was illegal being in excess of powers, *vide* Section 60 (3) of the Income Tax Act.

23. *Income tax relief to Governors.*—In 1939 the Government of India received representations from a Governor and the Commander-in-Chief that due to the introduction of the slab system of income-tax the tax burden had increased considerably and the rise in prices of commodities compelled them to spend large sums of money on public entertainments. In the case of Governors, this expenditure was in addition to the sumptuary allowance admissible under the Government of India (Governors Allowances and Privileges) Order, 1936.

Relief was given as indicated below under executive orders by an exemption from income-tax of the following amounts of salaries, under the first proviso of subsection (1) of Section 7 of the Government of India Income-tax Act 1922 :—

	Amount of pay exempted	Year from which allowed
	Rs.	
Governor General	25,000*	1940—41
Commander-in-Chief	20,000†	1944—45
Governor of Bengal	18,000	1940—41
Governor of Bombay	17,500	1944—45
Governor of Madras	15,000	1940—41
Governor of U. P.	10,000	1940—41
Governor of Bihar	6,000	1944—45
Governor of C. P.	6,000	1940—41

*Increased to Rs. 35,000 for 1946-47 and Rs. 40,000 for 1947-48 and part of 1948-49.

†Till 14th August, 1947 only.

(Relief was similarly enjoyed up to 14th August, 1947 by the Governors of Sind and N.W.F.P.)

By the Government of India (Governors' Allowances and Privileges) (Amendment) Order, 1947 the sumptuary and other allowances admissible to the Governors were aggregated and the maximum under the 1936 order enhanced by 25% (50% in the case of Sind) with effect from 1st April, 1947. With effect from 15th August, 1947 changes in the salaries of these High Officials were made in the Government of India Act, 1935 as amended under the Indian Independence Act, 1947 and as adapted by the India (Provisional Constitution) Order, 1947. The sumptuary allowances were again revised with effect from 1st January, 1950 on the basis of actuals. However, the executive orders exempting a portion of the salary of these officials from income-tax remained unchanged.

The Auditor General wrote to the Government of India in 1949, enquiring into the circumstances in which exemptions had been granted under

sub-section (i) of Section 7 of the Indian Income Tax Act and the authority by which the exemptions had been originally granted. It was pointed out to Government that the orders issued were not in keeping with the law on the subject and if the concession was to continue, appropriate orders under the Government of India Act, 1935, as adapted by the India (Provisional Constitution) Order, 1947, were necessary.

As a result, the Government of India issued orders in March, 1950 discontinuing the exemptions from income-tax of a portion of the salaries of the Governors granted by the executive orders and later in August, 1950 similar orders were issued withdrawing the exemption from income-tax of a portion of the salary of the Governor General and Commander-in-Chief. It was also decided that, recovery of arrears should not be enforced. Excluding the Governors of Bombay, Madhya Pradesh and Uttar Pradesh information in respect of whom is not readily available the amount involved was Rs. 4,18,328.

24. *Infringement of Central Excise Laws.*—28,885 cases of infringement of Central Excise laws were detected by the Central Excise Department during the year 1950. 7,500 cases were brought forward from the previous year. Out of the total number of 36,385 cases, 7 cases (5 in 1949 and 2 in 1950) were sent for prosecution in the courts, and the rest were dealt with departmentally. Two cases resulted in acquittal by the courts and 2,485 by the Department. Confiscation was ordered in 13,511 cases by the Central Excise Department, but in 5,121 cases, the option to redeem it by payment of the fine in lieu of confiscation was not exercised. Two cases resulted in confiscation by the courts.

During the year, appeals were lodged in 1,507 cases with the Collectors of Central Excise, and in 48 cases with the Central Board of Revenue. Orders annulling the decisions appealed against were passed in 145 cases of the former category, and in 8 cases of the latter. The number of cases pending disposal with the Collectors of Central Excise and the Central Board of Revenue at the end of the Year was 880 and 33 respectively. The number of revision applications made to the Government of India was 36 out of which 7 were successful, 24 unsuccessful and 5 were pending at the close of the year.

The following table indicates the amounts imposed and realised by way of penalties during the year as a result of the adjudication of these offences :—

	No. of cases	Amount imposed	Amount realised
		Rs.	Rs.
Direct penalty imposed	23,498	4,89,789	3,35,736
Levy of duty adjudged	8,297	6,85,230	3,38,354
Fines adjudged in lieu of confiscations	8,390	1,44,588	86,145
Amount settled in compounding . . . . .	..	2,859	2,751
	<u>40,185</u>	<u>13,22,466</u>	<u>7,62,986</u>

Rewards amounting to Rs. 7,629 and Rs. 693 were authorised for payment to 1,104 officers and 63 informers respectively for detecting these offences.

To minimise the cases of infringement the Central Excise Rules, 1944, are amended as and when necessary, to secure better control and to close all possible loop-holes. Manuals of Departmental Instructions are also issued for the guidance of the officials. Separate manuals already exist in respect of Tobacco, Tea, Vegetable Products and Cigarettes and those for Coffee, Cloth and Sugar are under preparation. Deterrent punishments are imposed on proved offenders in the form of personal penalties and confiscation of goods. Preventive and Intelligence organizations engaged in preventing evasions are suitably strengthened as and when necessary. Wherever necessary, resident excise staff are posted in major factories producing matches, sugar, vegetable products, cloth, etc.

25. *Income-tax Cases.*—During the year 1950-51 penalty under section 28 of the Income-tax Act (mainly for concealment of income) was imposed in 5,864 cases and that under Section 46 (1) for non-payment of tax in time in 13,510 cases the amount of penalty levied being Rs. 50,82,650. Coercive measures had to be adopted under Sub-sections (2), (3) and (5) of Section 46 of the Income-tax Act in 15,696 cases, the total amount recovered including penalty and cost being Rs. 2,49,56,230. No case of prosecution was launched during the year. There were in all 30 cases of composition, the amount of composition money realised being Rs. 93,036.

The extra tax realised as a result of the activities of the Department, *i.e.* the tax realised on income which assesseees sought unsuccessfully to conceal, including tax collected from new assesseees discovered by the Department, amounted to Rs. 8,62,94,151 or about 5 per cent. of the net tax collected. In addition, an aggregate demand of Rs. 535 lakhs was levied during the year 1950-51 in cases disposed of by the Income-tax Investigation Commission. Details of these cases are :—

	No. of cases disposed of	Concealed income Rs. (000)	Tax involved Rs. (000)
Settlement cases	244	11,26,63	4,75,70
Investigation cases	40	1,03,97	59,81
	<u>284</u>	<u>12,30,60</u>	<u>5,35,51</u>

The progressive total of the demands made as a result of the investigations by the Commission upto the end of the year under review was Rs. 8,16 lakhs and collections there against were Rs. 1,05 lakhs.

26. *Interest due from Rehabilitation Finance Administration.*—The recovery of the total accrued interest of Rs. 62,63,000 due from the Rehabilitation Finance Administration upto 31st March, 1954 has been deferred by Government

until the Administration makes sufficient profits. The total advance given to the Administration upto 31st March, 1954 amounted to Rs. 8.50 lakhs.

As provided in the rules framed under the Act, the amount of interest shall not be compounded with the principal.

27. *Inadequate supply of stationery and forms.*—With the accession and integration of Indian States into the Union, and the all-round expansion of activities, both of the Union and the State Governments, the volume and complexity of the work to be done in the Indian Audit and Accounts Department increased to such an extent that 8 new accounts offices had to be added to the existing twelve which had themselves expanded almost to twice their former size. Apart from the difficulties arising out of the several years of weakening and disorganisation as a result of war, and the extraordinary accounting problems created by the partition of the country, and owing to constitutional changes, many of which still remain unresolved, the Department has also to contend with delays and difficulties in securing the minimum supplies of stationery, printed forms, bound registers, codes, manuals and other books of reference, typewriters and office appliances with the result that normal functioning of the accounting and auditing machinery was not possible. Many of these forms are of such a highly specialised character and size that it is not easy to get them printed locally at short notice, quite apart from the high cost of private printing and the limitations on the powers of local purchase of stationery. Some of these forms which have to be bound into bulky registers are required to be preserved as important records for as long as 30 or 35 years. But they have been found to be printed on paper of such poor quality that they crumble and powder even while they are in use.

The above difficulties were pointed out to [the Government of India and they have since increased the monetary allotment of all the accounts and audit offices for the supply of books, stationery etc. Though this has some what improved the position, it is not yet entirely satisfactory.

Precision and punctuality are quite rightly expected from the Accounts Organisation to a greater degree than from any other organisation of Government. The Accounts Department cannot fulfil these expectations when the Department on which it is dependent for its essential supplies or "Stock-in-hand" of forms stationery, etc. cannot ensure punctual and adequate compliance with its indents. The failure of supply had particularly affected the new accounts organisations which were taken over from the Indian States and which were required to follow a strange procedure and use strange forms for the first time, without the aid of adequate supply of books, forms, stationery, etc.

28. *Debt position and Loans to the State and Foreign Governments—Debt position.*—The Public Debt of the Central Government comprising Rupee Debt (Rs. 1458.52 crores), Sterling Debt (Rs. 36.70 crores), Floating Debt (Rs. 568.38 crores) and Dollar Loans (Rs. 12.72 crores) but excluding the

Unfunded Debt (figure not finalised pending settlement of Pre-partition balances) at the end of 1949-50 amounted to Rs. 2076·32 crores. During the year 1950-51 there was a net increase of rupees 77 lakhs only in these obligations. The total balance outstanding on the 31st March, 1951 under the above four categories was Rs. 2077·09 crores. Adding to this Rs. 456·18 crores assumed in the Revised Estimates for 1950-51 as the Unfunded Debt against Rs. 394·90 crores assumed in 1949-50 the total debt on 31st March, 1951 stood at Rs. 25, 33·27 crores.

Interest charges.—The interest charges during 1950-51 were estimated at Rs. 31,50,07,000 and the actual expenditure thereagainst was Rs. 32,54,47,054.

Amortisation of Debt.—At present there is no planned scheme for the amortisation of this debt. A lump provision for Rs. 5 crores is made out of revenues every year for avoidance or reduction of debt. As credit for this provision is taken to a Deposit head which closes to Government it is effectually utilised for avoidance rather than reduction of debt.

Loans to States Governments.—With a view to stepping up production and financing the various developmental projects and schemes, the Government of India have been granting loans and advances to the Part 'A' and Part 'B' States. The amount of loans sanctioned during 1950-51 was Rs. 61,46,24,594. The balance outstanding at the end of the previous year was Rs. 1,42,35,50,713. Against the total amount of Rs. 2,03,81,75,307, due from the State Governments, the repayment during the year amounted to Rs. 8,23,52,301 leaving a net balance of Rs. 1,95,58,23,006 due from them on 31st March, 1951. Repayments of loans were made regularly.

Loans to local bodies, etc.—During 1950-51 loans amounting to Rs. 6,13,97,680 were sanctioned to local and private bodies and repayments by such bodies amounting to Rs. 1,78,97,662 were made. The balance outstanding on 31st March, 1951 stood at Rs. 24,47,06,190. Repayments of loans were made regularly.

Debt due from Pakistan.—Pakistan's share of the Public Debt of the undivided Government of India on the date of partition has not yet been determined. This debt is repayable in Indian rupees in fifty annual equated instalments for principal and interest, the first repayment commencing in 1952 *vide* paras 3 (b) and (c) of Partition Council's decision contained at page 97 of Partition Proceedings Vol. II. No payment has been made during 1952.

Debt due from Burma.—When Burma was separated from India on 1st April, 1937, Burma's debt to India was computed under the India Burma Financial Set-

tlement at Rs. 50·80 crores. This debt carried interest at $3\frac{1}{2}\%$ and was repayable in 45 years in half yearly equated instalments of principal and interest. The actual repayment of principal upto 31st March, 1942 amounted to Rs. 2·65 crores and the balance due stood at Rs. 48·15 crores. No payment has been made since then. The accrued interest in 9 years at $3\frac{1}{2}\%$ amounted to Rs. 15·17 crores and the total amount due from Burma on 31st March, 1951 was Rs. 63·32 crores.

This excludes Rs. 5·98 crores outstanding on 31st March, 1951 representing Burma's liability under the Financial Settlement at $7\frac{1}{2}\%$ of the actual Central pensions in issue on the date of separation. The payment in respect of this also has remained suspended from 1st April, 1942 onwards.

Note.—As the pre-partition accounts have not yet been closed, the progressive figures adopted in the paragraph are provisional.

29. *Non-submission of Stock Registers.*—Under the standing instructions issued by the Ministry on the 19th May, 1949 the Indian Missions abroad are required to maintain proper Stock Register of furniture, furnishings and stock held by them on Government account together with separate distribution registers and inventories of the articles in question which are also to be physically verified periodically. These returns are required to be sent to the Accounts Office by the first week of June every year for review. In spite of numerous reminders that have been issued either direct or through the Ministry and of the fact that the Missions concerned have been functioning for some years these returns and the verification reports are still awaited from 36 Missions. It is reported that the preparation of these registers has not been completed due to paucity of staff and on account of the complex nature of the registers prescribed.

The form of the register has since been revised and the missions have been instructed to verify the stocks as on the 31st March, 1954 and to submit the register complete in all respects to audit by the 1st June, 1954.

30. *Exchange compensation allowance during leave.*— Exchange compensation allowance amounting to Rs. 4,700 was allowed under the orders of the Government to an officer attached to an Indian Embassy for the first 7 months of his leave spent in the country in which he was on duty immediately before proceeding on leave. When the matter was raised in audit, general orders were issued to the effect that Exchange compensation allowance would be admissible only for the first two months of leave without Medical Certificate, and for the first four months of the leave with Medical Certificate. These orders were issued on the basis that an officer has the choice of spending his leave in any country he likes and not necessarily in the country in which he was on duty immediately before proceeding on leave.

31. *Grant of personal concessions to an officer.*—An Officer who was appointed on 28th July, 1950 to a permanent post carrying a scale of pay of Rs. 250—15—400 was granted a personal scale of pay Rs. 650—30—800 and started on an initial substantive pay of Rs. 680 though under the normal operation of the rules he would have been entitled to a pay of Rs. 340 in the former scale plus a special pay of Rs. 75. He was also allowed the following further personal concessions:—

- (i) City compensatory and house rent allowances though not admissible to persons appointed on *ad-hoc* or personal rates of pay.
- (ii) Two extensions of 6 months and 1 month each in relaxation of the prescribed limit of 6 months for bringing his family to the new station of duty for purposes of regulating travelling allowance as he could not be provided with Government accommodation in the new station and his children could not be shifted from the old station during the middle of their school session.

The Officer was thus granted undue personal concessions of various kinds. The scale of pay of Rs. 650—30—800 for the post itself has not yet been accepted by the Ministry and the matter is stated to have been kept in abeyance pending reorganisation of the Patent Office.

32. *Attempted fraud in an Accounts Office.*—The case relates to a false claim for “refund” to a contractor, of a non-existent deposit of Rs. 2,800. The claim was submitted in the form of a simple receipt by a contractor. A Pay Order on this was written out by a temporary clerk of the Accounts Office with about 9 months’ service, on 31st December, 1948, and as the Superintendent was absent, he submitted it direct to the Branch Officer, who signed the pay order on the same date. If this pay order had been cashed at the Imperial Bank, New Delhi, there would have been a loss of Rs. 2,800 to Government. The pay order was, however, not cashed by the contractor, who returned it to the Accounts Office. The clerk in question is alleged to have prepared the bill.

The attempted fraud was first brought to the notice of the Accountant General seven days after the pay order was passed by the Assistant Accounts Officer. The case was also reported to the Police on 8th January, 1949 by the same authority, which brought the case to the notice of the Accountant General, without previous consultation with any officer of the Audit Department. The Police arrested the clerk.

The Accountant General immediately asked the Agent, Imperial Bank, not to pay (but to return unpaid, to his office) any bills which may have been signed by the Branch Officer at any time. The Officer had meanwhile reverted as a non-gazetted officer from the 1st January, 1949, in the normal course.

The fraud was made possible, entirely because the Branch Officer signed the pay order without seeing:—

- (i) whether it was submitted in the proper prescribed form;
- (ii) that the authority quoted in the bill in support of the claim was there and covered the case;
- (iii) that there was an original deposit and the related chalan, against which the refund could have been made and on which the fact of refund should have been recorded under the then prevailing procedure.

The three checks, (i), (ii) and (iii) above, were required to be exercised according to the then prevailing procedure and were adequate to prevent such frauds.

Widespread fraud and conspiracy had been alleged by certain persons who contacted the Accountant General. In any case, a thorough check of all the bills handled by the clerk from the date of his appointment was necessary. The Accountant General, therefore, entrusted a senior officer with the task of making a detailed investigation. His investigations covered the period from 1st April, 1948 (the date on which the clerk was appointed) and showed that there was no other fraud. At the same time, it was revealed that the prevailing procedure was in certain respects different from that prescribed in the Codes. An Office Order was issued on February 8, 1949 to ensure that the Codal procedure was followed thereafter.

On receipt of information from the Police that the clerk had been arrested, he was placed under suspension with effect from the same date, viz., 10th January, 1949. The Superintendent of Police intimated that as regular investigation was in progress, it would not be proper to hold a parallel departmental enquiry into the case of the Branch Officer. In due course, the Special Police Establishment intimated that the evidence against the Branch Officer was meagre, and that he should be dealt with departmentally on a charge of negligence. As regards the clerk, the

Accountant General accorded sanction for prosecution in September 1950, as desired by the Police. Thereafter, the case against the clerk was pending in the Magistrate's Court, and was being adjourned on the ground of illness of the clerk. The police did not proceed against the contractor, as he was instrumental in bringing the attempt of the clerk to the notice of the authorities and the police.

The rest of the story may be dealt with separately as regards the clerk and the Branch Officer.

Proceedings against the clerk.—About April 1952, the Accountant General was informed by the Special Police that since the accused had been suffering from tuberculosis and submitting medical certificates declaring his inability to attend the trial, Government had decided to withdraw the case from the Court and report the matter for departmental action. This withdrawal of prosecution was made without the knowledge or consent of any authority of the Audit Department. Departmental proceedings were accordingly taken and the clerk was eventually dismissed in December, 1952.

Proceedings against the Branch Officer.—As stated earlier, departmental proceedings could not be started against the Branch Officer so long as the parallel police action was not complete. He was withheld his promotion to the grade of Assistant Accounts Officer between January 1949 to July 1952 as the Comptroller and Auditor General stated that the officer had been guilty of gross negligence of duty, and that he was unable to agree that he should be promoted as an Assistant Accounts Officer. During this period, 21 men junior to him had superseded him and officiated as Assistant Accounts Officers. Apart from the loss of seniority and prospects, the actual monetary loss suffered by the Branch Officer upto that date was Rs. 5,375. Even if he was promoted to officiate as Assistant Accounts Officer again, he was to suffer a recurring loss of about Rs. 1,320 per annum, and the loss would be much more if he was not. Further, the loss in seniority nullified his chances of confirmation as Assistant Accounts Officer, at any time before his superannuation, and the loss in pension on retirement was to be substantial. In fact, the officer concerned reverted in December 1952 and has since been denied promotion. Since then 8 more persons have superseded him and the monetary loss has increased by a further sum of Rs. 2,538.

The case referred to in this paragraph is an illustration of the continuance of the ancient practice in this country of imposing upon combined Accounts and Audit Offices, the duties of pre-audit and payment at Head-quarter towns. This practice has been condemned as dangerous and improper, times without number, by the Auditor General, and the P.A.C.

have supported the Auditor General, *vide* paragraph 5 of the Third Report of the P.A.C. 1952-53 on Exchequer Control. So far as Delhi is concerned, the work of making payments has been transferred from the civil Accountant General from December, 1952.

The other authorities, notably some of the State Governments, have been extremely slow and unresponsive in assuming their responsibilities in this respect.

33. *Grant-in-aid to a private body.*—A sum of Rs. 70,000 was paid to the All India Women's Food Council as grant-in-aid during the year 1950-51 for organising a vigorous popular drive to encourage the consumption of subsidiary foods through propaganda and by opening Canteens and Cafeterias. Out of this grant, a sum of Rs. 11,611-8-3 remained unspent within the year and was refunded by short drawal of the subsequent year's grant. The Ministry of Food and Agriculture certified that the balance of Rs. 58,388 was spent on the objects for which the grant was sanctioned. It was, however, noticed in the local audit that out of this sum, lump sum payments totalling Rs. 50,200 had been made to the several branches and agencies of the Council. As these did not maintain or render any accounts in proper form it was not possible for audit to work out the actual amount of expenditure incurred or satisfy itself that the unspent balance had been correctly refunded by the Council to Government. In these circumstances it is difficult to accept in audit the certificate of the Ministry.

The Ministry stated that the Branch secretaries/chairmen were not fully conversant with the procedure of maintenance of accounts but that they could certify that the grants were spent by them on the intended objects. The Ministry are also taking steps to have the accounts of the branches audited by a Chartered Accountant.

34. *Non-lapsing Grants.*—There was a noticeable tendency of paying out grants-in-aid far in excess of the amounts which could be expended during the year. In some cases, they were paid towards the close of the year even when it was known that no expenditure would be required to be met out of them during the year. Instances are given below:—

(i) The Ministry of Education sanctioned in March, 1952 grants and payment totalings Rs. 6,75,000 to a University for building purposes and gave specific instructions not to spend the amounts but to keep them in "suspense" pending approval of the expenditure by Government. The approval was not given before the close of the financial year 1951-52, but the unspent grants and payment were allowed to be retained by the University instead of lapsing to Government.

The Ministry of Education sanctioned in February, 1950 two Senior Research Scholarships of the value of Rs. 200/- per month each, for the study of Geodesy Theory and Geodesy Practical, tenable for a period of 3 years. The payment of a sum of Rs. 1,200 being the quarterly amount of these two Scholarships, was sanctioned on 18th March, 1950 with the express instruction to draw the amount before 31st March, 1950. The amount was drawn on 31st March, 1950, but the scholars joined in August, 1950. The money was, however, actually disbursed in October, 1950 *i.e.*, after a time lag of more than six months. The payment was sanctioned much in advance of requirements to avoid lapse of budget grant, even though it was known that the money would not be required during the financial year 1949-50.

(ii) The Ministry of Health sanctioned in March, 1950 a non-recurring grant of Rs. 1,95,000 to the T.B. Association of India for the establishment of a T.B. College Hospital, with the specific condition that no expenditure should be incurred out of the amount sanctioned till the transfer deed with the donor is completed—a condition which was not expected to be fulfilled before the close of the year.

35. *Rehabilitation of displaced persons.*—The Government of India desired that destitute displaced persons coming into the Indian Union should be given gratuitous relief in transit centres for the minimum period required and that all possible avenues should be explored for their permanent rehabilitation at the earliest opportunity. Until such time as the schemes for rehabilitation were not ready the destitute displaced persons were to be provided with remunerative work so as to obviate the loss of morale caused by continued gratuitous relief. In a Part 'C' State, however, little progress was made in the rehabilitation schemes owing to the delay in selecting, surveying, acquiring and reclaiming land. The expenditure on rehabilitation was only Rs. 2,26,785 while that on gratuitous relief went upto Rs. 57,18,433.

36. *Relief and Rehabilitation of displaced persons.*—The total expenditure on actual relief and rehabilitation of displaced persons in and outside camps during 1950-51 amounted to Rs. 10,67,50,230 and Rs. 2,60,46,398 respectively. Rs. 2,92,681 spent on educational and vocational training stand included in the former amount and Rs. 60,25,528 on various other miscellaneous rehabilitation schemes in the latter.

The expenditure on pay and allowances of officers and establishments at headquarters amounted to Rs. 18,36,852 and that at camps and other localities amounted to Rs. 42,00,033.

The percentage of expenditure on pay and allowances of officers and establishments to the expenditure on pure relief and rehabilitation was 4.5.

The capital cost of construction of townships in various States amounted to Rs. 3,41,91,285.

In addition, loans were also granted to the State Governments during the year 1950-51 in connection with their rehabilitation schemes as under :—

	Rs.
(i) Loans to Part A States	10,72,52,600
(ii) Loans to Part B States	1,93,03,000
(iii) Loans to Part C States (for rural and urban rehabilitation)	3,12,18,839

The progressive expenditure incurred during the period from 1947-48 (Post-partition) to 1950-51 is given below :—

(i) Expenditure on displaced persons :—	Rs.
(A) Custodian of Evacuee property	30,66,717
(B) Attached and Subordinate Offices	73,89,691
(C) Evacuation	4,44,80,342
(D) Relief	40,58,62,177
(E) Rehabilitation	6,49,95,500
(F) Recovery of abducted women and children	3,23,487
(ii) Expenditure at Headquarters (Ministry of Rehabilitation)	53,66,938
(iii) Capital cost of construction of township for displaced persons	5,75,25,265
TOTAL (i), (ii) and (iii)	58,90,10,117

(iv) Loans granted to State Governments for Rehabilitation schemes :—	Rs.
(a) Loans to Part A States	35,96,53,000
(b) Loans to Part B States	8,05,69,200
(c) Loans to Part C States for rural and urban rehabilitation	4,37,45,032
TOTAL (iv)	48,39,67,232

The recoveries of loans effected from the State Governments during and upto 1950-51 were as below :—

	During 1950-51	Upto 1950-51
(i) Part A States	80,92,518	3,02,97,414
(ii) Part B States	20,00,000	20,00,000
(iii) Part C States	4,55,102	5,21,467

37. *Stock Accounts.*—The annual stock verification for 1948-49 of a supplying office disclosed excesses and deficits to the extent of Rs. 1,34,580 and Rs. 1,36,533 respectively resulting in a net deficit of Rs. 1,953. The quantitative adjustment of the excess was sanctioned by the Head of the Department and that for the deficit by the Ministry. Similar heavy excesses and deficits occurred and were dealt with in the same manner in previous years too. This system is very defective and might conceivably conceal from view unauthorised removal of stores. A revised system of accounting was accordingly suggested by audit in April, 1947. Government have since accepted it in principle and asked the supplying office to implement it expeditiously.

Under the revised system of accounting, the ledgers will be posted from the issue vouchers prepared from the indents instead of the accepted indents as it entails delay in posting the ledgers. Another important change is the introduction of "Bin Cards" in the store to record promptly all receipts in or issues from the store. The revised system, when introduced, is expected to expedite the posting of the ledgers and also to reduce the chances of misposting.

38. *Maintenance of Personal Ledger Accounts.*—The local audit of the Personal Ledger Account of a certain establishment revealed that the reconciliation of the personal ledger account as per Cash Book and the Bank Pass Book with the sum total of the balances in the nominal ledgers had been outstanding for a long time. The closing balance on 31st March, 1950 as per Cash Book was Rs. 7,88,879 and as per Bank Pass Book Rs. 7,04,366. It was stated that reconciliation upto the year ending 31st March, 1946 had only been completed.

42. *Maintenance of Stock accounts and Log books.*—In an Employment Exchange petrol and lubricants worth Rs. 1,725 were purchased during the period 15th August, 1947 to 30th June, 1948. Since neither a stock account showing the receipt and consumption of these articles nor any log book indicating the mileage performed and the purpose of each journey was maintained, it was not possible for audit to verify whether the entire stock of petrol and lubricants was expended reasonably and on *bona fide* Government duty.

39. *Contributory Provident Fund Accounts of Work-charged Establishment.*—The Workmen's Contributory Provident Fund Accounts of the temporary work-charged Establishment in the Central Public Works Department have been in a very unsatisfactory condition since the inception of the Fund in 1945, due to the following reasons :—

- (i) The schedules and returns were not being prepared correctly and submitted to Audit in time ;
- (ii) Recoveries of subscriptions were being made without even applying for allotment of account numbers ;

- (iii) Intimation of confirmation of subscribers to permanent and pensionable posts was seldom given to audit to transfer their balances to the General Provident Fund ;
- (iv) Non-submission of schedules of deductions ;
- (v) Failure to quote account numbers or correct account numbers ;
- (vi) Failure to recover subscriptions regularly ;
- (vii) Omission to show the emoluments in the schedules for purposes of determining the Government contributions, etc.

In spite of repeated instructions to the Divisional Officers and reports to the Chief Engineer, C. P. W. D., these irregularities still persist with the result that a large number of fund accounts are lying incomplete, with consequent delay in making final payments. References made to the Divisional Officers do not always receive the required attention. As a result of personal contact with the local Divisions, there has lately been some improvement in the accounts, but the position is still far from satisfactory. A proposal has been made to Government to decentralise the accounts among the respective Divisional Officers of the Central P.W.D. where they should more appropriately remain. The proposal has been accepted by the Government in principle and their final orders are awaited.

40. *Delay in the final adjustment of book debits.*—On account of the purchase of machinery and stores on behalf of the Central Tractor Organisation during 1949-50 and 1950-51, debits for Rs. 223 lakhs and Rs. 205 lakhs respectively were raised against it. A portion of these debits was not accepted promptly, or within the years in which the expenditure was incurred. The result was that a large expenditure had to be kept under suspense. A sum of Rs. 23 lakhs was in Suspense at the end of March, 1952 and Rs. 1·8 lakhs at the end of January, 1954. The delay in acceptance by the indenting department has been attributed to the variations in prices, late receipt of invoices and shipping documents, insufficiency of details, verification of supplies, etc.

41. *Defective records.*—The registers of residential and non-residential buildings and those showing their allotment and the connected records were not properly maintained by a certain office for a number of years inspite of persistent audit objections communicated through objection memos, audit notes and demi-official letters to the head of the office. No useful and effective audit check could be applied as the records were defective.

42. *Abolition of Standing Finance Committee.*—In accordance with the Government of India late Finance Department Resolution No. 37-A dated 15-1-1924 on the Report of the Public Accounts Committee on the accounts for 1921-22, audit was responsible for bringing to notice in the Audit Report cases in which expenditure was incurred for purposes not approved of or specifically disapproved of by the Standing Finance Committee.

As the Standing Finance Committee at the Centre has since been abolished there would, in future, be no occasion to mention such cases in the Audit Report on the Appropriation Accounts.

43. *Remittance Accounts.*—The annual reporting by an accounting officer in U. K. to two accounting officers in India of the details of items outstanding in the Remittance Account between India and England fell into arrears during the war years and no analysis of the position under the sub-head Miscellaneous Civil (which is the most voluminous) was prepared for the years 1947-48—1951-52. Statements have now been sent to India which show that of the balance outstanding under all civil heads on 31st March, 1953 items totalling approximately £400,000 remained unadjusted on December, 1953.

The last detailed statement sent to India of the balances outstanding under defence sub-heads was that in respect of the year 1946-47. No statements of Balances have been prepared by the accounting officer in U. K. later than those for the year 1946-47 but this in itself affords no reason for delaying analysis of items in such schedules of the Account as have been received from India during the subsequent 5 years. Without such an analysis of these items, which are very numerous, it is impossible to identify the sums, possibly large, reported for recovery in the United Kingdom which have not been realised.

44. *Local Audit and Inspections.*—During the year 1950-51, the accounts of 297 Civil Offices, 73 Public Works Divisions and 219 other formations like Relief Camps, Offices of the Custodian of Evacuee Property, etc. were test audited locally. Grants-in-aid to local bodies were audited in the course of examination of their accounts.

The accounts of 337 Civil Offices and 11 Public Works Divisions were test audited locally through the agency of other audit officers.

Serious irregularities noticed during local audit were reported to Government and some of them are also detailed below :—

A.—CIVIL OFFICES:—

(a) *Cash.*—(i) Cash Books were not maintained in some offices and were defective in many others.

(ii) Cash Balances were not verified by the Head of the office at the end of the month in some cases.

(iii) Absence of proper arrangements for safe custody of Cash, unnecessary retention of money in hand, and omission to take security deposit from persons handling cash, were common features.

(iv) Acquittances were not on record for the disbursements of pay and travelling allowances.

(v) The amounts drawn from the treasury and payments made were recorded in the cash book long after the dates of occurrence and payments were made even prior to obtaining the pay orders on the vouchers.

(vi) Proper receipts for the amounts received in Government account were not issued to the tenderer.

(vii) There was delay in depositing receipts into the treasury and the remittances to treasuries were not verified monthly.

(viii) Large amounts were generally drawn from the treasury as advance though not required for immediate disbursement.

(ix) Advances of travelling allowance were granted to temporary Government servants without any security and proper records to watch their adjustment.

(x) Cash balance in the hands of subordinates was much in excess of the security furnished by them.

(b) *Receipts and Expenditure kept outside Public Account.*—(i) Receipts and payments of one Dairy-cum-Thathi Farm were kept in a personal account with a private bank and were thus out of Government Account.

(ii) Balances of various funds and collections of motor vehicle funds and undischursed pay and allowances were kept in a private bank.

(c) *Drawal of money to avoid lapse of grant.*—(i) Large sums of money were withdrawn at the close of the year to avoid lapse of grant.

(ii) Furniture, though not urgently required, was purchased towards the close of the year and kept with the firm from April to July, 1949 for which rent was paid.

(d) *Store Accounts.*—Accounts of stores and dead stock articles were not maintained and physical verification was also not carried out.

(e) *Payments to Refugees.*—Irregularities in the payment of Cash doles to refugees coupled with double payments and unauthorised transfer of dole cards were noticed.

(f) *Staff Cars.*—Log books were not properly maintained and a number of irregularities were noticed in the use of staff cars.

(g) *Civil Supplies Department.*—Advances to clearing contractors and balances of large advances lying with Mamlatdars and Agents in connection with procurement of foodgrains were not recovered. The stores accounts of foodgrains maintained by the contractors in a certain State disclosed heavy shortages.

(h) *Purchase or Disposal of Stores.*—Stores were purchased without inviting quotations. Similarly damaged paper was disposed of, without calling for tenders and in separate lots to avoid sanction of higher authority.

B.—PUBLIC WORKS DIVISIONS :—

- (i) Entries in the Cash Books were not properly checked according to rules by the Disbursing Officers.
- (ii) Works were not completed by the dates stipulated in the agreements, and extension of time allowed was not strictly covered by the terms of contracts, and no penalty was realised for delay in completion.
- (iii) Tenders other than the lowest were accepted without assigning any reasons and works were awarded by negotiation without prior approval of the competent authority.
- (iv) Accounts of works were incomplete and not kept by prescribed sub-heads to enable Divisional Officers to exercise adequate financial control over progressive costs *vis a vis* the actual progress.
- (v) Materials-at-site accounts were incomplete, indicating laxity of control-over issue of materials and verification of balances.
- (vi) Materials supplied to contractors were debited late to their ledgers. Incorrect debits led to short recoveries from their final bills.
- (vii) Materials were purchased in excess of immediate requirement resulting in deterioration and consequent loss to Government.
- (viii) Records of assessment and recovery of rent were defective and incomplete, and there were heavy arrears awaiting recovery.
- (ix) Log books of lorries were not properly kept and the purpose of journey was not recorded.
- (x) Adequate security was not taken from contractors and from cashiers and store keepers.
- (xi) Stock, Tools and Plant and Furniture Accounts were heavily in arrears and various returns were not submitted to audit on due dates. Register of lands and buildings was not brought up to date, the annual review of Measurement Books was not completed, heavy balances under Suspense were not cleared, Sub-Divisions were not inspected by the Divisional Officers and Accountants and fixation of pay of Work-charged establishment in the prescribed scales was also not finalised.
- (xii) There was no proper system of Accounts in an Aerodrome nor were adequate departmental rules framed for the guidance of the officers who handled large quantities of valuable stores and realised heavy revenue receipts.
45. *Habitual irregularities.*—Important irregularities of a general nature noticed in the accounts of some of the Ministries and their subordinate offices from year to year, the continuance of which is likely to lead to losses, frauds, etc., are detailed below.

MINISTRY OF STATES

Payment of advances to contractors.—Advance payments made to contractors were not adjusted in full in several cases in the running bills paid to them on the basis of measurements.

Failure to debit charges recoverable to the contractor's Ledger.—Cost of materials purchased and supplied to contractors is not simultaneously debited to their ledgers.

Charging pay and allowances to Miscellaneous Public Works Advances.—Pay and allowances of officers and staff which should be drawn on separate bills from the treasury have been disbursed from the drawing account of the Executive Engineers and charged to Miscellaneous Public Works Advances.

MINISTRY OF WORKS, HOUSING AND SUPPLY

Rent Accounts.—Standard rents were not revised subsequent to additions and alterations to buildings and as a result, recoveries were made at old rates which were obviously lower.

Measurement Books.—The prescribed test check of the recorded measurements by the superior officers was not applied and there was the risk of omission to detect incorrect measurements by subordinates.

46. *Disposal of Inspection Reports.*—Important financial irregularities and defects in procedure in the maintenance of initial accounts discovered during local audit or inspection are communicated to the controlling officers through Inspection Reports for necessary action. The number of Reports outstanding is as below :—

Name of Ministry	1944-45	1945-46	1946-47	1947-48	1948-49	1949-50	1950-51	Total
Finance	8	6	10	11	17	52
Works, Housing and Supply	1	2	23	30	48	80	107	291
Health	4	4	4	12
Commerce and Industry	4	1	4	3	14	26	52
Rehabilitation	142	315	431	888
Food and Agriculture	16	46	42	104
Defence	1	...	...	1
Labour	1	7	9	22	35	54	128
Information and Broadcasting	1	...	1	6	17	25
Education	2	4	8	14
Home Affairs	1	...	..	1
Home Affairs	1	2	3	6
Natural Resources and Scientific Research (Now Ministry of Irrigation and Power)
States	1	...	1	4	6
States	1	2	10	15	29
External Affairs	1	...	1	6	5	12
External Affairs	1	6	5	12
Communications	2	7	12	9	32
Transport	1	1	...	...	1	...	1
Transport	1	1	2	7	12	9	32
Parliament Secretariat	1	...	1
Parliament Secretariat	1	...	1
Partition Secretariat	1	...	1
TOTAL	1	8	42	53	261	548	742	1,655

47. Clearance of Objections.—Objections raised in audit are required to be cleared up for consideration by the disbursing officers without loss of time so that the irregularities are forthwith stopped and past ones promptly rectified to the reasonable satisfaction of audit either by requisite sanction or production of explanations, vouchers, countersigned bills, stamped acknowledgments or other documents. The total number and money value of the objections relating to the years 1942-43 to 1950-51 which are outstanding are indicated below:—

Name of Ministry	1942-43		1943-44		Total	1945-46		1946-47		1947-48		1948-49		1949-50		1950-51		Total	
	No. of Items	Amount	No. of Items	Amount		No. of Items	Amount	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount	No. of Items	Amount
Finance	495	19	161	24	846	216	16,817	552	78,642	661	2,34,702	1,023	53,24,640	2,504	56,57,303
Works, Housing and Supply	9	54,009	137	91	3,43,757	45	1,22,397	1,979	1,04,43,079	4,127	1,82,15,265	5,187	3,49,99,524	7,538	12,16,60,854	19,005	18,60,03,022
Home Affairs	3	..	43	1,36,969	203	1,63,558	249	3,00,527
Commerce and Industry	2	490	150	12	18,404	7	10,031	11	11,810	7	7,085	11	1,554	98	38,223	156	96,747
Health	1	..	3	..	4	..	36	27,73,555	485	73,40,156	529	1,01,13,711	
Information and Broadcasting	1	75	8	648	10	9,141	24	5,618	144	1,75,209	332	20,25,148	519	22,15,839
External Affairs	2	827	..	..	156	8	18,624	7	3,109	62	71,173	239	2,47,873	719	26,59,711	930	11,05,757	1,972	41,21,230
Food and Agriculture	4	22,123	52	4,39,466	193	2,25,104	378	40,20,384	627	47,07,077	
Education	16	1,32,197	62	90,527	56	10,75,516	134	12,98,240	
Labour	2	7,628	278	7	1,680	13	7,552	15	8,430	84	1,32,626	95	3,24,971	286	1,09,399	522	6,25,564
Rehabilitation	21	1,46,633	28	61,20,455	569	1,04,14,484	618	1,66,81,572	
Communications	4	615	..	..	50	13,679	31	1,113	134	1,55,630	231	45,909	450	1,16,946
Defence	3	9,610	13	4	5,382	105	16,78,255	25	2,89,858	9	7,358	8	16,57,863	4	3,084	159	36,57,823
States	24	21,396	8	1,616	14	2,377	14	2,243	369	2,76,641	1,304	26,51,278	1,733	29,55,551
Transport	3	1,281	6	3,493	1	96	8	1,709	14	4,489	125	13,54,769	157	13,65,837
Natural Resources and Scientific Research. (Now Ministry of Irrigation and Power)	8	8,027	6	1,6,646	50	42,296	64	1,56,969	
Partition Secretariat	1	..	1	456	..	..	2	456	
Parliament Secretariat	2	..	..	..	2	..	
Union Public Service Commission	2	15	2	15	
TOTAL	2	827	16	71,737	72	173	4,11,375	224	18,27,947	2,390	1,08,88,583	5,200	1,94,25,855	7,713	4,97,44,006	13,614	15,73,75,470	29,404	23,99,74,429

PART I—AUDIT REPORT

48. *Audit of Customs Revenue*.—The only revenue department whose receipts are audited is the Customs Department. Under the present arrangement, a continuous test audit is applied by the Maritime Accountants General to the receipts of the main Customs Houses at Calcutta, Bombay and Madras and of the outports at Madras and ports in the State of Travancore and Cochin and the airports at Bombay and Calcutta. The results of the audit conducted during the year 1950-51 were satisfactory. As usual, the main feature of this audit is the examination of tariff classification and assessment of goods and of the refunds, draw backs and other concessions granted under executive or statutory orders. A number of tariff rulings were issued as a result of suggestions from Audit.

49. *Secret Service Expenditure*.—The accounts of expenditure treated under the orders of Government as on Secret Service are not subject to scrutiny by audit authorities. Administrative officers furnish an annual certificate of check to the audit officers in a prescribed form. All the audit certificates for the year under report were duly received and accepted as in order by the audit officers concerned. Any re-appropriation from or to the budget allotment for Secret Service Expenditure requires the sanction of the Ministry of Finance.

The total amount spent during the year 1950-51 on Secret Service and admitted in audit without vouchers, on the basis of certificates from Administrative officers was Rs. 6,72,475.

50. *Charges in England—Other Charges*.—Estimates for the supply of publications usually included under the sub-head "Other Charges" are generally based on forecasts received from India, and are subsequently modified on the basis of the progress of actual expenditure, but due to present uncertainty of supply an accurate estimate is seldom possible.

51. *Loss or Gain by Exchange*.—In accordance with the practice followed in previous years, no explanation of the loss or gain by exchange has, in general, been recorded in the appropriation accounts. This sub-head is required only when the rate of exchange departs from 1s. 6d. the rupee and as the rate of exchange is difficult to forecast in advance, no original provision is usually made against the sub-head. Actually the average rate for the year was 1s. 5·97d. per rupee so that, in general, there has been a small loss by exchange which is shown as expenditure against this sub-head in the accounts of the several grants.

52. *Points outstanding from previous reports*.—The Parliament Secretariat will presumably, as usual, present to the Committee on Public Accounts a statement showing the action taken or proposed to be taken on various outstanding points raised by previous Committees.

An important point of the Audit Report, 1949 (Pre-partition Accounts) which is outstanding is mentioned below :—

MINISTRY OF COMMERCE AND INDUSTRY

Out of 653 bales of cotton lying in the Bahawalpur State referred to in paragraph 5 of the Audit Report, 1949 (pre-partition), 400 bales have since been delivered by the Government of Pakistan to the High Commissioner for India in Pakistan and the remaining 253 bales have been reported as not traceable. The matter is stated to be under correspondence with the Government of Pakistan. The Government of India have written off Rs. 2,09,918, the cost of the missing bales (837) as they could not recover it from the Government of Pakistan.

P. C. PADHI,

Accountant General, Central Revenues.

NEW DELHI ;

The 17-5-54 }

Countersigned.

V. NARAHARI RAO,

Comptroller and Auditor General of India.

NEW DELHI ;

The 17-5-54 }

APPENDIX I.

Memorandum dated 23rd December 1953 by Shri V. Narahari Rao Comptroller and Auditor General containing his views and conclusion on certain outstanding matters pertaining to Hirakud as a result of his visit to the Project in July, 1953.

At the end of March last, I was present by invitation at a meeting at which the Ministers for Finance and Irrigation & Power along with senior officers of the Finance and Irrigation Ministries and the Chairman of the Central Water & Power Commission and the Chief Engineer, Hirakud, were present for discussing the report of the Public Accounts Committee on the Hirakud Project. The Ministers were in favour of accepting the majority of the recommendations of the Public Accounts Committee. Besides the Finance Minister, I pointed out that the Hirakud system of accounts did not involve any departure in principles from what had been laid down in the Public Works Department and Public Works Accounts Codes, and that the establishment of a Central Chief Accounts Office locally was also in accord with what has been done in the case of other large Projects in the past. The separation of this office from Audit and the establishment of a separate local audit office were improvements on past arrangements. The conference readily agreed that under the Constitution, all questions relating to the form of accounts and allied matters were to be regulated by the Comptroller and Auditor General with the approval of the President and it was unfortunate that an inquiry into the accounting system was included as a part of the terms of reference of the McKelvie Committee which consisted of a majority of Engineers. At this stage in view of the detailed examination conducted by the Public Accounts Committee the majority of whose recommendations were being accepted at once by the Government, it was agreed by the Ministers that I should be requested to pay an early visit to the project area so that I might ascertain on the spot the practical difficulties experienced by the Engineers as well as by the Accounts Officers and offer specific advice and suggestions. The Government had told Parliament that my advice would be accepted. It was also agreed by the Ministers that they would be quite content to abide by whatever advice was tendered to Government by the Comptroller and Auditor General. It was further decided that the Project Engineers should be asked to follow rigorously the prescribed rules and instructions in regard to accounting and financial control. No departure from these rules and instructions would be allowed on the plea that some authority has sought a modification.

2. I visited Hirakud on the 24th and 25th July last and spent a considerable time in visiting the Works, Stores, etc., and discussed the practical difficulties experienced by the officers. At these meetings the Chairman of the Central Water & Power Commission, the Chief Engineer, Hirakud Project, the Accountant General, Orissa, the Financial Adviser and Chief Accounts Officer, Mr. Sivaraman, Member of the Board of Revenue to the Orissa Government, and

Mr. Khanna, Deputy Secretary of the Ministry of Irrigation and Power were present. On the second day, the Deputy Minister for Irrigation, Mr. Hathi was also present all the time.

3. A summary of the discussions and conclusions reached at the meetings held at Hirakud was prepared on the spot and a copy of the relevant proceedings have already been sent to the Irrigation Ministry. There was complete agreement on the matters discussed and suggestions. I shall briefly re-state them in this Memorandum.

4. *Condition of Store Accounts*.—As I informed the local authorities I did not propose to go into the causes which led to the failure to maintain correct Stores Accounts from the inception of the Project. This failure had led to difficulties in reconciling the expenditure as well as ground balances. That question and the allocation of responsibilities were being dealt with separately by Government, Audit and the Public Accounts Committee. I was concerned during this visit to see how the evil could be arrested, the mass of arrears cleared up, the accounts maintained properly in future and the danger of all kinds of losses removed. I have suggested that ground balances which have been brought on to Bin-Cards should be checked completely and without delay by Stock Verification Officials. It was explained that shortage of staff was the main reason for the non-completion of verification of the ground balances. I was astonished that there were only two Stock Verification Officers for the verification of the enormous quantities of stores. This was most unsatisfactory in view of the history of the Store Accounts. I have suggested that the Chief Engineer should be delegated powers to sanction posts so that he might engage the requisite staff without delay resulting from having to go to the Government of India each time for sanction. I am of the opinion that there is to some extent lack of balance in that the Chief Engineer in charge of such a colossal Project has little or no power in certain comparatively minor matters.

5. *Arrears in Store Accounts*.—Large quantities of Stores are outstanding in Suspense Accounts. I have emphasised that this should not be allowed to continue outside the Accounts of Works themselves and that the issue of Stores should be allocated to Works from the initial records available. Meticulous accuracy of allocation need not be insisted upon provided the proof of issue and utilisation is available. Major items of Stores should first be analysed and the margin of difference reduced as far as possible. If there is evidence that certain Stores have gone to a certain Division, *e.g.*, the accepted invoice or accepted gate pass, the Stores should be charged to the Works concerned after obtaining such other evidence as may be reasonable to show that the stores have been utilised for the work. In the absence of reasonable evidence the matter should be investigated further as to what happened to the stores. A special experienced Accounts Officer should be employed on this work. Although it is the business of the

Divisional Officers to maintain the initial accounts of the Stores as well as the Works accounts, I gathered that the Chief Accounts Officer had been recently assisting the Divisions to clear off the arrears of the Store Accounts. I suggested that the Chief Accounts Officer should endeavour to get more Accountants and assist in overcoming the arrears. I emphasised that his was an urgent matter. The arrears of Store Accounts have led to Works Accounts being also in arrears.

I have suggested to the Chief Accounts Officer that he might kindly give the Chief Engineer the maximum help in this matter. I have also requested the Accountant General on the spot to spare a few hands informally from the Resident Audit Office to assist the local Administration in clearing the arrears. It is absolutely necessary to get the Store Accounts in order. The staff at both ends—Divisions and the Chief Accounts Office—should be strengthened.

In this connection, I have observed that the delay in transferring the administrative control over the Divisional Accountants to the Chief Accounts Officer which should have been done right from the inception of the Project was a contributory cause of the existing state of affairs.

6. *Recruitment of Staff* :—The Chief Engineer explained his difficulties in recruiting Ministerial staff. One of his difficulties was that although he could obtain experienced and qualified men from other Projects which have just completed or nearing completion he had to go to the Employment Exchange for recruitment and waste a lot of time. We all agreed that persons with the technical knowledge of the Public Works Department, Public Works Accounts, Rules and Procedure could not obviously be obtained in the numbers required, through the Employment Exchange in a State like Orissa. While every effort should be made to employ local talent, I feel that unimaginative obstacles such as these must be most trying to the authorities responsible for creating and building up rapidly an organisation which is to deal expeditiously with the construction of an enormous Project of this kind. I suggested to the Chairman, Central Water & Power Commission, and the representatives of the Irrigation & Power Ministry that steps should be taken to remove such obstacles. Further, the procedure for the employment of the superannuated men who are fit and efficient and whose employment in the absence of younger men is an unavoidable necessity, should not be made too cumbrous and to militate against quick action by the Chief Engineer. So long as the Ministerial staff has not attained the age of 60 years, the Chief Engineer should have the power to appoint and retain them subject to continued efficiency. With gross shortage of technical manpower and increasing expenditure on the Five Year Plan, these impediments ought to go.

7. *Payment to Divisions situated away from Headquarters*.—It was stated that except the investigation Divisions there were no Divisions making large payment outside headquarters. When the investigation Divisions develop into full fledged Divisions they may be allowed to make payments themselves. The matter may be allowed to be settled between the Chief Engineer and the Financial Adviser and the Finance Ministry.

8. *Issue of cheques to contractors.*—I stated that it was not desirable that the Chief Accounts Officer should hand over cheques at his counter to any contractor or other persons. All cheques should be sent to the respective Divisional or other officers with a list indicating the cheque number and amount of the cheque.

I also consider that the contractors' bills should, at the time of presentation, contain a complete acknowledgment of payment as prescribed in the Code rules but without stamp and that a stamped receipt, in a form which should be prescribed for the purpose, should be obtained at the time of the delivery of the cheque by the Divisional Officer to the contractor and that this should be forwarded to the Chief Accounts Officer. Till the stamped receipt is received the amount of the cheque should be kept under objection. It was also considered that this procedure should apply in regard to cheques to be sent to firms outside Hiraikud also. Incidentally, this procedure meets one of the requirements of the Engineers, viz., an up-to-date record of payments actually made.

9. *Muster Rolls.*—The Muster Rolls after payment are sent to the Chief Accounts Officer and remain there. It was stated that this caused inconvenience at times to the Executive Engineer. I suggested that in order that the Executive Engineer may have adequate record of the Muster Rolls, he should maintain a register showing:—

1. Name of work.
2. Muster Roll No.
3. Period to which it relates.
4. Amount.

I expressed surprise that so simple a matter had been brought before me instead of being solved locally.

10. *Central Stores.*—Stores were reported to be issued to Divisions and not to Works. It was considered most essential that the name of the work should be specified clearly on the indent and the materials issued should, as far as possible, be taken on to the Materials-at-Site account of works. It should be very rarely that stores should be issued for stock in a Division. But where such issue becomes necessary a small limit up to which stores can be kept in stock depending on the size and requirements of the Division should be prescribed.

It was also felt that adjustments through Exchange Accounts should all be done by the Central Stores Division only and even in regard to supply of stock on cash payment the purchases should be canalised through the Stores Division. That is, all store purchases should preferably be centralised.

11. *Workshop debits.*—Difficulties experienced in inter-divisional adjustments relate mainly to (a) stores and (b) workshop supplies. Strict instructions will have to be given to receiving Divisions to be prompt in verification of such receipts and acceptance of debits in order that accounts may not be dislocated. Furthermore,

a time limit should be prescribed within which, if acknowledgment is not received or debits accepted, the heads of the Stores and Workshop Divisions should report the matter simultaneously to the Chief Engineer and the Financial Adviser and Chief Accounts Officer.

12. *Periodical meetings to solve difficulties.*—All difficulties should be solved through personal contacts. The Chief Engineer and the Chief Accounts Officer should have regular meetings in order to discuss mutual difficulties and solve them as far as possible.

13. *Grave difficulties all-round resulting from delay in sanction to Project Estimates in accordance with recognised procedure.*—In view of the controversy that had arisen over the financial and accounting procedure of the Project and the criticism regarding the execution of Works without sanctioned estimates, etc., I discussed at length with the local authorities the genesis of the Project, and the reason which led the Government of India in 1948 to depart from the orthodox procedure of commencing works only after a sufficiently detailed project estimate had been sanctioned both administratively and financially, leaving it to the Chief Engineer to accord technical sanction to portions of the Project as and when necessary and to proceed thereupon with the works. As Mr. Khosla's Project Report of 1947 was nothing like a detailed project estimate, there was no financial sanction for the project and pending the preparation of a detailed project estimate and sanction to it, it was devised that the Chief Engineer might sanction estimates piecemeal up to Rs. 2 Lakhs at a time, after they were vetted by the Financial Adviser and a certificate was given by the Financial Adviser that the outlay (including previous sanctions) was within the limits provided in Mr. Khosla's Project Report. Considering that the figures in Mr. Khosla's Project Report were large lump sums of the nature of "guesstimates" and not estimates, they provided no yardstick for the Financial Adviser. This arrangement was intended purely to prevent loss of time in the commencement of the works and was not meant to be a permanent one. Apart from its being very unsatisfactory to continue this *ad hoc* arrangement indefinitely, this was a fruitful source of misunderstanding between the Chief Engineer and the Financial Adviser. For in normal projects commenced after Government sanction to the project as a whole, the Chief Engineer is entirely free within the limits of project estimate as a whole to accord technical sanction and proceed with the works. It is the *ad hoc* arrangement which at times gave rise to difficulties if the piecemeal estimate which became the basis of financial authority, did not provide for some contingency or work-charged establishment however petty. The Engineers wrongly blamed the Financial Adviser instead of the system, for the indefinite continuance of which, the delay in sanction to the entire detailed project and the automatic introduction of the usual procedure was the cause. I was surprised to learn that even now expenditure sanction to the project as a whole had not been accorded, even though it had been stated to be before the Government and the Control Board for over a year. I urged that sanction to the project should be accorded without delay and the Chief Engineer should be enabled to proceed

in the normal manner. When this stage is reached, the Chief Accounts Officer need not function as a Financial Adviser, that is, his concurrence to estimates sanctioned by the Chief Engineer would not be necessary.

Incidentally, the *ad hoc* procedure was a financial one and not an accounts matter. Its inclusion in the Manual of Accounting Procedure led the Engineers including the Mc Kelvie Committee mistakenly criticise the accounting procedure. I had already suggested that the description of the Manual should be changed. I am quite satisfied that the indefinite continuance of *ad hoc* arrangements for the execution of works without a complete Project Estimate was the cause of most of the misunderstandings not to speak of financial irregularities and even misuse of authority in the cases noticed by the Public Accounts Committee and that there was nothing wrong whatsoever in the system of accounts which had been made a red-herring. The present Chief Engineer, who had been in charge of the Tungabhadra Project did not expect any difficulty in conforming to the existing accounting arrangements in Hirakud in the future.

14. *Appointment of a high-powered Administrator.*—If for any reason Government did not accept the Public Accounts Committee's proposal for a full-time high-powered Administrator, I have urged that the Control Board should be made to function more effectively. I stated that if it was true that the Board had no powers beyond making recommendations, it only added to red-tapism and delays. The Control Board should have adequate powers of its own, if delays and difficulties were to be avoided.

15. *Relationship between the Financial Adviser and Chief Accounts Officer and the Chief Engineer, Hirakud Dam Project.*—This matter was discussed at length on the 24th July at the meeting with the Chairman, Central Water and Power Commission, the Chief Engineer, Hirakud, etc., and again on the 25th in the presence of the Deputy Minister—Sri Jai Sukhlal Hathi. The Conference agreed with me that once the Project Estimate had received expenditure sanction, one of the most fruitful sources of differences between the Chief Engineer and the Financial Adviser and Chief Accounts Officer would more or less disappear, because the Chief Engineer will be wholly competent to accord technical sanction and proceed with the works without the intervention of the Financial Adviser.

16. *Responsibility for Accounts.*—As regards the responsibility for the maintenance of the accounts, the Hirakud system does not involve any departure in principle from what has been laid down in the Public Works Accounts Codes. The responsibility for the maintenance of the initial accounts of the various works, Abstracts, Registers, etc., remains the same as in any other Project Public Works Division. The Chief Accounts Officer is responsible for the compilation of the entire accounts of the Project from the accounts submitted by the Divisions, after checking up with his own cash and other accounts in his office. In this respect, the Chief Accounts Officer performs the functions performed by the Central Office of the Accountant General with the additional function of pre-checking the bills before

payment. Under the system in force in Hirkud, the responsibility of a Divisional Officer is slightly less than in a normal Public Works Division. Clashes between Divisional Officers and the Chief Accounts Officer should not normally arise under this system. The Chief Accounts Officer is expected to inspect the Accounts Divisions in the same manner as an Accountant General or his assistant inspects a Public Works Division. The Superintending Engineers are also expected in their inspections to see that the accounts are in order and particularly to see that the objections of the Chief Accounts Officer are not serious and that they are promptly attended to. This applies equally to objections raised by Audit. The Chief Engineer will endeavour as in all other States to keep himself generally informed that the Divisional Accounts are up-to-date and are in order, and that the more important financial irregularities and objections which come to his notice, either through the administration or through the Chief Accounts Officer receive all due attention. In this matter, the utmost co-operation and team work is necessary between the Chief Accounts Officer and the entire administrative staff headed by the Chief Engineer. All these are only obvious but nevertheless bear repetition.

17. *Procedure proposed in cases of the Chief Accounts Officer refusing to pass bills for payment.*—Frictions that might arise on account of the refusal of the Chief Accounts Officer to pass any bill for payment were discussed. No responsible Chief Accounts Officer can ordinarily refuse a payment altogether without good reason. There must always be very good reasons for refusing a payment or for asking for further elucidation of the claim before it is admitted. In the case of a difference which cannot be resolved between the Executive Engineer and the Chief Accounts Officer, the Executive Engineer may apply to the Superintending Engineer for a remedy, and if in the circumstances of the case, the Superintending Engineer considers that the payment ought to be made, he would doubtless convince the Chief Accounts Officer of the correctness of making the payment, or he would give a special undertaking accepting responsibility for the payment. If the Superintending Engineer cannot settle the matter, it can be taken up with the Chief Engineer for discussion with the Chief Accounts Officer. These are matters which must be left to the discretion of the Chief Engineer. The Chief Accounts Officer to remove all avoidable difficulties and delays by his own will and all reasonable co-operation and it will be entirely wrong and impracticable to attempt to regulate such matters by any positive rules.

18. *Suggestions in regard to the procedure for dealing with cases of disagreement between the Financial Adviser and Chief Accounts Officer and the local Authorities regarding objectionable or irregular expenditure or other matters.*—The desirability or otherwise of the existing convention whereby the Financial Adviser and Chief Accounts Officer has a right of reporting direct to the Ministry of Finance, cases of disagreement with the local authorities, or of objectionable or irregular expenditure was discussed. At present he reports direct to the Finance Ministry under the

standing orders of the Finance Ministry. The following suggestions which I put forward, after listening to various views, were welcomed :—

(i) The Financial Adviser and Chief Accounts Officer is not Financial Adviser and Chief Accounts Officer to the Chief Engineer, but Financial Adviser and Chief Accounts Officer to the Project as a whole, and there is nothing to preclude discussions or correspondence between him and the Irrigation Ministry under which the Chief Engineer works. In regard to cases which the Financial Adviser and Chief Accounts Officer feels that they should be brought to the notice of the Government, he should prepare a full statement of the facts of the case and his views or objections, giving the Chief Engineer an opportunity to accept or correct the facts so that an agreed statement of the facts may be given. As to the conclusions or opinions where there is a difference, the views of both officers should be clearly stated. If within a period of 10 days of a draft being shown, the Chief Engineer does not offer comments, the Financial Adviser and Chief Accounts Officer should be free to proceed further.

(ii) In the first instance, it is not only desirable but essential that the Financial Adviser and Chief Accounts Officer should bring his difficulties and objections to the notice of the Administrative Department concerned namely, the Irrigation Ministry, so that they may take all necessary action. It is only in case he is not satisfied with the action taken by the Administrative Ministry that it should at all be necessary for him to report the matter further to Finance so that it might be taken up by that Ministry at Government level. This procedure is more satisfactory both from psychological and practical points of view.

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