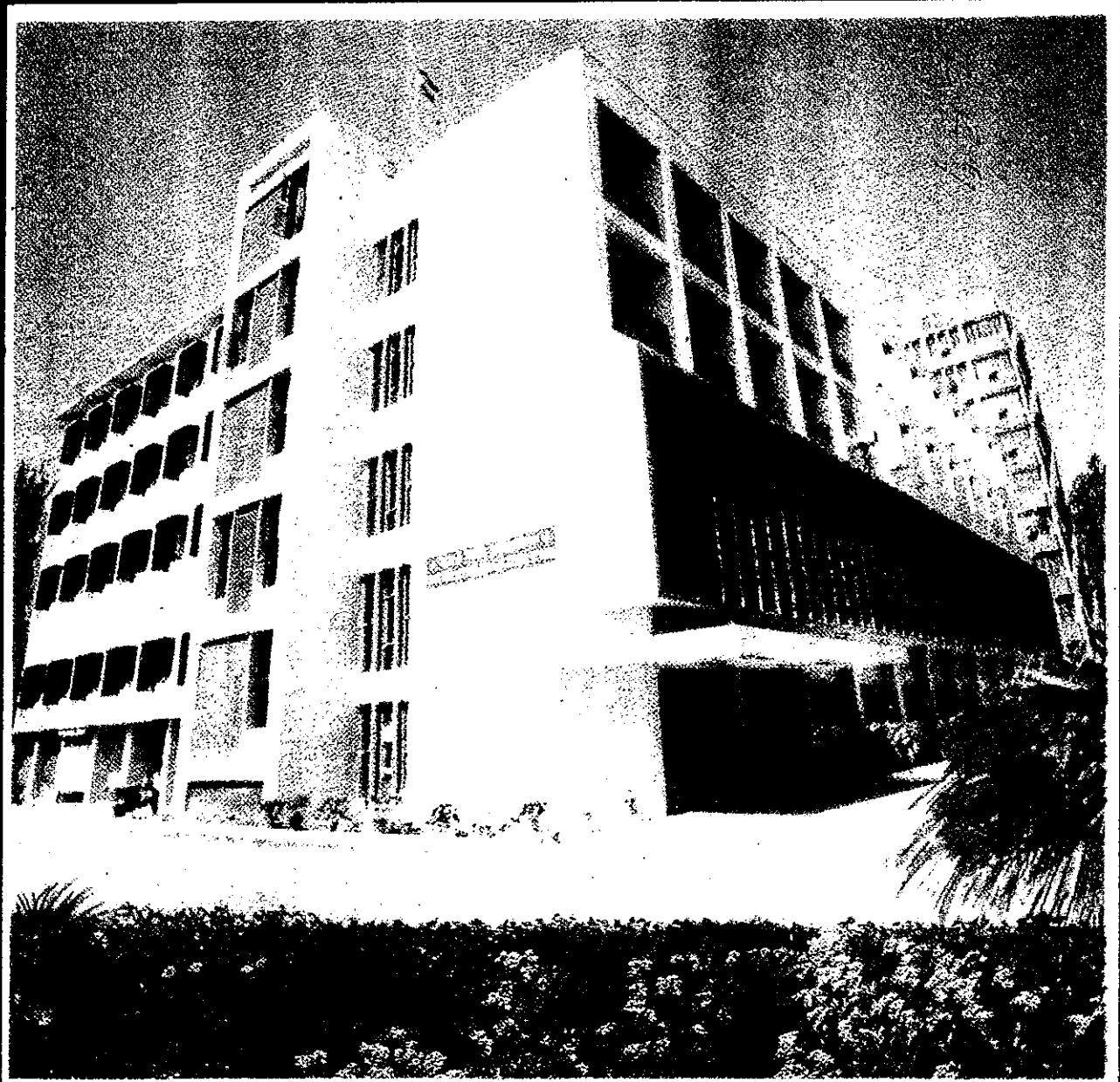


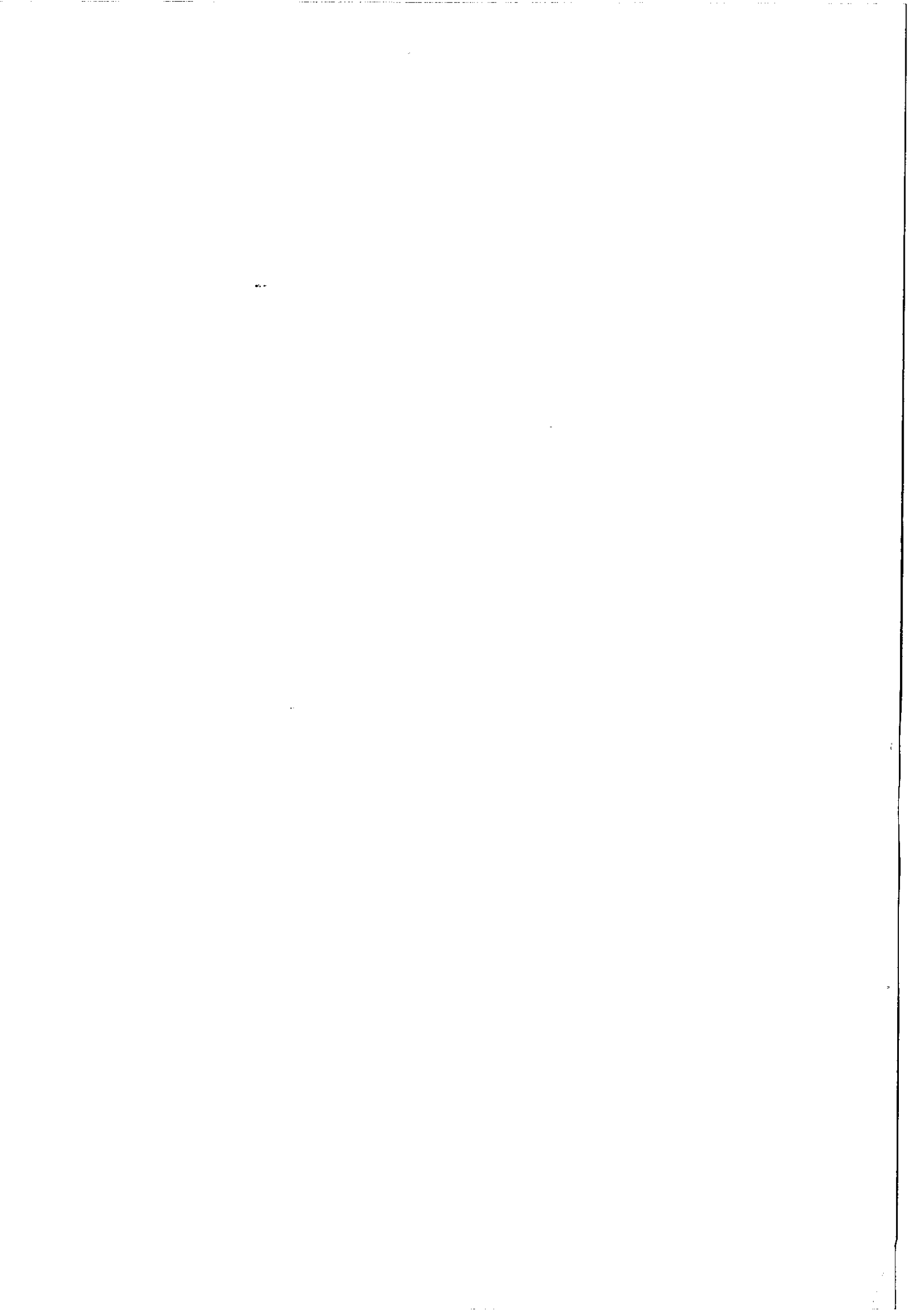
THE COMPTROLLER & AUDITOR GENERAL OF INDIA

ANALYTICAL HISTORY

1947-1989

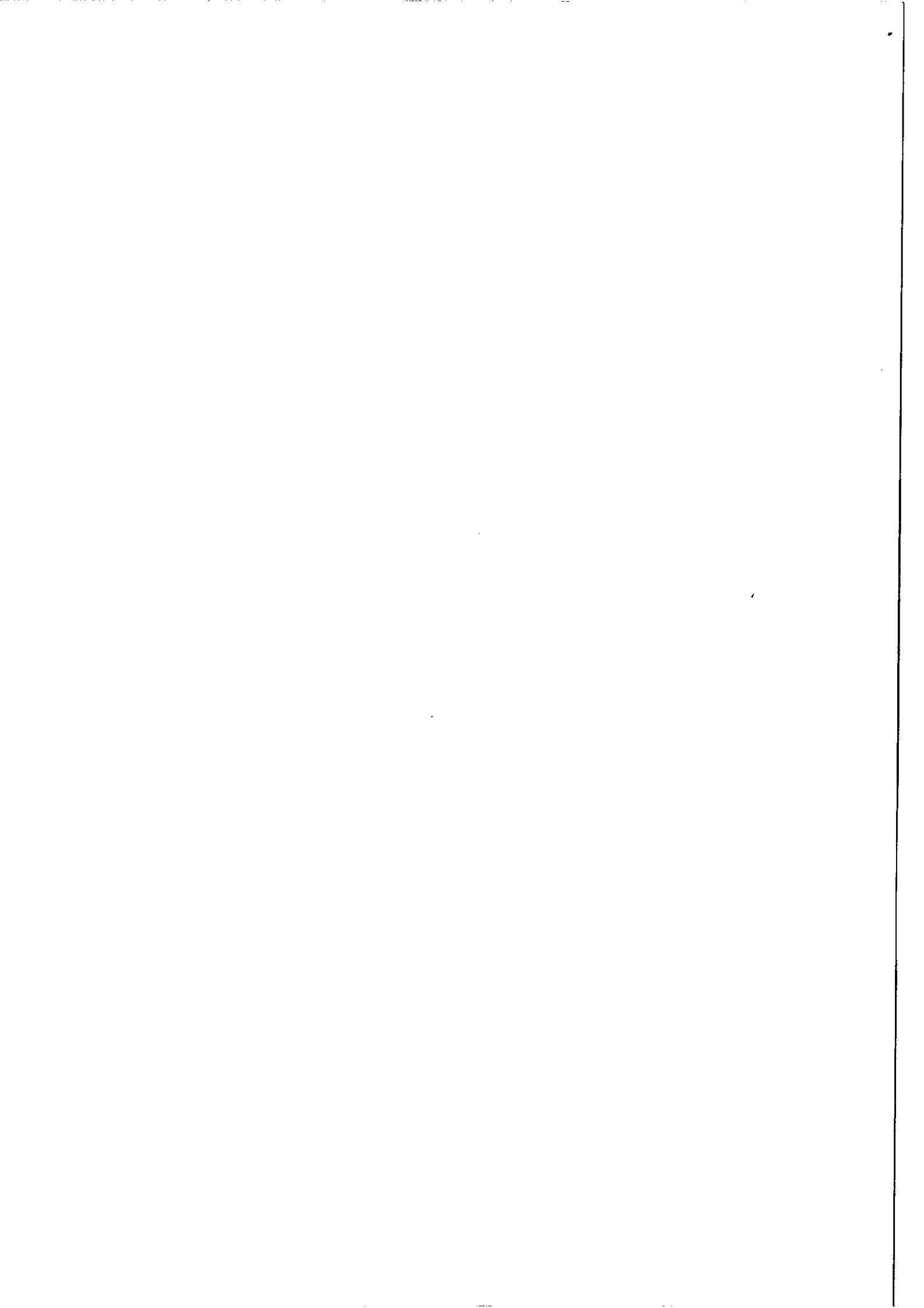


R K CHANDRASEKHARAN



THE
COMPTROLLER &
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B.K. CHANDRASEKHARAN

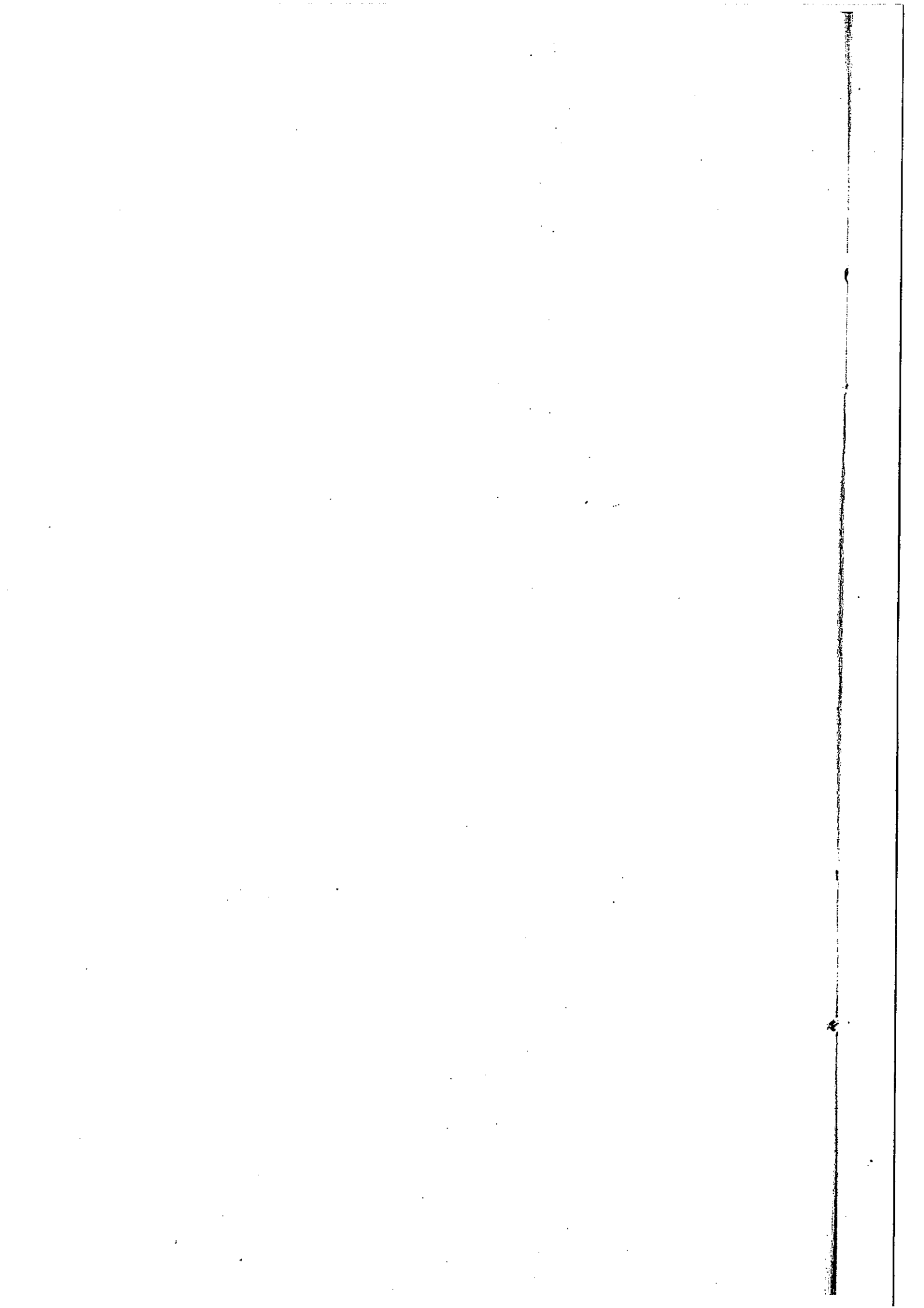


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(VOL. I)



THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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R. K. CHANDRASEKHARAN

Foreword : T. N. CHATURVEDI

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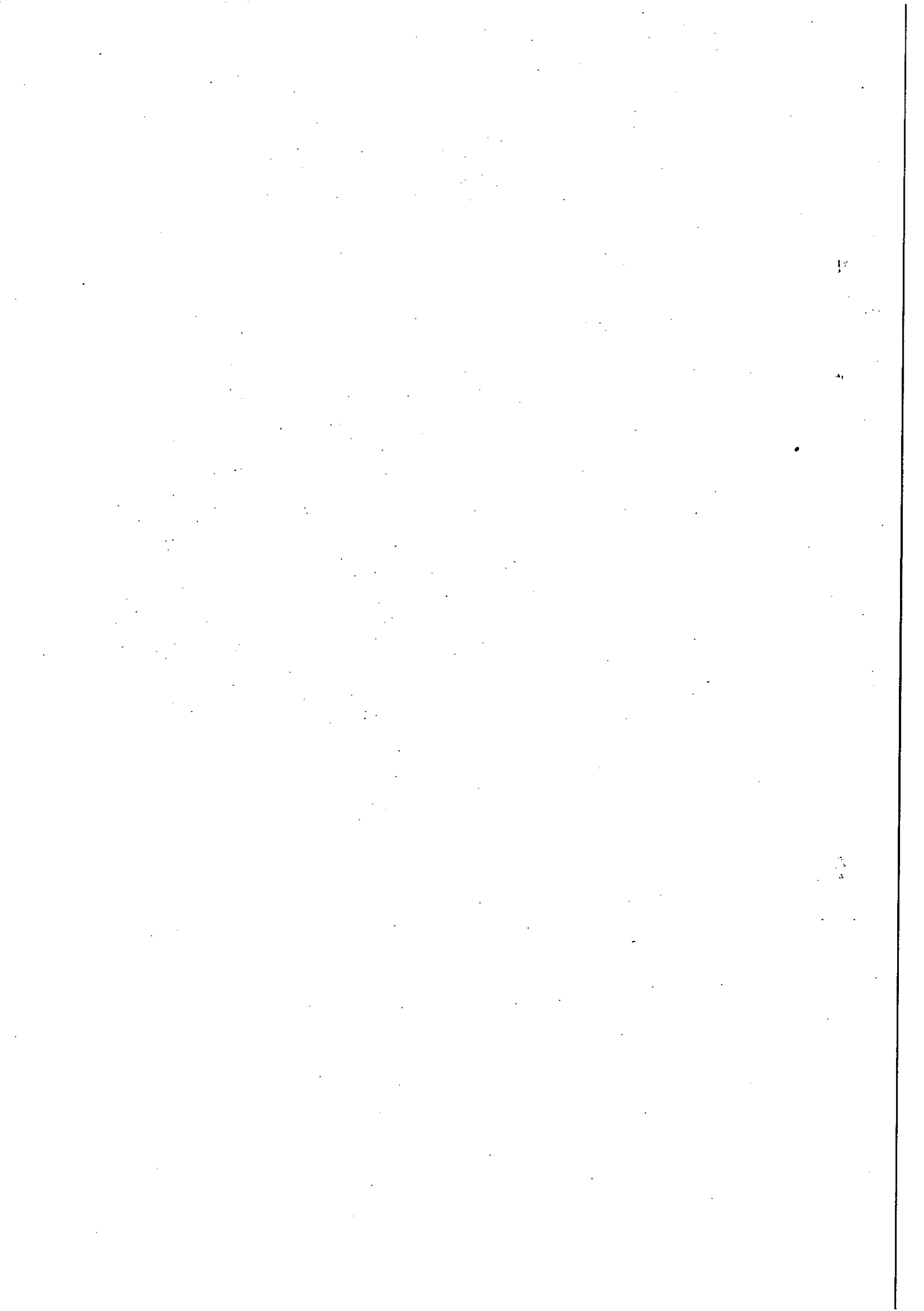
Publisher's Note

We have been publishing books on Government Audit with the support and goodwill extended by Shri T.N. Chaturvedi, Comptroller and Auditor General of India and his officers. The books so far brought out - Government Auditing, Auditing: A Select Bibliography, Auditing Public Utilities, Auditing Transport Services and Auditing Receipts have been well received by the reading Public.

It is now our proud privilege to bring out this prestigious publication, which is the result of the outstanding research by Shri R.K. Chandrasekharan, formerly Deputy Comptroller and Auditor General of India, giving the administrative and analytical history of the Indian Audit and Accounts Department since independence. The foreword by Shri T.N. Chaturvedi succinctly explains the need for this publication and the efforts made by him in this direction.

Shri Chandrasekharan not only made an intensive study and research for this project but also guided us at every state of printing besides providing us with all other necessary help. We are grateful to Shri Chaturvedi and Shri Chandrasekharan for the kind patronage and to the Department for the goodwill and co-operation they have extended to us.

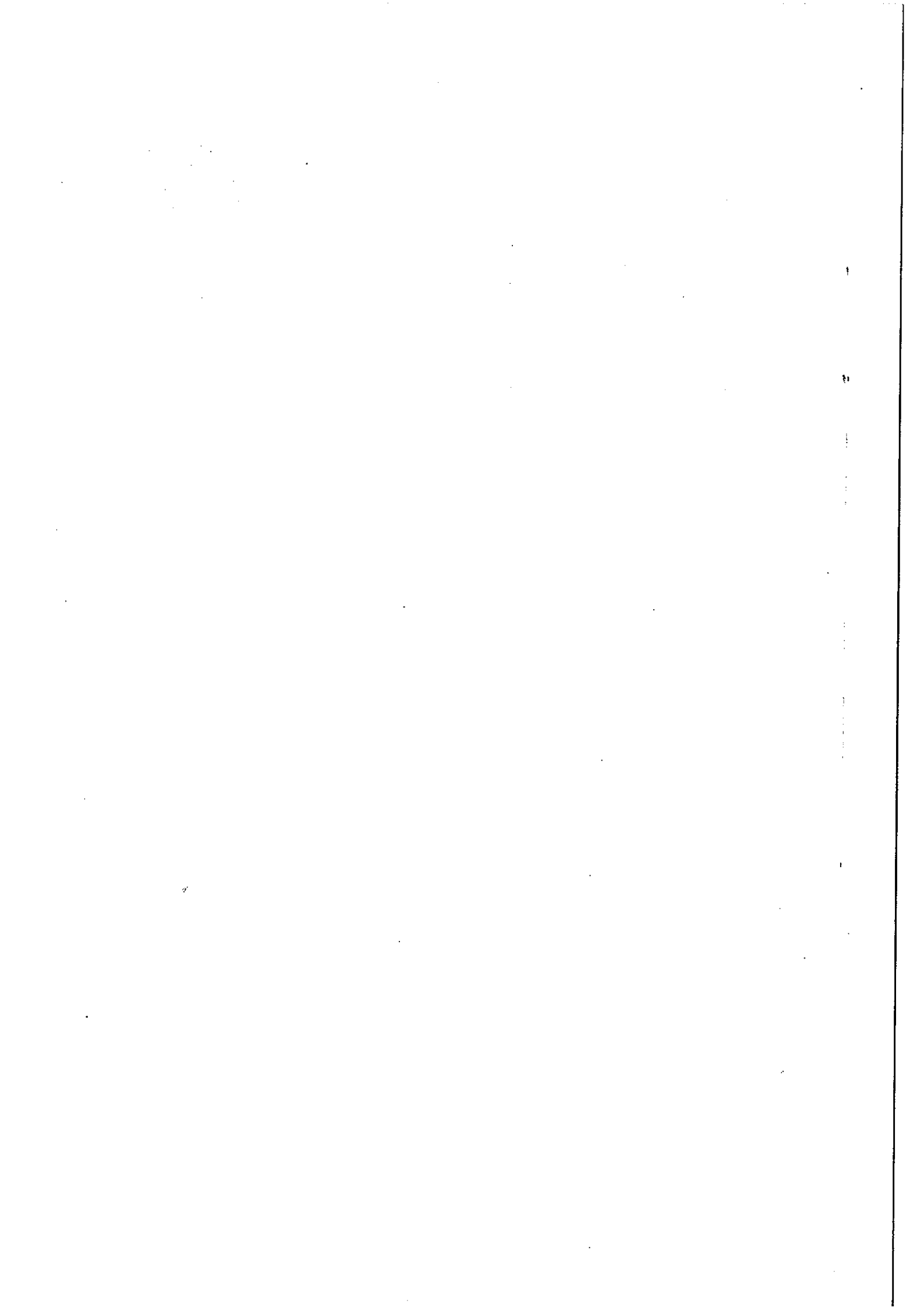
We have no doubt that this book will meet with the same success as other books, we have brought out on Government Audit.



Acknowledgements

The Indian Audit and Accounts Department are grateful to the honourable Speaker of Lok Sabha for granting permission for reproduction of the extracts from the Central Legislative Assembly Debates, Lok Sabha Debates and Reports of the Lok Sabha Committees by the author and wherever they have been reproduced, they have been referenced and the sources acknowledged in the Book. The IAAD also thank the honourable Speakers of the State Legislatures and Union Territories for granting permission to use and reproduce the debates of their Legislatures and the Reports of their Committees by the author, while dealing with each State and Union Territory in the Book, which have been duly referenced and acknowledged, wherever required. The Department also acknowledge the use of the material contained in the Book, the Indian Audit and Accounts Department, written by Shri M.S. Ramayyar, under the auspices of IIPA and thank the Director IIPA. The Department also thank the Surveyor General of India for drawing the map of IAAD in India, which is included in the Book. The author has suitably acknowledged the sources for the material, information or data used in the Book. In case any material, information or data relating to any other source has been inadvertently left out to be acknowledged, the Department request it to be taken as acknowledged with gratitude.

Indian Audit and Accounts Department



Foreword

Government auditing in India has a long and illustrious history dating back to the middle of the 19th Century. However, the nature and significance of government/public audit are not well known to the people and even to many in Government. In any society, and especially in democracy, it is necessary that the people have the knowledge and understanding of the machinery that helps significantly in ensuring accountability and, therefore, to the good governance of the country. After the Constitution came into force in 1950, government audit in India acquired a new dimension within the constitutionally stipulated framework. There has been only one source book on the evolution of government audit in this country so far. This book was published more than 23 years ago by the Indian Institute of Public Administration and understandably it covered the subject matter upto 1960s only.

Our country has witnessed rapid changes in the financial administration and, accounting and audit arrangements, notably after Independence. The Constitution has provided for a uniform pattern of accounts for both the Union and the States to be prescribed by the President on the advice of the Comptroller and Auditor General. The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 passed in pursuance of the relevant constitutional provisions, has assigned him a variety of accounting and auditing responsibilities and authorised him to lay down for the guidance of the government departments the general principles of government accounting and the broad principles in regard to audit of receipts and expenditure.

Since 1950 there have been numerous changes and reforms in the systems of accounting and auditing and in the organisation of the Department. Apart from the enactment of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and significant amendments carried out in it in 1976, 1984 and 1987, a number of other significant developments in accounting and audit systems have taken place. Of these, the departmentalisation of accounts of the Union in 1976, and the restructuring of the offices of the State Accountants General in 1984 making for an internal specialisation in accounting and audit functions in the Indian Audit and Accounts

Department are particularly noteworthy. The audit activity registered a qualitative growth with the setting up of Audit Boards for undertaking comprehensive appraisals of the functioning of commercial public enterprises, taking up of the audit of the entire receipts, tax and non-tax, of the Union and of the States and the audit of a large number of autonomous bodies and authorities under the Act of 1971. Thus, there has been a rapid transformation of the Department in all its functions; accounting, auditing and administration. I, therefore, thought that it was time that an updated history of the Department was attempted and when I mentioned it to Shri R.K. Chandrasekharan, who had such a rich experience in the Indian Audit and Accounts Service and risen upto the highest position of the Deputy Comptroller & Auditor General of India in the service, he readily agreed to undertake the task. The author has had full latitude to deal with the subject-matter, to interpret and analyse facts as he himself has been fully conversant with all the constitutional and administrative facets. Though sponsored by the Department, it was left to the author to decide his approach and arrive at his conclusions. Hence all opinions or suggestions made do not necessarily reflect the views of the Department.

This book on the "Comptroller and Auditor General of India—1947-1989", in four volumes, is the outcome of the intensive study and research undertaken by Shri R.K. Chandrasekharan during the last two and a half years. The title which is a variation of the one adopted by Shri Ramayyar reflects the author's preference and it has been obviously influenced by the fact that the constitutional and the legal mandate in this country is for the Comptroller & Auditor General of India though he is authorised to exercise his powers and carry out his duties through the agency of the Indian Audit and Accounts Department. However, the history of the institution of the Comptroller & Auditor General, is inevitably linked with that of the Department. In a way, the two are, therefore, inseparable. Although the book is devoted essentially to the post-independence developments the author has, wherever necessary, gone back to establish the link with the past. He has also endeavoured to look into the future to indicate the shape of things likely to follow. The distinguishing features of the Book are the growth and development of the theory and practice of Government auditing, accounting and reporting, the expansion of the IAAD in auditing of transactions of Government of India, including public sector undertakings, and accounting and auditing the transactions of the State Governments, their performance and processing of results by PAC and other Committees of Legislatures. Such a comprehensive treatment of the subject has

necessarily made it voluminous. But it has in no way diluted the immense utility of the document.

The history of the institution of the Comptroller and Auditor General is inevitably intertwined with the political, administrative and socio-economic developments in the country. Since Independence the country has witnessed transformation in practically every aspect of life. The integration and reorganisation of States, the adoption of the Constitution and the development of the country through centralised socio-economic planning along with many administrative innovations are but the main elements of this transformation. Whereas the integration of State and the Constitutional mandate for unified audit in a federal set up covering the accounts of the Union and of the States as also of other bodies and authorities, had vastly expanded the jurisdiction of the Comptroller & Auditor General, the massive investments in socio-economic development programmes and the growth of public enterprises—have increased the quantum of his work and given an altogether new dimension and depth to his scope of work. Consequently there had to be large scale reorganisation of his Department in order to meet the challenging tasks, with their ever increasing volume, complexity and variety.

The first two volumes of the book are devoted to the evolution and growth of the organisation and the accounting and auditing functions, specialisation, diversification and the expanded scope and the contributions made by the successive Comptroller and Auditors General and the history of the field formations dealing with the audit in the Central Sector. The second volume is devoted mainly to Receipt Audit, Defence Audit and Civil Audit of the transactions of the Government of India and the work relating to the Committees of Parliament. The third and fourth volumes bring out the growth and development of accounts and audit offices primarily functioning in the State sector. In terms of the variety of functions and the sheer size of the operations necessitating such a large nationwide organisation, perhaps there is hardly any parallel to the Indian Audit and Accounts Department anywhere else in the world. The author has not only dealt with the evolution of the Constitutional and legal mandates of the Comptroller & Auditor General and the development of each of specialised wings of his Department but also brought out the nature, scope, quantum and quality of the work done. He has shown how the Department has shown tremendous adaptability and dynamism in responding to the challenges faced by it from time to time. He has also traced the evolution of the audit methodologies over a wide range of newer areas. The problems both technical and administrative in nature and the constraints met with

have been highlighted. The task was not easy and in his anxiety to do full justice to the variety of developments and diverse aspects of the work dealt with in the Department, the author has understandably been elaborate and at places somewhat repetitive. A reader may be well advised to go through all the four volumes as a whole to get a comprehensive and integrated view of the institution of the Comptroller & Auditor General of India and IAAD during the last four decades. The subject matter of the work is undoubtedly serious in nature requiring detailed treatment, but even so there is enough in this work to hold one's attention and sustain one's interest. Notwithstanding his emotional involvement, and a sense of injured feeling arising possibly out of certain unwarranted criticism of the Department, the author has narrated the facts reasonably objectively. However, as mentioned earlier, the views and opinions expressed by the author are in his personal capacity and do not commit either the Comptroller & Auditor General or his Department. Given the scope of the study and the analysis and interpretation required in bringing out the volumes of this nature and size, the author's efforts and achievements in such a short time span are indeed commendable.

The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 is a comprehensive piece of legislation. The jurisdiction of the Comptroller and Auditor General has been widened to cover the audit of all receipts of the Union, States and Union Territories, stores and stock kept in any office or department, and receipts and expenditure of bodies and authorities substantially financed from Government revenues and scrutiny of accounts relating to grants and loans given by government. There is also an enabling provision to take up the audit of any other bodies or authorities with the approval of or at the request of the President or the Governors as the case may be. However, not all the bodies and authorities in the Public Sector are being audited by the Comptroller & Auditor General. Notable among the unaudited are certain societies, co-operative institutions, the Life Insurance Corporation of India, commercial banks and apex financial institutions like the Industrial Development Bank of India and the National Bank of Agricultural and Rural Development. It will be in the larger interest of the country that these bodies and authorities are brought within the purview of efficiency-*cum*-performance appraisal by the Comptroller & Auditor General. This will enable a more integrated appraisal of the national economy from the stand-point of accountability.

The powers of the Comptroller & Auditor General to have access to documents and information in connection with the audit of accounts

have been enhanced under the Act. The Act specifically enjoins that the Administration shall afford all facilities for his audit inspection and comply with his request for information in as complete a form as possible and with all reasonable expedition. In practice, as has been brought out in this book, there have occasionally been problems. As a Sub-Committee of the Conference of Chairmen of Public Accounts Committee pointed out, "denial of documents and information on grounds of relevancy or otherwise, or delay in furnishing, will prevent the Comptroller & Auditor General from discharging the functions entrusted to him under the Constitution." Perhaps a time may soon come when there is fuller realisation of this lacuna and remedial steps are taken to empower the Comptroller & Auditor General with adequate authority to ensure prompt compliance in this regard.

Under Section 23 of the 1971 Act, the Comptroller & Auditor General has the authority to make regulations on the scope of audit. Such regulations are not subject to the approval of either the executive government of the day or of Parliament. Thus, he has the discretion to regulate the scope of his audit. As the Administrative Reforms Commission has pointed out, apart from the traditional forms of audit, commonly known as the appropriation audit and regularity audit, the discretionary forms of audit termed as the propriety audit and the efficiency-cum-performance audit developed by the Comptroller & Auditor General are even more important from the view-point of 'accountability' in a comprehensive sense. Audit is a continuing developing discipline and has to cope with new administrative advancements and compulsions. Audit by Comptroller & Auditor General not only facilitates informal and effective legislative scrutiny and control but also provides aid to management for better performance. This necessitates prompt, adequate and necessary response at all levels to audit findings. Thus, Audit looks beyond the formality of the expenditure, to its prudence, faithfulness and economy and to a general examination of the efficiency with which an organisation is discharging its financial responsibilities. The scope of audit as determined by the Comptroller & Auditor General did give rise occasionally to some misgivings and even challenges from certain quarters. But it has to be recognised that performance and accountability go together.

In the recent past, certain doubts have been expressed about the duties, powers and role of the Comptroller & Auditor General of India. Strangely, same issues are raised again when audit by the Comptroller & Auditor General is already well established by the Constitution, laws, conventions and practices. Critics do not seem to have fully appreciated

the significance of Article 151 of the Constitution which enjoins the Comptroller & Auditor General to submit his Reports to the President who causes them to be laid before the Parliament. The audit approach is completely non-political, and Audit Reports are based on records and facts, which are got verified with utmost care and caution. The control by the Legislature over the expenditure of public moneys is one of the important features of our democratic polity. Parliamentary control is exercised through the reports of an independent authority viz., the Comptroller and Auditor General and his reports are based on scrutiny of relevant and complete material. Article 149 does not in any way circumscribe the Comptroller and Auditor General's duties and powers of presenting Reports under Article 151. In the past, whenever controversies arose about the scope and extent of audit, the Comptroller and Auditor General did get the support of the Public Accounts Committee and added to this is the recent support by the enlightened public interested in promoting the independence of the constitutional organs of democracy as envisaged by the Founding Fathers of the Constitution.

In modern times, the orientation of Government activities is more and more towards socio-economic programmes. There is a growing involvement of the State in providing social service and welfare support to the people. Public ownership in industrial, manufacturing and trading sectors has increased. In this changing scenario, auditing methods, practices and standards have had to change considerably. Governments have also embarked upon massive developmental efforts in the realm of science and technology. Audit of governmental efforts calls for not only conventional knowledge of finance and accounts but also insight into various disciplines such as economics, sociology, science and technology, besides general management. The Comptroller & Auditor General needs, therefore, to have free access to the required expertise whenever warranted. At present, by executive orders, specialists in the relevant disciplines are associated with the Audit Board for the comprehensive appraisals of commercial public enterprises. This was done about two decades ago and there should be equal justification for association of experts in other audits also. But such utilisation of experts, official or non-official, ought not to depend on the discretion of the executive but be vested in the Comptroller & Auditor General, if necessary, by amendment to the Act governing his duties and powers.

The Comptroller & Auditor General, according to provisions of the Constitution, is neither an officer of Parliament nor a functionary of Government. He is an autonomous constitutional authority. His oath of

office requires him to uphold the Constitution and the laws and to discharge his duties without fear or favour, affection or ill will. It is the same as that of a Judge of Supreme Court and distinct from the oath prescribed for the Ministers of the Union. The oath binds the Comptroller & Auditor General to bear true faith to the Constitution and to uphold the integrity of India. The position assigned to him as a Supreme Audit Authority common to both the Union and the States could be regarded as part of the basic structure of the Constitution of India. In order to allow him to function effectively he should not only have appropriate status and powers but also certain immunity in legal terms. Though in a democracy conventions do regulate the conduct of others *vis-a-vis* a Constitutional functionary, there are aberrations visible at times. It is desirable to have a clear Constitutional or legal provision to avoid any action or other proceedings against the Comptroller & Auditor General or any person authorised by him for or in respect of the findings of any audit carried out in exercise or purported exercise of his functions. Such an immunity is available to the Members of the Parliament and Legislatures under the Constitution.

At the same time, it has to be recognised that there ought to be a built-in arrangement within the Department for ensuring its own accountability. This has been provided for in a way by subjecting the various offices of the Department to audit and inspection in the manner in which other departments of government are audited and inspected. Since 1984-85 a report on the activities of the Department is brought out annually. As mentioned in my Foreword to the first issue "the report is not meant to be either simply a chronicle of achievements or a dissertation in defence of shortcomings or inadequacies. It is broadly factual in its orientation and is in the nature of self-audit so that we ourselves comprehend the limits and possibilities of our task in our quest for improved performance."

No organisation can and should insulate itself to well-meaning criticism from within and without. There is a continual self-appraisal with reference to the improvements in methodologies and techniques by other SAIs near and far. There is an increasing flow of information on various aspects of auditing and accounting apart from the tremendous training activity in and outside the country to update the skills. But while comparing ourselves with other SAIs, one cannot forget the differences in the social milieu, the support and responsiveness to the objective functioning of the SAI and the willingness of Administration to submit to public accountability. That the Comptroller & Auditor General enjoys enormous powers, that the Comptroller & Auditor General's budget is

not voted and goes beyond the budgetary control, that no dates for submission of annual accounts and audit reports have been prescribed, that there are mistakes in finance accounts etc. etc. are all but some of the insinuations made to denigrate the institution of Comptroller & Auditor General and thousands of dedicated loyal members of staff and officers working with him. That the so-called 'charged' budget has got to be settled in advance with the Government, that on a number of routine financial and administrative matters he is to seek the approval of the Government, that the Comptroller & Auditor General has no real say in getting the reports discussed by the PACs etc., can all be glossed over but cannot be dismissed.

In an organisation of unparalleled jurisdiction and vast spread operating with different levels of support with a rare combination of accounting and audit work of a large magnitude, there is bound to be some deficiency. The Department has to depend on the rendition of the official accounts and documents by the numerous treasuries, public works divisions and other offices of accounts. The prompt compilation of accounts also largely depends on the quality of accounts, documents and readiness of the various authorities for giving further information and attending to reconciliation of the accounts. The shortage of experienced accounts staff in some offices is also not a minor handicap. The deficiencies in the organisation have, therefore, to be judged in this context.

In the field of auditing the Indian Audit & Accounts Department has been breaking continuously new grounds. Today the Department could be regarded as one of the forerunners in performance auditing. The receipt audit developed in 1960s is a pioneering attempt and commercial audit with a unique audit board system of comprehensive appraisals, associating experts, has but a few parallels. Recently, a unified audit of scientific and technological institutions has been arranged. Realising the significance of unified audit in a federal set up with a centralised planning and devolution of development finance from the Centre to the State as well as to joint ventures in planned development, all-India audit reviews of selected sectors of economy are being attempted and audit reports thereon presented simultaneously to the State Legislatures and Parliament. This again is an innovative development in audit.

The criticism that the Comptroller & Auditor General of India only countersigns the audit reports and that he is not a primary auditor, is somewhat naive and ignores his Constitutional role. Neither the

Constitution nor the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act intended him to be an accountant or auditor. Any Comptroller and Auditor General of India can be expected to possess the knowledge and skill to authenticate his reports or certify the accounts required to be certified by him. The Indian Audit & Accounts Department is the technical agency that enables him to perform these functions. He is totally involved in all processes of work, right from policy making till their actual implementation and reporting, which covers the entire range of the scope and extent of audit, the topics of audit, their implementation in the field as also the monitoring which makes for a measure of unity and quality in the totality of performance. The Comptroller and Auditor General takes overall responsibilities for the reports in fulfillment of the Constitutional mandate.

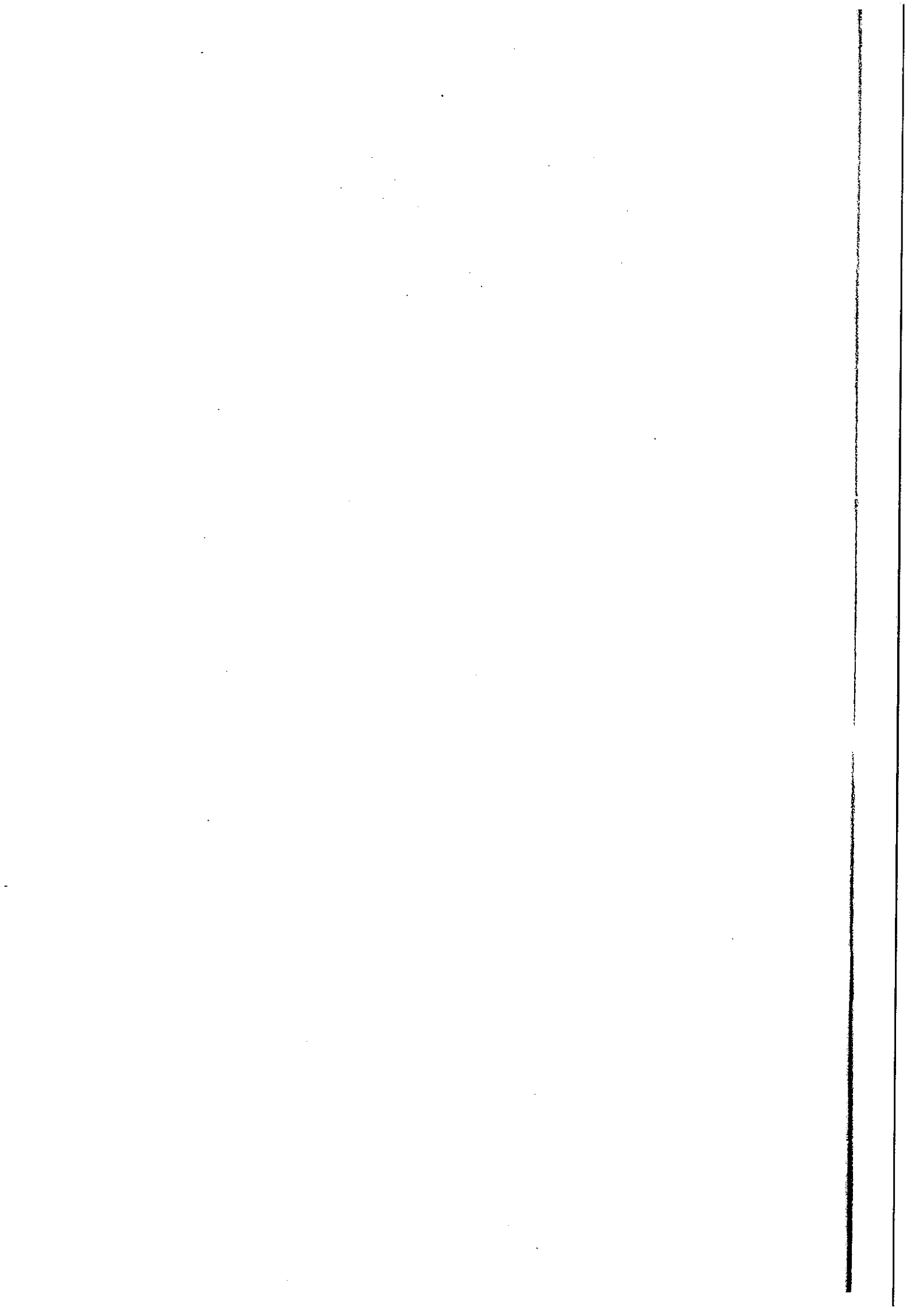
Without intending to be eulogistic, the Department can well be proud that a number of CAG's Reports have won the admiration of many SAIs and international organisations as is evident from the demands for the reports from these bodies. All these have been brought out in the four Volumes of the author.

Shri R.K. Chandrasekharan's suggestions for statutory changes and innovations in systems and procedures in IAAD contained in 'Summing up' deserve consideration at appropriate levels. This book by Shri R.K. Chandrasekharan again is not merely a narration of the history of the Department. The author has at various places come to a critical evaluation of the work turned out by the Department highlighting the constraints and it could be of help to the Parliamentarians and the Public to support the desirable reforms to make this instrument of accountability still sharper and more effective.

The publishers have brought out a number of books on various aspects of government auditing as practised in this country and they have also published an 'Audit Bibliography'. I am happy that they have continued their effort in bringing out this book and I compliment them once again for this venture.

New Delhi
February 18, 1990

T.N. CHATURVEDI
Comptroller and Auditor
General of India



Preface

When the Comptroller and Auditor General of India, Shri T.N. Chaturvedi, proposed to me in April 1987, to update "The Indian Audit and Accounts Department" written by Shri M.S. Ramayyar, I readily agreed, since the time span to be covered conformed more or less to my generation in the IAAD, which, in retrospect, turned out to be a creative and eventful phase of the history of the Department in modern India. The theme was the profession I chose and practised for three and a quarter decade, which continues to interest me. I was fully aware of the problems likely to be faced in mere updation of the Book, published in May 1967, the first ever of its kind written on one of the Departments of the Government of India, which was as old as the British Government, when they relinquished power to the Dominions of India and Pakistan on 14th August 1947, and held to be the most authentic and unbiased version of Government auditing and accounting in the country. It was the product of nine years' laborious research and painstaking efforts, a task held to be formidable and complex by the author himself, which involved a great deal of study and research into archival and other records by him. He was one of the most illustrious and dedicated members of the Indian Audit and Accounts Services, known for his integrity, efficiency and expert knowledge of the Department, particularly Government accounting and auditing, as it prevailed till he retired as ADAI (Hqrs). Besides, he had the advantage of having worked through the Government of India Act, 1919 and the Auditor General's Rules 1926 made by the Secretary of State for India in Council, and the Government of India Act, 1935 and the Indian Audit and Accounts Order 1936, under two of the outstanding and brilliant British Auditors General in India - Sir Frederick Gauntlett and Sir Ernest Burden, and he reached the pinnacle of his career during the tenures of the first two Comptroller and Auditors General of India - Shri V. Narahari Rao and Shri A. K. Chanda. He was reputed to have shaped, in some form or other, quite a few of the latter's basic policies and far reaching reforms. The Book dwelt at length about the origin, evolution and functions of the IAAD until the advent of CAG under the new Constitution, although the political, constitutional and organisational changes covering the period upto 1960s were mentioned in passing. The author was too close to the momentous events and confined the history of the Department as an entity and the activities of the new SAI in the Union and the State Governments on the ground were left to be inferred.

The first decade after India attained independence was a period of building the foundation of the new nation and the IAAD was also caught in the whirlpool of historical changes Shri V. Narahari Rao aptly described it, while laying down office, that 'After all the pre-Independence turmoil, the Department, like the Proverbial Phoenix, rose strong and youthful from its ashes'. Neither the development of the organisation and the expansion of the Department nor the theory and practice of Government accounting, auditing and reporting conformed precisely to the form, content and substance of the preceding period. Consequently, mere mechanical updation can only be at the expense of a true, faithful and realistic portrayal of the events of the last four decades. As these were built on the existing edifice, though the design, structure, architecture and the mansion of the national institution of State audit was modern, certain linkages with the past became inevitable, for which Ramayyar's Book formed the only reliable record.

Although four decades constitute a small segment in the long chronicle of Indian history, the political, constitutional, administrative, social, economic and other changes, which swept the sub-continent during this period were far reaching, significant, and substantial, compared to the stagnation during the colonial rule of the preceding two centuries or so. Under the new Constitution, which came into force from 26th January 1950, India became a Sovereign Democratic Republic - a Union of States, which were categorised as A, B, C and D, and was quasi-federal in character, with enumerated powers to the Union and State Governments, under three lists - Union, State and Concurrent, with a President elected by the elected representatives, and a parliamentary form of Government. The remarkable growth and development of the new nation, as big as India, and its emergence as free, independent, sovereign, democratic, socialistic republic has few parallels elsewhere in the Post-War World. Many learned scholars have written several books on them. Transformation of mere law and order Governments - one Federal and eleven Provincial - in 1947 into 28 independent and autonomous Governments with large powers of taxation and spending were the major political events of the 1950s. Reorganisation of States in 1956 into 20 States, including 6 Union Territories, and subsequent addition of six more States in the next two decades completely altered the political map of India, which became the largest multi-lingual federation in the Democratic World. Massive planned development programmes for industrial, economic and social development of the country as a whole, for improving the socio-economic conditions of its expanding population changed the nature, functions and activities of

these Governments and transformed them into 'big' Governments engaged on multitude of activities and handling millions of rupees. This was the arena in which the new State Audit grew and developed during the last four decades.

The figures of receipts and expenditure of the Governments may not reflect the true dimensions of the expansion of Governmental activities during the period; but they are the only available indices to gauge the magnitude of the volume of annual transactions, despite the rising inflation. During the year 1946-47, the receipts of Government of India were Rs. 3,706 crores and expenditure Rs. 3,443 crores; they increased to Rs. 8,961 and Rs. 8,985 crores respectively by 1960; Rs. 21,069 and Rs. 20,905 crores by 1970; Rs. 92,340 and Rs. 82,162 crores by 1980; Rs. 2,90,855 and Rs. 2,90,252 crores respectively by March 1989. In the wake of the new industrial and economic policy of the Government, a new dimension to its activities was added, by the emergence of Public sector Undertakings. From a mere five enterprises with an investment of Rs. 29 crores in 1951, they increased to 48 enterprises with an investment of Rs. 953 crores in 1961; 88 enterprises with an investment of Rs. 3,902 crores in 1970; 186 enterprises with an investment of Rs. 18,255 crores in 1980; and 231 enterprises with gross investment of Rs. 71,299 crores in 1988.

A similar growth and expansion of Government activities took place in the States also. The total receipts of eleven provinces in 1946-47 was Rs. 548 crores and their expenditure Rs. 537 crores. The aggregate receipts and expenditure of 20 States in 1960 was Rs. 2,746 crores and Rs. 2,748 crores respectively. They increased to Rs. 9,285 and Rs. 9,202 crores in 28 States by 1970. By 1980, the receipts and expenditure of 27 Governments were of the order of Rs. 33,174 crores and Rs. 33,380 crores respectively. They were of the order of Rs. 73,837 crores and Rs. 83,180 crores by March 1986. The aggregate investment of the 24 State Governments in 843 enterprises was Rs. 11,219 crores in 1988. The large scale expansion and diversification of the activities of Governments in the country determined the expansion and development of IAAD during the period on which even the CAG had little control. The picture at the beginning of the last decade of the present century bears no comparison to what it was in 1919.

The Auditor General of India under 1919 Act was subordinate to the Secretary of State for India, and even under the 1935 Act to the Governor General in Council, in certain respects, and the IAAD had to work under great constraints - both statutory and procedural - since the

delegated powers - both administrative and financial - followed the pattern of the subordinate authorities under the Government of India. The concordats set the limits of co-existence between Audit and Administration but the saving grace was reckoning the former as an integral part of Administration, though in precept than in practice. The CAG created under the Constitution was a free, independent and neutral authority - neither the purely executive type of the predecessor institution nor the legislative type prevalent in some of the western countries, when the relevant articles in the Constitution were framed. Accounts and Audit were included in the Union List. The CAG was the common Supreme Audit Authority for both the Union and State Governments, one of the unitary features of the federal polity, and was entrusted with the accounting and audit functions of the Union and State Governments, which was a continuation of the *status quo*. In actual practice, the institution of CAG functioned as a devolutionised authority in respective spheres of Governments. The functioning of the IAAD during the period and its achievement constitute the post-independence history, which is the main theme of the present Book. The present overall picture is a standing testimony of the farsightedness of the founding fathers of provisions relating to CAG of India in the Constitution and a tribute to the early pioneers and later consolidators, who presided over the destinies of the Department. As the growth and development of the IAAD were inextricably mixed with the expansion, functioning and performance of the Principal Audit and Accounts officers of the Union and State Governments, including Union Territories, who were entrusted with specific functions by the CAG, and both constituted integral parts of the whole, a different approach was called for in writing the history of the Department for the last forty years. The form, style, depth and coverage of these developments did not strictly conform to the beaten tracks of the pre-independence period. I have chosen CAG instead of IAAD as the title of the Book, since the Constitution and the Act have recognised him as State Audit in India, although he functions through IAAD and both are the twin sides of the same coin.

The performance of the duties and functions in the rapidly changing scenario, both in the Union Government and State Sectors, within the clearly demarcated lines between the Executive and Legislative powers of the Union and constituent units, in a free, fair and equitable manner, in financial and accounting matters relating to both the Union and State Governments, called for great flexibility, adaptation, and innovations on the part of CAG. For nearly two decades after the CAG came into

being, the holders were hamstrung by the crippling provisions of the Audit and Accounts Order 1936, issued under the Government of India Act 1935 and the conventions of State audit, known and practised till then; but that did not preclude each CAG to act in the true letter and spirit of the Constitution, in so far as auditing functions were concerned and achieve remarkable results. These became a part of the Statute after the CAG's (DPC) Act, 1971 came into force. It was a totally different experience and earning for the Department, as compared to its working under the earlier Constitutional reforms of the British Government, and its chronicling called for a different approach.

The Ar.Gl. performed the accounting and audit functions of the Federal Government and eleven Provincial Governments in principal offices - 4 engaged in accounting and auditing of the Federal Government and 11 in accounting and auditing of the transactions of the Provincial Governments. The total man power of the IAAD in 1948 was 15,600. The sum and substance of his total performance was best reflected in the Reports and Accounts presented by him to the Governments concerned. In 1947, he presented 28 Finance Accounts, Appropriation Accounts, and Audit Reports on them, 6 on Government of India to the Governor General of India to be laid before the Central Legislative Assembly and 22 to the Governors of Provinces to be laid before the Provincial Legislatures. His jurisdiction did not extend to the former princely States, which after independence merged into the Provinces or formed into unions of states, and later got integrated into viable groups, which became Part B and C States under the Constitution. These officers had their own accounting and audit arrangements, and CAG became the accounting and audit authority after the federal financial integration, which overnight expanded to 27 States. After the reorganisation of States in 1956, they were reduced to 20, including 6 Union Territories and presently, there are 24 States including 2 Union Territories. Not only the volume of transactions subjected to audit increased by leaps and bounds, but also their mix and composition changed substantially. The functions of the CAG in the States became larger, and the major part of the organisation was engaged in carrying them out. The history of Indian Republic since 1950s is the history of States. The Directors of Audit and the Accountants General in the States performed the duties and functions of the CAG, in the State in accordance with the statute, delegation and convention, and no history of the IAAD can be complete without weaving them into the whole fabric. Some of the As.G in the erstwhile provinces were older than the institution of the Ar.Gl., which can be ignored only by disfiguring the

whole. The first monograph generally dealt with their origin and development in the organisation of IAAD, but no wholesome treatment was given, either to individual offices or their performance, despite the importance of the Provinces and later States in the Indian polity for reasons best known to the author. The newly integrated offices of former princely States or their Unions into the IAAD brought in entirely different traditions, experience and skills, which were neither equal nor comparable to, what was transferred to the Dominion of Pakistan in August 1947. The first decade saw the struggle and success in bringing them to the mainstream of the Department, both formally and emotionally and emergence of a common ethos, in the wake of the reorganisation of States. But the next decade witnessed few of them even overtaking the erstwhile offices of the Part A States, not only in size and strength, but also in overall performance of the functions entrusted to them. Yet, each office was different from the other, just as the State Governments, whose accounts they maintained and transactions they audited. In fact, the diversity and dispersal of CAG's functions were best reflected in the deployment of the total man power of 67,060 in IAAD in 1989. Excluding 829 employed in his office, 13,237 were employed in 35 offices, in audit of the transactions of the Union Government, including Public Sector Undertakings of Government of India and autonomous bodies to whom grants and loans were given by Government, 27,228 performed the accounting and entitlement functions of 24 State Governments in 26 offices and 25,766 performed the audit functions of 24 State Governments, including the PSUs owned by them and autonomous bodies financed by them in 34 offices. 22 Reports on Government of India which contained 821 paras and reviews and 39 Reports and 78 accounts on 26 State Governments incorporating 78 paras and 376 reviews, 22 Receipt Reports on 22 Governments, which contained 1691 paras and 20 Commercial Reports on 20 State Governments, which contained 327 paras and 89 reviews, were presented by the CAG during the year 1988-89 to the respective Governments to be laid before the Union Parliament and State Legislatures. While the Reports on Government of India fell into seven categories, the Reports on each State Government were in three categories. 22 Reports on Government of India were presented in English and Hindi, Reports on 6 State Governments were presented in English and Hindi and Reports on three State Governments were presented in English and State languages, which exposed the multi lingual character of CAG's reporting functions. The mix, content and range of these Reports are hardly comparable to those presented by any other SAI in the world. This aspect of CAG's functioning is totally different from what obtained before the dawn of independence.

Further, there have been radical changes in the functions and duties of CAG, which were not so apparent at the time of promulgation of the Constitution, but became conspicuous in actual performance during the later period. The audit of corporations/autonomous bodies under specific enactments of the Union and State Governments, bulk of which related to public utilities was entrusted to him. Certification of their accounts and presentation of Reports to be laid before the Parliament and State Legislatures became his statutory responsibility. The Indian Companies Act, 1956 conferred the Supplementary audit of the Government companies on CAG and empowered him to advise Government on appointment of auditors to Government companies. The precept and practice of commercial audit were developed beyond recognition - compared to what prevailed earlier, and the emergence of reviews and appraisals completely changed the substance of reporting on them. That some of the undertakings were several times bigger and larger than few of State Governments indicate the magnitude and dimension of this task. CAG's audit of these institutions is a unique feature of audit and accountability of Public Sector Undertakings in the developing world. The audit of receipts was an entirely new function developed since 1960s and its growth and development constitute the most fascinating chapter of Department's achievements. The pattern of Government expenditure, its mix, successive plans, massive outlays, and varied performance perceptibly affected the extent, quantum and nature of audit. Apart from the compulsions of phenomenal expansion of the Government activities, in the wake of emergence of 'big' Governments, large scale increase in volume of Government expenditure, its nature, composition, and pattern, the demands of Parliamentary democracy in a federal India, under a Single Audit Authority, with a scheme of public administration and accountability developed in the post-independence era worked out by the practitioners, elected members of State Legislatures and the Parliament necessitated changes in conventional audit, which was found wanting and inadequate in many respects. The scope of audit was expanded to reach out to virgin soils of Efficiency, Economy and Performance audit. The Supreme Audit Institutions in most of the developed countries in Europe, America and the Commonwealth had already moved into the areas of efficiency, economy and evaluation audit between the two World Wars and was rushing to the new frontiers of value for money audit.

The efficiency-*cum*-performance audit covering conception and implementation of policies, programmes, projects and their evaluation - audit beyond the realms of regularity and accountancy to its wisdom,

faithfulness and economy and its extension to all branches of Government Audit - Civil, including Public Works, Commercial, Receipts and Grants-in-aid to Autonomous Bodies and Institutions were the innovations in Government auditing in the last three decades. A new dimension in commercial audit of Government companies and corporations was added after the system of appraisal, by the Audit Board, more or less on the French pattern, was introduced by Government on the recommendations of the Administrative Reforms Commission in 1969. The new concept perfected into a sophisticated system in the next ten to fifteen years, taking on a native hue distinctly Indian, which provided necessary tools to ensure accountability at all levels - by the Administrators/Chief Executives to Government and to the Legislatures in a manner and form - both coverage and intensity - never witnessed before. As the results of expanded scope of audit eclipsed the bright stars of transaction audit, they called for distinct, separate, and fuller treatment in development of the theory and practice of Government audit. The art and practice of efficiency, effectiveness and economy audit was developed in the next two decades to a highly sophisticated form and style, that would have surprised the originators and the overall results were comparable to the best in any developed country.

As the contemplated Statute took nearly two decades to take shape, the first four CASG functioned within the constraints of the AA Order, and the inherited tradition of minimum accountability at higher echelons of administration, but that did not preclude them from interpreting and acting on any situation in the context of Constitutional provisions and establish new policies, systems, procedures and set new traditions in the performance of their functions. The genius, brilliance and achievement of each CAG required greater study and research into the records pertaining to their period, so as to fix them suitably and at proper place in the pageantry of the Department's tapestry.

The CAG's (DPC) Act, 1971 gave a new dimension to audit of autonomous bodies and institutions, which received substantial grants-in-aid. In less than five years, the Act was amended, in 1976, to relieve him of the duties and functions relating to maintenance of accounts of Government of India, which ended the long legend of keeping the accounts of Government of India by IAAD. Transfer of over 12,000 personnel from his organisation to the various Departments of Government of India was one of the largest migration from one Department to several departments of Government of India, which almost disturbed the normal working of every office in IAAD. Creation

of a new authority for accounting - Controller General of Accounts - under the Ministry of Finance and the introduction of integrated financial and accounting administration and induction of independent internal audit in the Union Government were the new arrangements. The CAG's function in accounting matters was reduced to mere advisory role but his accounting responsibility in the State continued. His skill and expertise was recognised and continued to be availed of by Governments and Departments. The Act was further amended in 1984 and 1987, which not only modified his functions in the sphere of audit of grants-in-aid and his reporting responsibility to Legislatures, but also conferred the service conditions including pensionary benefits applicable to judges of the Supreme Court to CAG - which was taken for granted by the Constitution makers, but took nearly 35 years to take concrete shape.

The Committees of Parliament and State legislatures, who examined the Accounts and Reports of CAG increased from twelve in 1947-48 to twenty five in 1989-90. The urges and aspirations of members of Parliament to control PSUs found fulfilment in the formation of new Committee - COPU - in Parliament, and similar Committees were formed in State Legislatures. In fact, 25 Committees examined the Audit Report (Commercial). More or less identical roles were performed by CAG and the As.G. in assisting the COPUs. The advent of second decade after the Constitution saw the members from opposition parties, presiding as Chairmen of the PACs, while the composition of the Committees were based on proportional representation. While the CAG of India functioned virtually as the 'friend, philosopher and guide' of the PAC in Parliament, the Accountants General played similar roles in the State PACs in a free, fair and equitable manner. A similar relationship was also forged with the COPUs. The growing demands of multi-party legislatures and their Committees, the impact of Committee deliberations and recommendations made perceptible influence on Reports of CAG and increasing demand on the time and skill of the IAAD from the Committees. A good part of the time of CAG and his Principal Audit Officers were spent on assisting the Committees of Parliament and Legislatures. Every year these Committees examined several Reports and made several hundreds of recommendations and Governments concerned acted on them. The achievements of these Committees of Parliament added new milestones in parliamentary financial control in India and Department played an invisible but effective role in these developments.

In order to get a glimpse of the significant progress made in the sphere of reporting and their effectiveness, I have chosen to display

condensed versions of selected paras/reviews/appraisals and Reports of each CAG, to the extent time and space permitted, along with recommendations of PAC/COPU and decisions of Governments on them, wherever they are available, in the Book. An audit para or review hardly lend itself to summarisation or condensation, particularly in India, where they are more factual than mere pronouncement of opinions, and a reference to the original is the best way to get at the springs of auditors' findings. The latest Reports, wherever available represent the recent trends in reporting results of audit of a particular function or of Government.

I have, therefore, adopted an entirely new concept and design in writing the administrative and analytical history of IAAD of the last four decades. The growth and development of the new institution of CAG, as the accounting authority of the Government of India until 1976, and the State Governments as of now, and the auditing and reporting of the transactions of Government of India and State Governments are dealt with separately. The minimum linkage with the pre-Independence history has been kept to make the story continuous and self-contained, so as to present the picture of the past and present, as an integrated whole. Naturally, certain amount of repetitiveness or duplication have crept in inevitably because of the common design, organisation and functions of the Department performed differently in separate and distinct arenas.

The entire theme of the analytical history is broadly grouped into distinct categories - growth and development of the institution of the CAG, organisational, functional and jurisdictional, the theory and practice of accounting, auditing and reporting, both prior to and after the Act, 1971, subsequent statutory and constitutional amendments, the examination of Reports by the Committees of Parliament and State Legislatures and their recommendations and the decisions of the Governments on them. The topics are arranged in suitable chapters in four volumes.

In Volume I, the Ar.Gl. and the IAAD, as obtained at the time of Independence and its functioning, in what was then known as British India, the CAG under the Constitution of India, the expansion, reorganisation and consolidation of the field offices in the wake of federal financial integration of ex-princely States and their Unions, subsequent reorganisation of States, the organisational and functional changes, the revival of commercial audit, its expansion in the wake of the Indian Companies Act, 1956, the expanded scope of audit, advent of efficiency-*cum*-performance audit, commencement of receipt audit, and

its development, which covered the tenures of the first three CAsG are dealt with in the first three chapters. The making of the statute, CAG's (DPC) Act 1971, spread over the tenures of four CAsG is dealt with in Chapter 4. Constitutional and statutory amendments of 1976 and relieving the CAG of the accounting functions of the Government of India, which occurred during the tenure of Shri A. Bakshi, are discussed exclusively in Chapter 5. The growth and development of auditing, accounting and reporting in IAAD are dealt with in Chapters 6, 7 and 8. Along with the expansion of Department, the IAAS and other cadres that constitute IAAD have also undergone changes, which are dealt with in Chapter 9. The developments of the present decade, the internal reforms, the structural changes, expansion of the Department, the statutory amendments of 1984 and 1987 and the modern trends in reporting, which embrace the period of Shri Gian Prakash and Shri T.N. Chaturvedi till 1989 are discussed in Chapters 9 and 10. Revival of Commercial Audit, the growth of the theory and practice of Government commercial audit, the Indian Companies Act 1956 and subsequent amendments, the financial and organisational changes including the induction of the Audit Board and appraisals, the results of commercial audit and their examination by the Committee on Public Undertakings in the Parliament and selected appraisals to bring out the landmarks in reporting in commercial auditing are discussed in Chapters 12, 13 and 14. The re-organisation and expansion of Indian Railways, changes in Railway Audit - its organisation, growth and expansion, both the functions and the techniques, results of audit, selected paras and appraisals included in the Railway Audit Reports along with the recommendations of PAC and Government decisions on them are dealt with in Chapters 15 and 16.

Volume II contains 14 Chapters on functional topics, diverse types of audit of Government of India, conducted by CAG, the audit results and their examination by the Public Accounts Committee and the Committee on Public Undertakings. Chapter 17 deals with the growth and development of audit of receipts, both prior to and after 1960, organisation and functions in the headquarters and in the field, specialisation, processing of audit results, and diversification of Audit Report and their multiplication, examination by PAC and their recommendations and impact of receipt audit in the sphere of Direct and Indirect taxes. There are two Chapters on Defence Audit, Chapter 18 on the growth and development of Defence Audit since 1947, the organisational and functional changes, the induction of Chief Auditor/Director of Audit (Ordnance Factories), Director of Audit, Air

Force and Navy, changes in Defence Audit Reports, their examination by PAC and their recommendations along with Government decisions and Chapter 19 on selected paras and reviews, few of which made history, when they were reported, right from purchase of Jeeps to Howitzer guns and HW submarines. All the Civil Audit Offices of the Government of India, are dealt with in seven Chapters. Chapter 20 is on Posts and Telecommunications, Accountant General, P&T, its expansion until 1975, transfer of accounting functions to the Department in 1976, the organisation of Director of Audit, changes in audit and reporting, the turnover of Reports and their contents, their examination by the PAC along with recommendations and selected highlights from Reports. The Accountant General, Central Revenues, a century old institution, which was the premier accounting and audit office of Government of India till 1975, is dealt with in two chapters. Chapter 21 deals with growth and development after Independence, decentralisation and specialisation, transfer of accounting functions to the various departments of the Government of India during 1976-77, reorganisation of office and functions, redesignation as Director of Audit, expansion, creation of Director of Audit II and changes in reporting, their mix and contents. Recent reports, selected reviews and appraisals of horizontal and vertical nature covering the country as a whole extracted from the Audit Reports are dealt with in Chapter 22. The Accountant General, Commerce, Works and Miscellaneous formed in 1956, its growth and expansion, separation of accounts, redesignation as Director of Audit, Commerce, Works and Miscellaneous, distinctive specialisation on Commerce and Works topics, contributions to Audit Reports on Union Government, examination of paras by the PAC and selected appraisals are discussed in Chapter 23. Creation of Director of Audit, Commerce, Works and Miscellaneous II for auditing expenditure on Science and Technology and its contribution are dealt with in Chapter 24. The Accountants General (Central) at Calcutta and Bombay, their initial duties and functions, expansion, redesignation as Directors of Audit for audit of revenue receipts of the Union Government in the respective circles, their contribution for Audit Reports on Direct and Indirect Taxes, selected paras and reviews are discussed in Chapter 25. The two audit offices abroad viz., Director of Audit, Indian Accounts, London and Director of Audit, Indian Accounts, Washington are discussed in Chapter 26. The Conferences of Accountants General, Directors of Audit of all branches held right from Shri A.K. Chanda's time to the last Conference held by Shri T.N. Chaturvedi, which were the only common meetings of Principal Accounting and Auditing Officers of a professional character, their contribution to the lexicon of Government Accounting, Auditing,

Reporting, formulation of policies, programmes, technical and personnel administration of the IAAD etc., constitute Chapter 27. The PAC in the Parliament has performed a unique role in ensuring accountability in the Indian system of parliamentary financial control and their performance, achievements and shortcomings, which call for new measures to improve the coverage and effectiveness, so as to render accountability comprehensive and complete are dealt with in Chapter 28. The demand of the Members of Parliament to have a voice and control on the proliferating public sector enterprises materialised in the formation of the Committee on Public Undertakings in 1964 and their performance and achievement *vis-a-vis* the terms of reference given by Parliament and shortfalls both in coverage of Public Sector Undertakings and examination of Audit Reports, which need to be corrected, if accountability of Public Sector Undertakings is to be complete and total form the subject matter of Chapter 29. After Independence CAG has forged new external links with other SAIs, particularly, in the Commonwealth, INTOSAI, ASOSAI and other international forums and contribution towards international training for the auditing and accounting personnel of the developing and developed countries of Asia and Africa, which are dealt with in Chapter 30.

Volume III deals with the accounting and auditing of the transactions of eleven States and one Union Territory with Legislature, including the Public Sector Undertakings and the autonomous bodies financed by them, which were more or less successors of ex-provinces of the British India. The offices of Accountants General, Assam, Meghalaya, Arunachal Pradesh and Mizoram, Bihar, West Bengal, Uttar Pradesh, Punjab, Maharashtra, Tamil Nadu, and Pondicherry are dealt with in this Volume. Their origin, growth and development, expansion, diversification, and overall performance in the sphere of auditing, accounting, and reporting, examination of their Reports by PAC and COPU are discussed in extenso. While dealing with these offices subsequent changes, both functional and territorial, have also been dealt with, for the sake of unity of presentation, despite disparity in time sequence.

The offices engaged in auditing and accounting functions of the Governments of remaining States, including the Public Sector Undertakings and autonomous bodies are dealt with in Volume IV. These cover Orissa and former Part 'B' States as well as new States created later, namely, the offices of Accountants General, Madhya Pradesh, Andhra Pradesh, Karnataka, Kerala, Rajasthan, Gujarat, Himachal Pradesh, Haryana, Jammu & Kashmir, Tripura, Sikkim,

Manipur and Nagaland. A distinctive function performed by CAG of India relate to audit of Public utilities carried out by the respective Accountants General in each State and their growth, development and performance which are discussed in a separate chapter. It is not all work and no play in the IAAD and the IAAD with its large net work of offices distributed all over the country has its own and these are briefly discussed in a separate chapter on cultural and recreational activities. Also, the organisation with large number of employees under one single Authority spread over the entire country, has recognised associations of different categories of employees and their growth and development and the Management's relation with them are discussed in a separate chapter.

The last chapter, "Summing up", focuses attention on the broad lessons, that have emerged out of the analytical history spread over the four volumes, as also the dents in the present Constitutional and statutory provisions, which threaten to undermine the basic structure, bequeathed by founding fathers of the Constitution. These require urgent repairs by the Government of India and State Governments, so that State Audit in India can be equipped to meet not only the changing requirements of the Executive and the Legislatures of the Union and State Governments, but also the challenges of the 21st Century in a sub-continent on the move, in a manner and style, that will satisfy the people at large. While the basic structure of the institution needs to be protected from any encroachments by executive aberrations and bureaucratic innovations under the clock of committed dynamism and modernism, certain areas of massive Government investments kept out of CAG's jurisdiction by Government for various reasons, which constitute aggregate investment of over Rs. 1315 crores spread over 150 companies/corporations ought to be given another look in the altered circumstances, so as to eliminate these islands of anachronism in a Democracy to complete the cycle of accountability. The recommendation of the Administrative Reforms Commission, the past CAsG, which were supported by several distinguished Members of the Parliament belonging to different political parties, whenever they came up for discussion in the Parliament, for entrusting the audit of large negotiated contracts involving heavy financial outlays, to CAG, which were not accepted on legal and administrative considerations by the then Government, and - strangely the same spending Ministries of Government of India who were vehemently opposed to vesting CAG with such function have come in for sharp criticism for some of the recent deals on negotiated contracts from the Parliament, media, and the people at large-deserve to

be looked into afresh in the changed circumstances to ensure clean administration and avoid alleged leakages of public monies. If the SAIs of other countries can carry out such function, there is no need to suspect the Indian CAG. Findings of Audit on few of these deals have proved beyond doubt CAG's competence and reliability in auditing them, much to the embarrassment of the executors of such agreements. Simultaneously, certain weaknesses in the organisation, structure, management and scheme of delegation - technical, administrative and reporting - in the IAAD, which have surfaced during the last four decades of its functioning, constitute an important area to be looked into by the CAG. These are likely to intensify in future, in view of the structural changes in Indian Polity round the corner, in the scheme of democratic decentralisation and likely deployment of larger resources to the rural sector, on which all political parties are agreed. The necessary internal reforms brook no delay and is within the authority and competence of CAG. The financial and accounting reforms introduced in 1976 cannot any longer be avoided by State Governments for obvious reasons and the accounting and entitlement functions thrust on CAG due to historical reasons and other considerations, which are fast becoming no man's land, because of the inherent organisational and jurisdictional deficiencies, despite the best efforts of IAAD, have to be taken over by the Administrations in the State in their own interests, and the Department can be left to devote its time and energy for audit work, which expand with activities of Governments. As both the Union and the State Governments have desired to preserve and persevere with a common Supreme Audit Authority in India, as evidenced before the Justice Sarkaria Commission, CAG's responsibility to complete audit and present Reports to both the Union and State Governments more or less simultaneously and in time is undiminished and the IAAD has to discharge it in full measure. The Department had always a system of reporting to discharge its accountability to the CAG. The present CAG has allowed it to be rendered public for right reasons, which exposes the institution to public glare. It has become all the more necessary to evolve systems and procedures by which the Principal Audit Officers in the States are able to deliver the goods with greater speed and promptitude than what is obtaining in many States.

The work has entailed considerable study and research within the short time available at my disposal of records, files, publications, reports, accounts etc. in the CAG's office and in the Secretariat of the Lok Sabha. For the growth and development of certain functions both in the Headquarters and also in the field offices, particularly relating to specific

functions or individual offices responsible for the performance of the functions, accounting and audit of the Government of India or State Governments, I have necessarily relied mostly on the material, information and data furnished by the Directors of Audit engaged in auditing the transactions of the Government of India - Posts and Telecommunications, Railways, Commercial Audit, and Civil Audit offices - and Accountants General (A&E) and (Audit) in the States. The officers and staff in the Headquarters office have also supplied me with what is relevant to each one's work. As the basic records relating to individual offices are kept in each field office, their coverage and treatment are limited by, what was made available by the heads of these offices, which account for any disparity in presentation or description, notwithstanding the commonality in their age and range of functions. This was inevitable under the circumstances, but I have endeavoured to present the common maximum based on contemporaneous records, publications, documents available. I have also made use of the material contained in Ramayyar's Book, as permitted by the CAG, in so far as the history of the IAAD prior to 1950 is concerned, since the relevant old records, files and papers are no longer available.

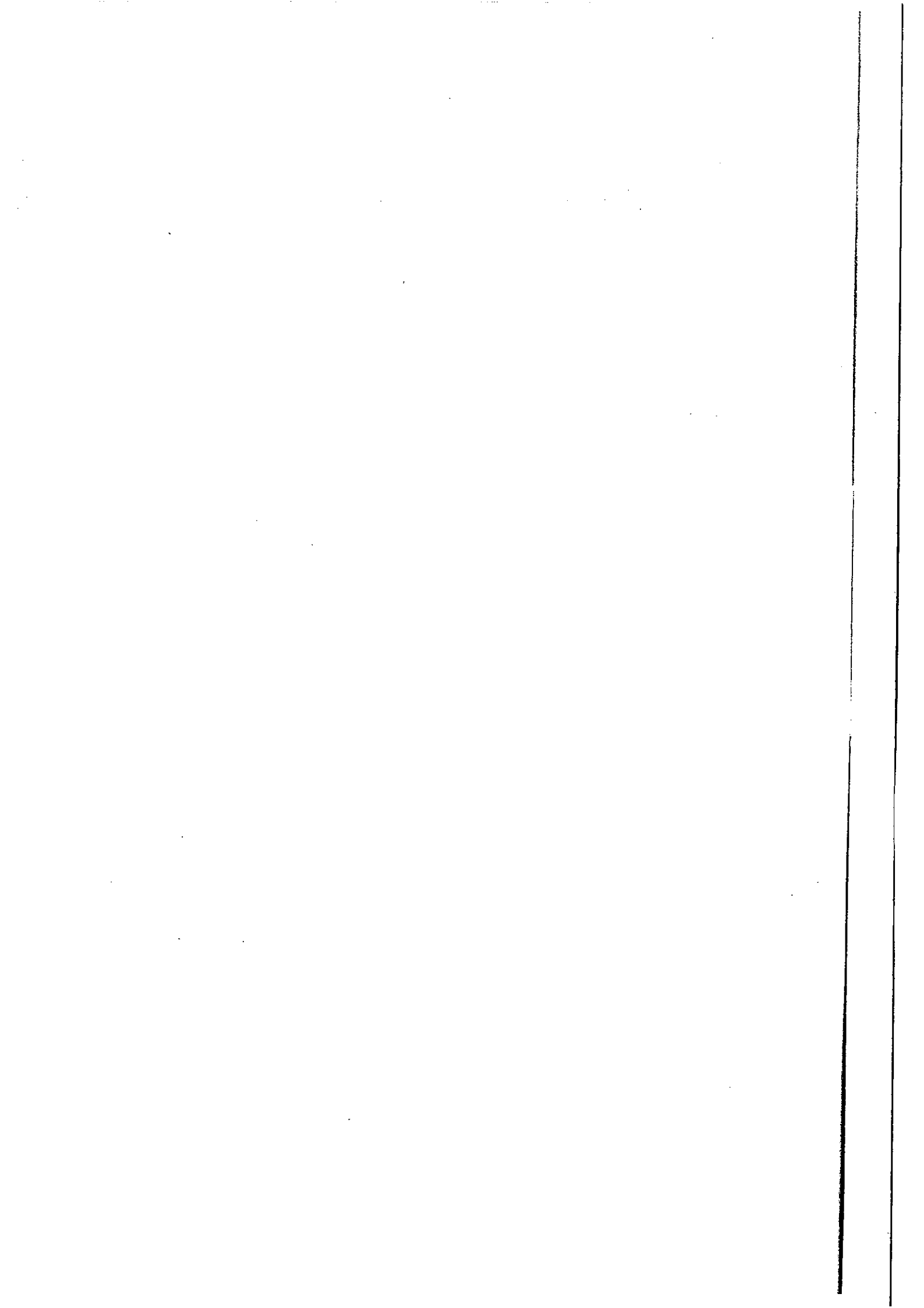
I should acknowledge with gratitude the assistance and encouragement given by Shri T.N. Chaturvedi, in not only providing all the facilities to enable me to carry out the study and research during the limited time available, but also for the various suggestions made by him from time to time, while shaping the Book. I am also thankful to the Deputy Comptroller and Auditors General, the Additional Deputy Comptroller and Auditors General, the Directors and other heads of divisions in the Headquarters office for the courtesy and consideration extended to me while executing the project. Equally indebted, I am, to the various Directors of Audit of Union Government transactions, Civil, P&T, Commercial, Railways and Union Receipts, and the Principal Accounting and Audit officers in each State, namely the Accountants General (Accounts and Entitlement) and, (Audit) for furnishing the material, information and data relating to their offices, despite their own pre-occupation with their current work, which I gratefully acknowledge.

Shri A.N. Sankaran, who worked with me from the very beginning and Shri N.S. Kuppaswamy, who joined in the middle of 1988, have laboured hard with me day in and day out and spared no efforts to meet my innumerable and exacting demands and their invaluable help and assistance have helped me a good deal in completing the Books in a short time span, which I fully appreciate and acknowledge. That they were elevated to the IAAS at the penultimate phase of the project is a

measure of their own excellence and achievement, which gives me immense satisfaction. The entire burden of stenography and typing was borne by Shri Bhim Dutt, Mrs. A.L. Eapen and during the final phase by Shri A.K. Ghosh, and the number of pages in four volumes of the Book bear ample testimony to the gigantic efforts, which merit appreciation. The various charts and graphs in the Book have been prepared and finished by Shri N.P. Waria, Deputy Director (Statistics), who has done a magnificent job thoroughly and I acknowledge his contribution for the Book. Both the Director (O&M) and Secretary to the CAG have spared no efforts to sort out the various problems and difficulties confronted by me, while writing this Book, which I gratefully acknowledge.

Bangalore.
February 15, 1990

R.K. CHANDRASEKHARAN
Formerly Dy. CAG of India



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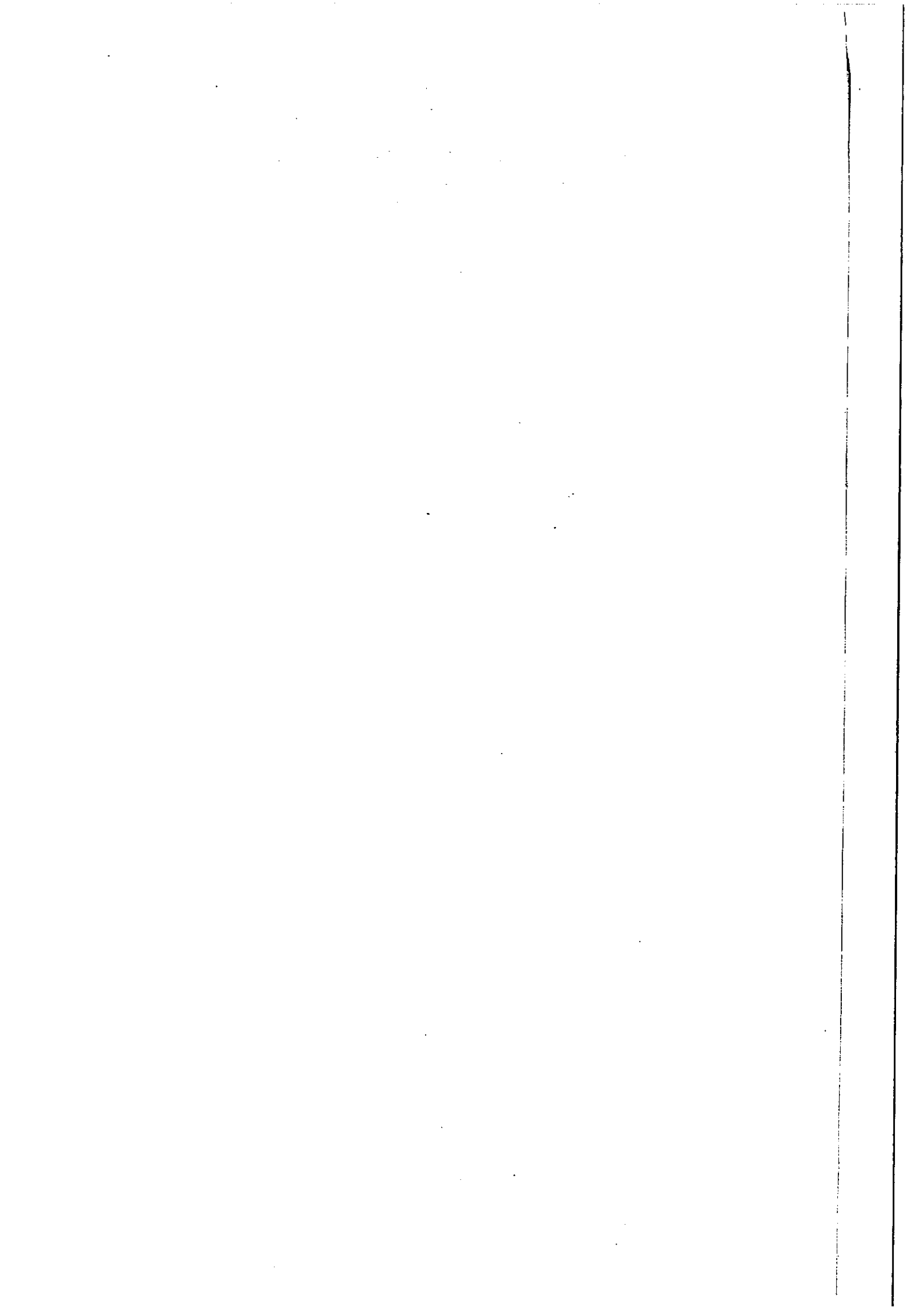
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1 The Auditor General of India

GENESIS

Originally called the Accountant General to the Government of India in 1858, and later, designated as the Auditor General of India in 1860, the Comptroller General of Accounts in 1866, the Comptroller and Auditor General in 1884, the Auditor General in India under the Government of India Act 1919, and the Auditor General of India under the Government of India Act 1935, he was entrusted with the responsibility for the accounting and audit of the Government of India and eleven provincial governments and performed his duties and functions through the Indian Audit and Accounts Department. There were fifteen Auditors General, excluding those who held short tenures during the leave of absence of the regular Auditor General - right from 16th November 1860, when Hon. Sir Edmund Drummond held the office for sixteen months, till 14th August 1947, when the last British Auditor General - Sir Bertie Monro Staig, who had assumed the office on 11th April 1945, continued as Auditor General after taking oath of allegiance to the Indian Dominion. The total receipts and disbursements of the Government of India and Provinces in 1945-46 were Rs. 4253.98 crores and Rs. 3980.15 crores respectively. The IAAD had one directing, controlling, and coordinating office at Simla and four offices engaged in accounting and audit of the federal Government, including Indian Railways, Military Department and Posts and Telegraphs and eleven offices engaged in audit of 11 provincial governments, including Coorg. The expenditure of the Department was Rs. 1.49 crores. The Indian Audit and Accounts Department had functioned over a century as the Accounting, except for Military (from 1921) and Railways (from 1929), and Auditing authority of the Government of India and provincial governments of British India. The Department was an integral part of Indian administration, not only in the performance of the duties and functions assigned to it, but also in the matter of settlement of the findings of Audit at different levels. It was the warp and woof of Indian fiscal administration and provided common and unified accounting and auditing arrangements in the whole of British India. Successive Auditors General had fashioned the institution more or less on the pattern of the Comptroller and Auditor General of United Kingdom and the principles, rules, systems, procedures adopted by them for performing the assigned functions were based on the British model, except such changes, as were found necessary, to suit the political,

administrative, economic and social conditions of India. The Indian Independence Act, 1947 created two Dominions of India and Pakistan from the 15th August 1947. When India "woke to life and freedom at the stroke of the midnight hour" of the 14th August, 1947, Sir Bertie Monro Staig was the Auditor General. India remained a Dominion and was governed by the Government of India Act of 1935, with such modifications and adaptations as the Governor General made under the Indian Independence Act, 1947. The Government of India (Audit and Accounts) Order, 1936 was adapted by the Indian Provisional Constitution Order, 1947. Shri V. Narahari Rao, who was Secretary to Government of India, Finance Department, became the first Indian Auditor General of the free Dominion of India on 15th August 1948. He had joined the IAAS on 5th March 1917 and served in various capacities for over thirty years, which included deputation to the Madras Provincial Government and to Government of India, including Crown Finance. The Constitution of India promulgated on 26th January 1950 provided for the Comptroller and Auditor General of India, who was entrusted with the accounting and auditing functions of the Union Government and the State Governments, including the centrally administered areas/Union Territories and until the legislation envisaged in the Constitution to regulate the duties and powers of the CAG was made by the Parliament, he was empowered to perform such duties and such powers in relation to the accounts of the union and of the states, as were conferred on or exercisable by the Auditor General of India immediately before the commencement of the Constitution.

Sir Mager Frederic Gauntlett, who was the Auditor General during 6th July, 1918 to 16th November, 1929 had remarked that "Audit in India is entirely under the control of the Auditor General and the statute therefor refers to the Auditor General and his duties and does not directly mention the Audit Department. To grasp clearly the position of Audit under the Reform Scheme, we have to study the statutory provisions regarding the Auditor General". What he said in the context of 1919 Reforms, was equally true of the Government of India Act 1935 and the Audit and Accounts Order 1936 issued thereunder. The Accounts and Audit under British administration was built around the institution of the Auditor General of India, who was the head of the Indian Audit and Accounts Department, after it came to be recognised as one of the established central government departments of the Government of India.

THE STATUTE IN 1947

Under Section 166 of the Government of India Act 1935 the Auditor General of India was appointed by His Majesty and could be removed from office in like manner and on like grounds as a Judge of the Federal

Court. His conditions of service were prescribed by his Majesty in Council. On vacating office, he was debarred from holding any other post under the Crown in India. Neither the salary nor his rights in respect of leave of absence, pension or age of retirement could be varied to his disadvantage after his appointment. The salary, allowances and pension payable to or in respect of an Auditor General, was a "charged" item on the revenues of the federation. The Auditor of India Home Accounts, London, was under his general superintendence. Proposals for appointment of the Auditor General were initiated by the Secretary to the Governor General (Public). A minimum tenure of five years was fixed for the Auditor General. But, an Auditor General who at the date of his appointment was a member of the Indian Civil Service vacated his office on completing 35 years in that service and any other person appointed as Auditor General, on attaining the age of 55 years or if at the date of his appointment, he had attained the age of fifty, after holding office for five years. The salary was fixed at the rate of Rs. 60,000 per annum under the Government of India (Audit and Accounts) Order 1936. The leave was regulated by the rules of the Service to which he belonged, as contained in the Civil Service Regulations till the 31st December 1921 and the Fundamental Rules from 1st January, 1922 onwards and his service as Auditor General was treated for the purpose of those rules, as continuing service counting for leave in the service to which he belonged. Any other person appointed as Auditor General was granted leave on such terms and conditions as prescribed by order in Council. The Governor General was empowered to grant or refuse leave to him. He was eligible for such pension as admissible under the rules for the time being applicable to the service to which at the date of his appointment he belonged, his service as Auditor General being reckoned for the purposes of those rules as Service for pension including higher additional pension, on such terms and conditions as may be prescribed by or under these rules and any other Auditor General was eligible for such pension, if any, as may be prescribed by order in Council. In case Auditor General vacated his office, his eligibility for leave was as admissible under the rules applicable to the service to which he belonged before retirement and pension as ultimately computable. Other conditions of service were governed by the rules for the time being applicable to an officer of non-Asiatic domicile, or, of Asiatic domicile, as the case may be, appointed by the Secretary of State in Council or the Secretary of State to a Civil Service in India and holding the rank of Secretary to Government. No specific mention was made of arrangements to be made in the case of temporary vacancies or absence from duty, though such provisions had been made in respect of Chief Justice of India and the Chief Justice of a High Court, presumably

in view of para 19 of the Order, which prohibited any delegation to any other person. He then occupied a high position in order of precedence, above the Additional Member of the Council of the Governor General for making Laws and Regulations and below Military officers above the rank of Major General.

DUTIES AND FUNCTIONS

The functions of the Auditor General were derived mainly from the provisions of Sections 166 to 169 of the Government of India Act, 1935 under which he was entrusted, subject to certain specified reservations, with the duty of keeping the accounts of the Central Government and of the Provinces and of auditing those accounts. He was also charged with the duty of auditing the accounts of His Majesty's Representative for the exercise of the functions of the Crown in its relation with Indian States (Section 171) and of the Federal Railway Authority [Section 190(1)] but no statutory responsibility for keeping these accounts was imposed upon him.

Accounting Functions : Under Section 168 of the Government of India Act, 1935, "The accounts of the Federation shall be kept in such form as the Auditor General of India may, with the approval of the Governor General, prescribe and, in so far as the Auditor General of India may, with the like approval, give any directions with regard to the methods or principles in accordance with which any accounts of Provinces ought to be kept, it shall be the duty of every Provincial Government to cause accounts to be kept accordingly". The Audit and Accounts Order, 1936 spelt out specifically the accounting functions in paras 11 to 17, as under :

- "11(1) Subject to the provisions of this paragraph, the Auditor General shall be responsible for the keeping of the accounts of the Dominion and of each Province, other than accounts of the Dominion relating to defence or railways and accounts relating to transactions in the United Kingdom.
- (2) As respects accounts of the Dominion, the Governor General, and as respects accounts of a Province, the Governor, may after consultation with the Auditor General, make provision by rules for relieving the Auditor General from responsibility for the keeping of the accounts of any particular service or department.
- (3) The Governor General may, after consultation with the Auditor General, make provision by rules relieving the Auditor General from responsibility for keeping accounts of any particular class or character.

- (4) The Auditor General shall, from the accounts kept by him and by the other persons responsible for keeping public accounts, prepare in each year accounts (including in the case of accounts kept by him) appropriation accounts showing the annual receipts and disbursements for the purposes of the Dominion and each Province, distinguished under the respective heads thereof and shall submit those accounts to the Dominion Government or, as the case may be, to the Government of the Province on such dates as he may, with the concurrence of the Government concerned, determine.
- (5) Notwithstanding anything in this paragraph, the Auditor General shall comply with any general or special orders of the Governor General or, as the case may be, a Governor as to the head of account under which any specified transaction or transactions of any specified class is, or are, to be included.

In issuing any such order as aforesaid the Governor General or Governor shall consult the Auditor General.

12. It shall be the duty of the Auditor General to prepare annually, in such form as he, with the concurrence of the Governor General, may determine, and to submit to the Governor General a General Financial Statement incorporating a summary of the accounts of the Dominion and of all the Provinces for the last preceding year and particulars of their balances and outstanding liabilities, and containing such other information as to their financial position as the Governor General may direct to be included in the statement.

15. It shall be the duty of the Auditor General, so far as the accounts for the keeping of which he is responsible enable him so to do, to give to the Dominion Government and to the Government of every Province such information as they may from time to time require, and such assistance in the preparation of their annual financial statements as they may reasonably ask for.

16. The Dominion and every Province shall give to him such information as he may require for the preparation of any account or report, which it is his duty to prepare.

17. The Auditor General shall have authority to inspect any office of Accounts, which is under the control of the Dominion or of a Province, including Treasuries and such offices responsible for the keeping of initial or subsidiary accounts as submit accounts to him."

The accounts of the Central Government were compiled by the AGCR and the Provincial Governments by the Accountants General of the Provinces, mostly out of the accounts received from the Treasuries, departmental offices and sub-accounting offices and detailed procedure

for receipt, scrutiny and compilation of accounts were laid down in the manual of each office. The annual accounts of each Government, known as the Finance Accounts, were prepared and submitted to the Central and Provincial Governments on prescribed due dates. A general financial statement incorporating a summary of the accounts of the union and of the state for the last preceding year and particulars of balances and outstanding liabilities known as the Combined Finance and Revenue Accounts was prepared by the Auditor General's Office and submitted to Government of India.

The Combined Finance and Revenue Accounts of the Central and State Governments in India which were designed to present the accounts of all the Governments in India on a common and comparable basis comprised (1) the General accounts and (2) the Subsidiary accounts and were prefaced by an introductory note in which a brief and general description of the structure of the government accounts was given in addition to a brief historical survey of the important stages leading upto the existing financial and accounting system. The General accounts contained a general summary of the receipts and disbursements of the Central Government and of each of the State Governments, showing all receipts on one side and all disbursements on the other; the receipts as well as the disbursements against the several heads were exhibited in parallel columns for each Government. To this were added accounts presenting the receipts and disbursements of the Central Government by major heads, and similar accounts for State transactions, the receipts as well as disbursements of the Central Government by major heads, and similar accounts for State transactions, the receipts as well as disbursements in the latter accounts being shown in parallel columns for each Government. The Subsidiary accounts gave the details generally by minor head of the figures shown in the General accounts. They also exhibited the balances at the commencement and close of the year under Debt, Deposit, etc., heads. The distribution of expenditure between 'Charged' and 'Voted' was shown in lump at the end of each relevant subsidiary account except that in regard to Debt, etc., heads such distribution was shown in a separate statement. An explanatory note was prefixed to each subsidiary account explaining the account itself, which contained a brief description of the nature of the transactions and any important entries dealt with in it. Both in the General accounts as well as in the Subsidiary accounts the State transactions pertaining to Coorg were shown in a separate column as for State Governments. The Combined Finance and Revenue Accounts were prepared mainly from the Accounts of State Governments and of the Central Government (Civil) sent by each Civil Accounts Officer; Accounts of the Posts and

Telegraphs Department received from the Accountant General, Posts and Telegraphs; Railway Capital and Revenue Accounts received from Ministry of Railways (Railway Board); Accounts of Defence Services received from Controller General of Defence Accounts; Accounts of sterling transactions of the Central Government finally brought to account in the books of the Accounting officers in England, received from Accountant General, Commonwealth Relations office and the Chief Accounting Officer to the High commissioner for India in London; and Subsidiary returns received through other sources.

The Combined Finance and Revenue Accounts for the year 1945-46 were finalised on 9th April 1947.

Auditing functions: The duties and powers of the Auditor General in relation to the audit of the accounts of the Central and Provincial Governments as prescribed in the Audit and Accounts Order were as under :

"Paragraph 13(1) - It shall be the duty of the Auditor General -

- (i) to audit all expenditure from the revenues of the Federation and of the Provinces and to ascertain whether moneys shown in the accounts, as having been disbursed, were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
- (ii) to audit all transactions of the Federation and of the Provinces relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business;
- (iii) to audit all trading, manufacturing and profit and loss accounts and balance sheets kept by order of the Governor General or of the Governor of a Province in any department of the Federation or of the Province; and in each case to report on the expenditure, transactions or accounts so audited by him.

(2) The Auditor General may with the approval of, and shall if so required by, the Governor General or the Governor of any Province audit and report on -

- (i) the receipts of any department of the Federation or, as the case may be, of the Province;
- (ii) the accounts of stores and stock kept in any office or department of the Federation or, as the case may be, of the Province.

The Governor General or the Governor of a Province may, after consultation with the Auditor General, make regulations with respect to the conduct of audits under this sub-paragraph.

(3) This paragraph shall not apply to accounts of transactions in the United Kingdom, and the powers and duties of the Auditor General with respect to the accounts relating to such transactions shall be as specified in section one hundred and seventy of the Act."

"Paragraph 14 - If the Governor General appoints an independent officer to audit sanctions to expenditure accorded by the Auditor General, the Auditor General shall produce for inspection by that officer all books and other documents relating thereto and give him such information as he may require for the purposes of his audit."

"Paragraph 16. - The Federation and every Province shall -

- (i) supply to the Auditor General free of charge the annual Budget estimates of the Federation or of the Province and any other publications issued by a department of the Federation or of the Province, which he may require for purposes connected with his audit functions, and
- (ii) give to him such information as he may require for the preparation of any account or report which it is his duty to prepare."

"Paragraph 17 - The Auditor General shall have authority to inspect any office of accounts in India which is under the control of the Federation or of a Province, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts as submit accounts to him."

"Paragraph 18 - The Auditor General shall have authority to require that any books and other documents relating to transactions to which his duties in respect of audit extend, other than books or documents which are in the United Kingdom, shall be sent to such place as he may appoint for inspection by him :

Provided that, if the Governor General or the Governor of a Province certifies that any such book or document is a secret book or document, the Auditor General shall accept as a correct statement of the facts stated in that book or document certified as correct by the Governor General or, as the case may be, by the Governor."

"Paragraph 19 - Anything which under this Order is directed to be done by the Auditor General may be done by an officer of his department authorised by him, either generally or specially :

Provided that except during the absence of the Auditor General on leave or otherwise, an officer shall not be authorised to submit on his behalf any report which the Auditor General is required by the Act to submit to the Secretary of State, the Governor General or the Governor of a Province."

Note : These provisions may be subsequently varied or extended by an Act of the Federal Legislature, vide Section 166 (3) of the Act.

The Auditor General was empowered to frame rules and to give directions in all matters pertaining to the audit of expenditure, and to the audit of such transactions and accounts as he was required to audit subject to any limitation contained in the Audit and Accounts Order and all rules and directions issued by the Auditor General in the form of code, rules, or otherwise in respect of the method and extent of audit and the raising and pursuance of objections derived their authority from the provisions of the Audit and Accounts Order, 1936. The Audit Code was issued by Sir Ernest Burden on 21st November 1938, which superseded all the earlier rules and instructions contained in the earlier edition issued in 1921. The audit of receipts or of accounts of stores and stock of any office or department of the Central Government or of a Province was conducted under such regulations as was made by the Governor General or the Governor of the Province after consultation with the Auditor General. The rules and directions of the Auditor General pertaining to audit as contained in the Audit Code and or Manuals issued by his authority were primarily intended to be applied in relation to the accounts of the Central Government or of the Provinces but they were made applicable *mutatis mutandis* to the accounts of any other authority, the audit of which was undertaken by or on behalf of the Auditor General.

Audit Reports: Under Section 169 of the 1935 Act, the reports of the Auditor General relating to the accounts of the Central Government were submitted to the Governor General, who caused them to be laid before the Federal Legislature and the reports of the Auditor General relating to the accounts of a Province were submitted to the Governor of the Province, who caused them to be laid before the Provincial Legislature. The accounts submitted to the Legislature with the Audit Reports embraced, besides the Appropriation Accounts, the whole of the accounts of the Central Government or of the Province including accounts of receipts and of all transactions relating to Debt and Remittance heads. The reports of the Auditor of Indian Home Accounts relating to audit of transactions in the United Kingdom affecting the revenues of the Central Government and of the Provinces were submitted by him under Section 170(4) of the Act, to the Auditor General for inclusion in the reports, which the latter was required to prepare for submission to the Governor General or, as the case may be, to the Governor of the Province. The annual reports

of the Auditor General on the accounts of the Crown Representative relating to the discharge of the functions of the Crown in relation to Indian States were made to the Secretary of State under Section 171 of the Act. The Auditor General's reports on the accounts of the Federal Railway Authority were to be submitted to the Governor General.

Other Duties: Besides the duties and functions relating to the keeping and auditing of and reporting upon the accounts of the several authorities in India, he was required (i) under Section 139(3) of the Act to determine the amount of contribution payable by the Ruler of any Federated State to the Federal revenues in lieu of levying Corporation Tax in such a State; (ii) under Section 144(1) of the Act to ascertain and certify the net proceeds of any tax or duty mentioned in Chapter I of Part BII of the Act, or of any Part of such tax or duty, in or attributable to any area; and (iii) under paragraph 4 of Part IV of the India and Burma (Burma Monetary Arrangements) Order, 1937, to calculate the amount payable to or by the Government of Burma at the end of a financial year on account of the profit or loss attributable to the amount of India nickel and bronze coins passing into and returning from circulation in Burma. Section 166(3) of the Act was held to be exhaustive of the means, in so far as entrustment of duties other than those specified in the Act were concerned. But nothing in the Act precluded him from undertaking any additional duties by consent and on such terms and conditions as may be settled upon between him and the Government concerned after consultation with the Governor General. The audit of the accounts of local authorities and public or quasi-public bodies under the control of the Central and Provincial Governments, e.g., Cantonment Funds, Municipal Funds, etc. could be entrusted to him by consent. There was nothing to prevent the inclusion in Central or Provincial legislation, otherwise within the competence of the Federal or Provincial Legislature respectively, of a provision to the effect that the accounts of any specified public body shall be audited by him during such time as he with the concurrence of the Governor General consents to do so and otherwise by some specified agency. The existing statutory provisions imposing duties on him (or any of his officers) otherwise than in relation to the accounts of the Central Government and of the Provinces continued to remain in force only on such consent basis. He also audited pension payments on behalf of certain Colonial Governments and Indian States, when they were paid in British India, on a consent basis. As a reciprocal arrangement the Auditor General of India and the Auditor

General of Burma agreed to accept audit of pension payments conducted by the one on behalf of the other, the audit of such charges being conducted to the prescribed extent and accepted on the certification of the Auditor General of the country in which the pensions were paid. This procedure was extended by mutual agreement between the two Auditors General to other payments made in India on behalf of Burma or *vice versa*.

The Accountant General and other officers and establishment of the Indian Audit Department performed all duties and functions as were imposed on, or undertaken by, the Auditor General under the provisions of the Act, or of any Order in Council or Rules issued thereunder, or under any executive arrangements, subject to the proviso under paragraph 19 of the Audit and Accounts Order.

RELATIONS WITH THE EXECUTIVE GOVERNMENT

Under the provisions of Part X of the Act, the Secretary of State retained the power of issuing or amending rules affecting the conditions of service of certain services of the Crown in India. The Auditor General possessed the right to compel a reference to the Secretary of State, where, in the course of audit, he found that any authority in India has usurped a power retained absolutely by the Secretary of State. While retaining ultimately powers of this description, the Secretary of State delegated the exercise of some of them to certain authorities in India. The relations of Audit with such authorities in their exercise of such powers were the same, as if such powers were inherently their own. The responsibility for financial operations of the Central Government or of any Province, as for all exercise of executive authority, rested on the Governor General or on the Governor of the Province respectively, though the Secretary of State retained some measure of control through directions issued under Section 14 and *kindred* Sections of the Act. The responsibility for seeing that such directions, when they were of a financial or quasi-financial character were observed rested with the Finance Department of the Government concerned and not on the Auditor General. As a matter of established convention, the Finance Department of the Central or of the Provincial Government concerned communicated all such directions to him, who informally brought to the notice of that Department any circumstances in which he considered that they were infringed. If he noticed that there has not been, where there should be, prior consultation with the Secretary of State under any of his directions he brought the failure to the notice of the Finance Department informally but he did not, in such a case, raise a formal objection or call for the sanction of the Secretary of State.

The Accountant General was required to work in close co-ordination with the Finance Department of the Government concerned, enforce propriety and secure regularity in the public expenditure. Generally under the Rules of Business framed under Sections 17(3) and 59(3) of the Act, the Finance Departments of the various Governments were the authorities primarily responsible for administering the financial rules of the Government and seeing that suitable accounts were maintained by other departments and establishments subordinate to them. The Accountant General rendered all legitimate assistance to the Finance Department and not only in cases where his advice was sought with regard to application of financial rules or orders concerning which doubts arose. At the same time the Accountant General was entitled to seek the support of the Finance Department in cases of disregard of rule or order and ordinarily, he should, if necessary, refer to Finance Department before taking any other action open to him whether to secure a satisfactory settlement of an audit objection, or for the production of any papers or information under paragraph 16 of the Audit and Accounts Order, or for any other purpose. Statements of the principles agreed by the Auditor General governed the relations between Audit and the Central and other Executive Governments, which were framed in the form of 'Concordats'. The terms of each 'Concordat' and connected instructions, which were published documents, were to be observed as the basis of the relationship between Audit and the Executive and the Accountant General was personally responsible for their observance.

CROWN REPRESENTATIVE

The audit of the accounts relating to the discharge of the functions of the Crown in relation to Indian States, which the Auditor General was required to conduct under the provisions of Section 171 of the Act was conducted in accordance with such principles and rules, as were applicable to the transactions of the Central Government, in so far as they were not inconsistent with the statutory position of the Crown Representative. The financial powers of the Crown Representative were conveyed to him through Letters Patent. The duty of prior consultation in certain cases with the Secretary of State has been laid upon the Crown Representative, but the Auditor General did not take cognizance of any limitation on the financial powers of the Crown Representative as imposed by that authority, and did not call in question any order as requiring the prior approval of the Secretary of State. The arrangements existing in respect of directions of the Secretary of State under Section 14 of the Act applied *mutatis mutandis* in the Crown Representative's

sphere. The Political Department was invested with some of the powers of the Crown Representative and the remaining financial powers were exercised under his orders by his Finance Department. The Indian Audit Department accepted the authority of the Political Department only to the extent of the powers delegated to it, and demanded the authority of the Crown Finance Department for any financial order beyond those powers. Provincial Governors in respect of matters entrusted to them by the Crown Representative under Section 287 of the Act and other authorities subordinate to the Crown Representative exercised such financial powers, as were delegated to them by the Crown Representative and Audit was conducted against such delegation of powers. Audit verified that the provisions of the Act particularly Sections 145, 146 and 148 were correctly applied in the financial arrangements of the Crown Representative's Departments and examined whether expenditure, provision for which has been demanded under Section 145 was properly covered by that Section and brought any item to notice with regard to which there was any doubt about the propriety of its inclusion. Audit did not, however, have any power to exclude on its own motion any item from the accounts of the Crown Representative, which has been classified therein by a competent authority. Financial sanctions accorded by the Political Department in exercise of its delegated powers were communicated direct to the Accountant General concerned by the Department itself. Copies of all financial sanctions, which exceeded the delegated powers of the Political Department were communicated to the Accountant General concerned by the Crown Finance Officer, whose signature conveyed the acquiescence of the Crown Finance Department. Financial sanctions accorded by the Secretary of State were also communicated to Audit by the Crown Finance Officer. The procedure for raising and pursuance of objections in the Crown Representative's sphere followed *mutatis mutandis* the procedure prescribed for the settlement of objections in relation to departments of the Central government.

AUDITOR OF INDIAN HOME ACCOUNTS

Under the provisions of Part III of the Audit and Accounts Order and Section 171 of the Act, the accounts (including any Appropriation Accounts) of transactions in the United Kingdom of the different authorities in India were audited under the general superintendence of the Auditor General by the Auditor of Indian Home Accounts, whose reports on those accounts were submitted to the Auditor General for incorporation in the reports, which under the provisions of the Act or otherwise the Auditor General was required to submit to the authorities

concerned. In order that the position of the Auditor General vis-a-vis the Auditor of the Indian Home Accounts under Sub-section (5) of Section 170 of the Act was fully assured it was arranged without prejudice to the powers and duties of the Auditor under Sub-section (3) of Section 170 of the Act and subject to the agreement concluded between the Secretary of State and the Auditor, that he conducted his audit in accordance with the terms (where applicable) and spirit of the "Concordats" defining the relations between Audit and the Executive Governments in India, and applied in audit any interpretations by the Auditor General of rules and orders applicable both in England and India, so that there was necessary uniformity of interpretation of such rules and orders, and it was incumbent on Auditor to bring to the notice of the Auditor General any audit matter, which he should be cognisant of. Reference, if any, from the Auditor in audit matters to the Government in India, was routed through the Auditor General. The Auditor submitted his reports on the Appropriation Accounts and the General accounts, including his reports on sterling balances, and his report on the audit of the transactions in the United Kingdom of the Crown Representative in such form and on such dates as prescribed by the Auditor General. Simultaneously, copies of such reports were also sent to Accountants General or other Officers in India in accordance with any directions of the Auditor General. The Auditor prepared periodical summaries of any important audit matters not included in his official reports and transmitted them to the Auditor General, together with any observations upon these summaries by the Secretary of State or the High commissioner for India as the case may be. The Auditor reported to the Auditor General any important changes in the methods or practice followed by his office in the matter of audit and kept the Auditor General informed of any important changes contemplated in the strength or cost of his establishments.

REPORTS

The Ar.Gl. in relation to the accounts of the Central Government and of each of the Provincial Governments submitted two separate reports, namely, (a) ~~Audit Report on the Appropriation Accounts~~, and (b) ~~Audit Report on the Finance Accounts~~. In the case of the Central Government, the Audit Report on the Appropriation Accounts were submitted in four separate volumes - Audit Report on the Appropriation Accounts of the Defence Services, Audit Report on the Appropriation Accounts of the Posts and Telegraphs, Audit Report on the Appropriation Accounts of the Railways in India and Audit Report on the Appropriation Accounts - Civil *i.e.*, for the remaining departments of the Central Government. These Reports were dealt with in accordance with procedures laid down

in the Rules of Business on the Central Legislature, made under Section 67(1) of the 9th Schedule to the Act. The Audit Report on the Appropriation Accounts of the Provincial Government for each financial year were presented to the Legislature concerned, which were dealt with under the rules framed by the Provincial Legislatures under Section 84(1) of the Act. The Audit Report contained such comments on the regularity and propriety of expenditure, as were deemed necessary and proper, as a result of audit investigation. It also brought to the notice of the Legislature the results of audit of all trading, manufacturing and profit and loss accounts and balance sheets kept in respect of Government commercial or quasi-commercial undertakings. Besides, it also included the report, which the Ar.Gl. was required to make on his examination of any receipts and accounts of stores and stock with such comments, as he thought fit on any important irregularity discovered in the course of audit of such receipts and accounts. While preparing the report, the terms and spirit of the "Concordats" were observed and the report dealt with those matters only, which fell strictly within the ordinary conception of Appropriation Accounts, the examination of which came within the duties of the Public Accounts Committee of the Legislature, as defined in the Legislative Rules. The Audit Report on the Finance Accounts presented to the Legislature with the accounts of the receipts and outgoings of the Government for each financial year disclosed by the different accounts and other data coming under examination, that is, the revenue and capital accounts, the accounts of the public debt and of the liabilities and assets of the Government concerned, as deduced from the balances recorded in its books and other information. It supplemented the Audit Report on Appropriation Accounts. Both these reports were documents of great importance and invariably received the personal attention of the Accountant General initially responsible for their preparation. Adequate measures were taken to ensure the accuracy of information, which they contained and the form of the Audit Reports, as determined by the Ar.Gl. from time to time, giving due weight to the views and requirements of the Governments and Legislatures.

The Audit Report was self-contained in respect of all matters with which it dealt with and revealed a detached, dispassionate and technical attitude and avoided any expressions suggesting a political opinion or bias. It was designed to serve a double purpose, to the Government concerned, it showed the extent to which its subordinates complied with its rules and orders, and suggested directions in which those rules and orders can with advantage be amplified or modified and to the

Legislature, through its Public Accounts Committee, it revealed in general, how far the Government complied with its expressed views in matters of importance and, in particular, how far moneys placed at the disposal of Government were regularly and properly spent. In order adequately to fulfil the latter function, the report brought, in addition to the points arising out of audit against provision of funds, to the notice of the Legislature, subject to the observance of the terms of the 'Concordats', (1) important financial irregularities, such as deficiencies of sanction, failure to enforce or respect prescribed rules and procedure, offences against universally accepted standard of official conduct or financial administration, or any other class of irregularity, and (2) cases of losses, writes-off, or nugatory expenditure. Important subjects included in the Audit Report, were notable changes in the arrangement of Grants, like increase or decrease in their number, their amalgamation and sub-division, matters affecting the completeness or accuracy of the accounts, expenditure not in accordance with the intentions of the Legislature or which indicated gravely faulty administration of the Grant or Appropriation, expenditure in excess of the Grant or Appropriation, expenditure not in conformity with the authority which governs it, any important change in the extent or character of audit of any class of transactions, cases of losses, writes-off, nugatory or improper expenditure of public moneys and any irregularity connected with a grant-in-aid. The Accountant General had discretion to comment on any other matter of sufficient importance to be brought to the notice of the Legislature. The style of writing comments on irregularities noticed in audit was simple, clear and correct, so that a person not versed in the details of accounts and audit can grasp its bearing upon the financial interests of the State. Technical expressions were seldom used and if used, they were explained. All details necessary for the understanding an irregularity mentioned in the report, or in the Appropriation Accounts wherever prescribed by the Ar.Gl., was briefly given, which included an explanation of the transaction, a description of the nature and magnitude of the irregularity, any extenuating circumstances that existed, any defect in system which led up to the irregularity, the remedial or preventive measures adopted and the adequacy of those measures.

In selecting subjects for comment in the Audit Report, certain general limitations, apart from the "Concordats" were observed. Comments were confined to such matters as were of real and practical concern to the Legislature. Individual cases were not mentioned unless they were really important, as involving serious transgression of statutory provisions, rules or orders leading, or likely to lead, to loss of public

money or serious breaches of audit procedure or audit safeguards. Petty cases were mentioned, if minor irregularities of one class were so numerous as to produce an appreciable cumulative effect. An irregularity discovered by Audit, which has been completely rectified was not mentioned unless there was a substantial point. Cases, which were sub-judice, were not mentioned in such a way as to prejudice the claim or defence in court. No mention was made in the report of any points arising out of the audit of the salary and allowances of the Governor General or the Governor of a Province and any other expenditure relating to his office for which provision was required to be made by Order in Council. Such points were settled with the Government separately and the intervention of the Auditor General was sought only, if necessary. The Government concerned was given an opportunity of making such observations and comments as it thought fit on important cases of financial irregularity, which was proposed to be included in the Audit Report. The procedure for reporting such cases to the Government was determined by the Accountant General in consultation with the Finance Department. The draft of all proposed matter questioning the action of the Finance Department was shown to the Finance Department of the Government concerned, before final inclusion in the report, so that that department got an opportunity of suggesting correction or modification.

FINANCE ACCOUNTS

The Finance Accounts were auditor's presentation of the general accounts of the Government to the Legislature giving some elucidation and some narrative presentation of new or salient features. The report did not include anything by way of financial appreciation, praise or blame and scrupulously avoided any expression of financial opinion or any opinion, except in exceptional circumstances, as to the merits of the financial administration of the Government. It confined to the scope of a report on completed accounts and rarely mentioned estimates and prospects. If, however, at the time of dealing with the financial position on the basis of the completed accounts certain established facts subsequently arising became common knowledge, which necessarily affected the financial position, they were considered but any mention of such facts was more or less incidental. In short, every endeavour was made to convey through the report a just and impartial picture of the financial position of the Government. In dealing with the financial outturn of the year, the salient features of current revenue and expenditure was brought to notice, and the current revenue position as a whole summarised. If the amount of extraordinary receipts realised by

any Government every year was considerable and appeared to be a continuous source of revenue, this feature of the revenue position was elucidated. Such observations, as thought necessary were made in respect of any capital major head, either by way of explanation of the outlay recorded under it, or on the productivity, or otherwise, of the outlay incurred. The debt position of Government was exhibited by way of a simple consolidated statement to which was added observations of a technical audit character pointing out salient features, e.g., the magnitude of debt, amount of revenue required to meet the services of debt, both present and future, and the necessity of amortisation arrangements, their adequacy when made and the extent to which they were carried out. The assets of the Government as disclosed in the accounts of loans and advances made by it were scrutinised and comments of a technical audit character on the salient features of the current state of these accounts were made. An important part of the report was the Review of balances of Debt and Remittance heads. Its object was in the first place, to show a complete enumeration of balances under all Debt and Remittances heads and, in the second place, to review the current state of accounts under each head. The detailed review of balances under each head were included, besides particulars about the nature of the transactions, reconciliation of accounts and acceptance of balances, and all the salient facts noticed as a result of audit of those accounts, e.g. writes off, doubtful assets, etc.

The Accounts and Reports of the year 1945-46, were submitted by September 1948.

It was the duty of the Finance Department of the Government concerned to consider any recommendations of the Legislature or of the Public Accounts Committee arising out of the Audit Reports. The findings of the Public Accounts Committee and the decisions of the Legislature were forwarded to the AG concerned as well as to the Ar.Gl.. All orders passed by the Government on the recommendations of the Legislature or the Public Accounts Committee including the requisite authority to cover excesses over Grants and Appropriations were communicated to the Accountant General. The general responsibility for watching the action taken upon each Audit Report rested upon the AG, who was responsible for the initial preparation of the Report and in case of any doubt whether a particular report or question has been adequately dealt with by the Legislature, or its Public Accounts Committee or the Finance Department of the Government concerned, as the case may be, the matter was referred for the advice of the Ar.Gl. as to further action to be taken. After examining the views of a Provincial Legislature as embodied in its proceedings or in the report of its Public

Accounts Committee, the Accountant General brought to the attention of the Ar.Gl. (i) those paragraphs of the proceedings or report which contained recommendations of considerable importance; and (ii) any adverse comments made on any audit views expressed in the Reports, or any comments, which contained a reflection, express or implied, on the Indian Audit Department for failure to take proper action, together with his own opinion on them. The orders of the various Governments upon the reports of the Public Accounts Committee, whether they were embodied in resolutions or issued in a less formal manner, constituted a body of case-law relating to the accounts of each Government. Each AG was required to maintain for the guidance of his own office, a systematic record of such orders. Each Finance Department was desired to publish an epitome of such orders, which should be amended from time to time and kept up to date; where such system existed, it was unnecessary for the AG to maintain a similar record.

ORGANISATION

The IAAD was organised functionally under a centralised unitary administration under the authority, direction and control of the Ar.Gl. with field offices under the heads of Departments/offices who performed the functions assigned to them under the scheme of powers and authority delegated by the Ar.Gl. The Office of the Auditor General of India was situated at Simla, and he was assisted by a Deputy Auditor General, who functioned, generally as his Chief of staff and, except in the case of reports on accounts submitted to the Legislatures, was authorised to deputise for him in any matter and to any extent mutually determined from time to time between them. The DAI invariably officiated as Ar.Gl. whenever latter proceeded on leave. Mr. W.R. Tennant was the Deputy Auditor of India until 26th November, 1947 and he was succeeded by Shri M.K. Sen Gupta on 27th November, 1947. The first CAG had three more DAIs during his tenure, Shri P.N. Rajagopal from 27th October, 1949 to 18th April, 1951, Shri P.D. Pande from 19th April, 1951 to 14th December, 1952 and Shri P.H.S. Rao, who became DAI on 15th December, 1952. The DAI was responsible for the efficient working of the headquarters office subject to the general control of the Ar.Gl. and issued orders in the name of the Ar.Gl. He was assisted in the administration of the office by the Assistant Auditor General (Personnel) who functioned as the executive head of the administration and was in direct charge of matters relating to the gazetted personnel, Budget, the Subordinate Accounts Service Examination and any other work assigned by the DAI with the concurrence of the Ar.Gl. The Asst. Auditor General (Accounts) was in charge of all matters regarding audit,

accounting and reporting. In addition, there were 2 Assistant Accounts/Audit Officers in direct charge of few sections. The office was divided into eleven sections - Record, Gazetted, Budget and Office Establishment, Non- Gazetted Establishment, Audit, Administration I and II, Report, Compilation and Accounts and the duties and functions of each section were spelt out for the guidance of the personnel in the sections and for the office as a whole and also for the information of the field offices. Work among the Gazetted Officers were distributed on the general principle that the DAI functioned as the Chief of the staff and deputised for the Ar.Gl. in any matter, particularly, when he was on tour and held charges of certain sections and generally supervised charges held by other officers and all minor processes of work were dealt with by the junior officers, whose responsibility was settled by the DAI. The heads of department in Delhi, particularly, the Director of Railway Audit, the Accountant General, Central Revenues, the Director of Audit, Defence Services and the Accountant General, Posts and Telegraphs were the technical advisers of the Ar.Gl., who were consulted freely. The Appropriation Accounts and Audit Reports and important cases of work of Report section, important cases of Administration section, other than cases relating to forms and code corrections, supervision of the Finance and Revenue Accounts and review of balances, supervision of the administration of gazetted and non-gazetted staff of the department including headquarters office and the Budget of the Indian Audit Department and any important work submitted by junior officers, constituted the work of the DAI. The AArG (P) looked after administration of the Gazetted Establishment, budget of the Department and the office, establishment of the office, Subordinate Accounts Services Examination, exchange of accountants between the Civil and the Military Departments, memorial, representations and appeals, excepting those relating to appointments or scale of pay, recruitment rules, questions relating to communal representations, regulation of pay and reckoning of services of re-employed personnel, grant and revision of special pay and compensatory allowances, office and residential accommodation and matters on which the Government of India consulted the Ar.Gl. as administrative head of the IAAD. The AArG (A) looked after the administration of non-gazetted establishment and all work relating to Audit section. An AAO (Administration) dealt with all work relating to forms and corrections to codes dealt with in administration section, all routine and un-important case work of the Administration and Report sections and all work relating to record sections and cash group of the GBE section. The organisation of the office is exhibited in figure 1.1:

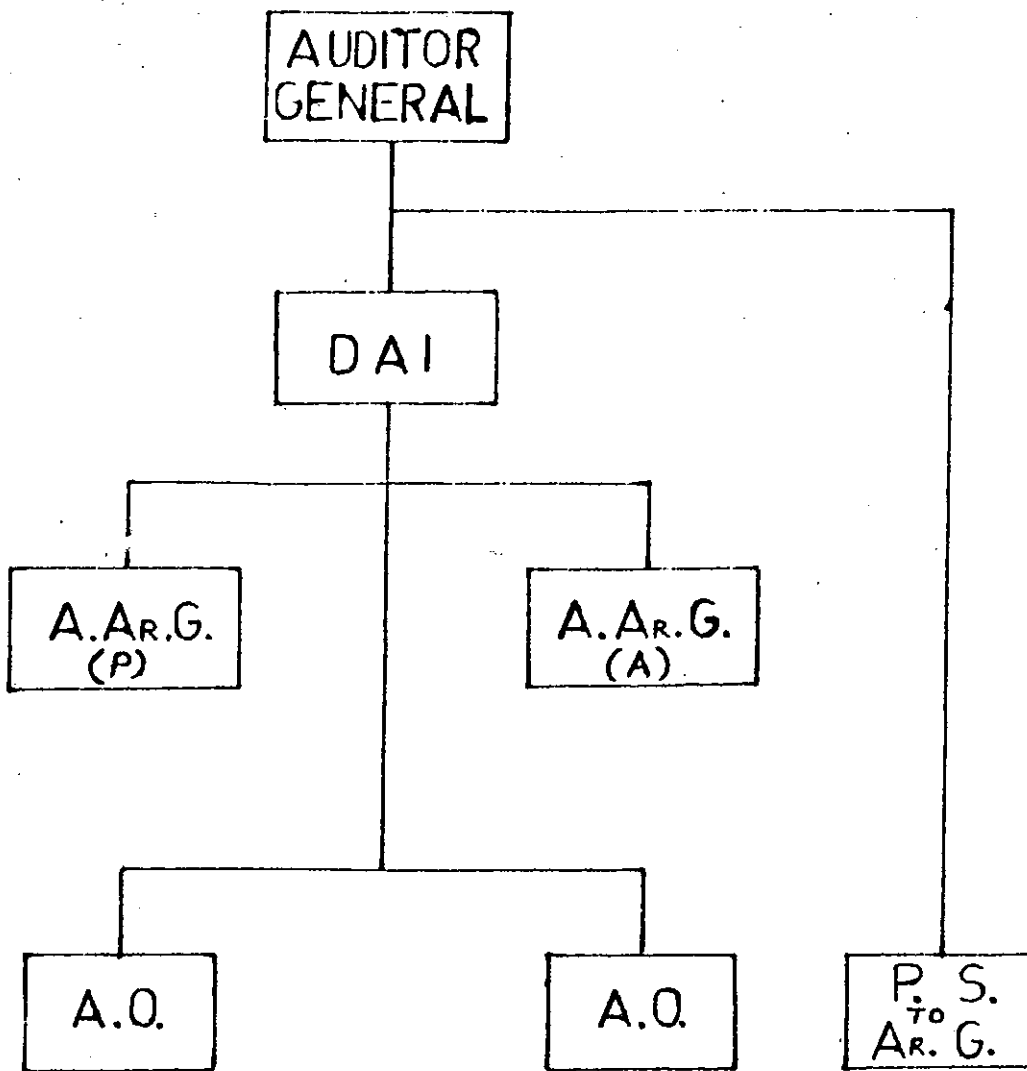


Fig. 1.1: Organisation Headquarters Office as on 1st February, 1948

THE FIELD OFFICES

The IAAD was divided into four classes of offices, namely, the Civil, Posts and Telegraphs Audit Offices, the Railway, and Defence Services Test Audit Offices. Each Audit Office was under the immediate control of a senior officer of the Department, called the Accountant General or Director of Audit, as the case may be, who was delegated with administrative and financial powers under the Financial Rules of Government of India. The Civil and Posts and Telegraphs audit offices were combined audit and accounts offices, while the Railway and Defence Services were purely audit offices, who test audited the accounts of the respective departments, which were maintained by the departmental authorities not under the control of the Ar.Gl. There were 11 Civil Audit Offices in 1947 - nine offices of AsG, two Comptrollers, one AG, P&T who had seven sub-offices, one DADS who had seven sub-offices and one DRA, who had 5 CAs and 1 Controller of Coal Accounts. The organisation of field offices is given in figure 1.2. The gazetted officers were drawn from the cadre of the Indian Audit and Accounts Service and Assistant Accounts officers and the non-gazetted staff comprised of Senior Accountants on the All India List, members of the Subordinate Accounts Service, Divisional Accountants, Clerks (including stenographers, typists, cashiers, etc.), and what was then called the inferior establishment. The net expenditure incurred by the Department in 1947-48 was Rs. 108.09 lakhs - Rs. 2.33 lakhs Headquarters office, Rs. 114.72 lakhs Civil Audit and Accounts Offices, Rs. 28.08 lakhs P&T, and Rs. 10.07 lakhs Railways.

The organisation and composition of each class of office was prescribed by the Ar.Gl. The Civil Audit Office was organised into departments and sections and the common pattern of sections were general or routine, departmental audit sections, gazetted audit, pension audit, works audit, forest audit, deposit, provident fund, book, account current, appropriation audit and budget. The AG was generally responsible for the whole work of the office and, in particular, for the efficient administration of the establishment of his office. The scale of gazetted officers for each office was fixed by Government or the Auditor General, depending on the delegated authority and the distribution of work among them was left generally to the discretion of the Accountant General. In the larger offices two officers were placed in supervisory charge of different portions of the office, and were named the Senior and the Junior Deputy Accountant General, respectively and were posted as such by the Ar.Gl. and the AG determined the actual charges of his deputies. In smaller offices, there was only one deputy. In offices, where

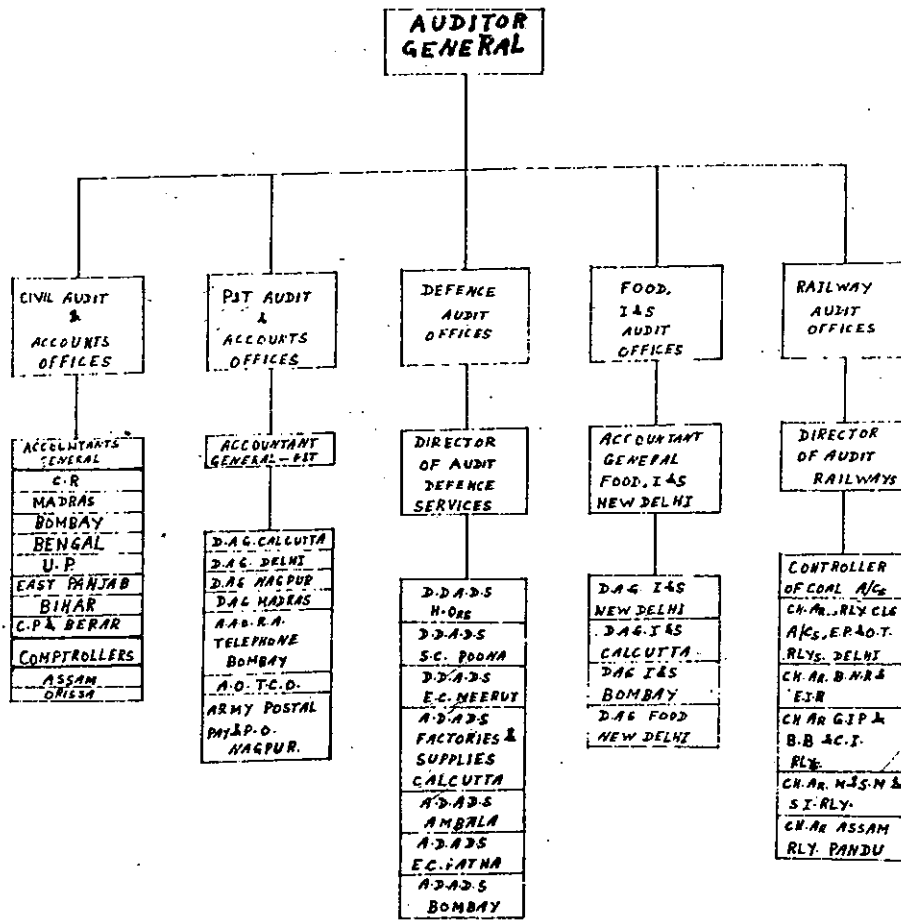


Fig. 1.2: Organisation I.A.D. as on 1st February, 1948

there were posts designated as Examiners (outside audit or local audit department) the Ar.Gl. made the postings of individual officers to these posts. The other officers in an office were designated as either Assistant Accountants General (if they belonged to the Indian Audit and Accounts Service) or Assistant Accounts Officers. The AG distributed the work in such a manner as to make the Deputy or one of the Deputies responsible for the ordinary routine administration of the office, so as to relieve himself as far as possible of the details of office administration, placed all audit work under the general control of the Deputy or Deputies and released the Deputy or Deputies, as far as possible, from supervision of the detailed work of individual audit sections, so as to afford time for the general control. The Railway Audit Department was under the DRA, who was assisted by five Chief Auditors allocated to each Railway system and they were assisted by Deputy Chief Auditors/AAOs for carrying out the test audit of the accounts of Railways, and the Railway Report was finalised by DRA. The DADS was the head of the Defence Audit organisation, who was assisted by five Deputy/ Asstt. Directors of Audit and three AAOs in the four commands and ordnance factories, and finalised the AR on Defence Services. The Civil and Posts and Telegraphs Audit Offices were subjected to inspection by a staff of Inspection Accountants appointed by the Ar.Gl. and for this purpose the audit offices were distributed into four Circles, namely, the Northern, Eastern, Southern, and Posts and Telegraphs Circles with an Accountant in each; and the periodicity of inspection of each office was fixed by the Ar.Gl. The Railway and Defence Audit offices were not subjected to any such inspection.

CODE OF CONDUCT

The Accountant General was not expected to reverse any deliberate orders of an important nature passed by his predecessor, or issue any important notice to the public through Treasury officers, or otherwise unless approved by the Ar.Gl. He was not to forward an application for sanction for expenditure except in respect of the items relating to the administration of his office, or for relaxation of leave or pension rules, propose increases in departments other than his own except, when his advice was sought. He was on no account to join in protesting against any retrenchment or economy subjected by a competent authority. He should not suggest expedients for the evasion of the natural operation of a rule, when reporting on claims to pension or allowances of any kind, and he was merely to report how a claim was affected by the rules and advise upon any questions relating to pensionary claims, except in accordance with general or special orders regulating the occasions, on which he may give such advice. He should not issue orders stopping the payment of

establishment or contingent bills of an office to obtain compliance with orders, except in extreme cases, when so required by specific formal direction of the Central or Provincial Government, as the case may be, or without the sanction of the Ar.Gl. nor demand the submission to an accounts and audit office of a new account return, if the new account return was to be made by an officer not under the control of the Ar.Gl. The Provincial or Central authorities concerned should first be consulted in such matters, and the Ar.Gl. should be informed of the result of the consultation. The AG was required to report to the Ar.Gl. of every serious case of failure of audit as soon as it came to light, explaining *inter alia* the manner in which the failure occurred, and mention the names of the persons responsible and the disciplinary action taken or recommended. The AG, P&T was required to send similar reports once a quarter, selected from the cases reported to him by his subordinate offices. A reporting system was in vogue in both the field offices and head quarters office to monitor performance of the various items of work with reference to the prescribed due dates and report to the AG/Director and to the headquarters office periodically, which provided necessary tools for obtaining adequate control over state of work and effective management of their offices situated all over the country. Any serious arrears in work was required to be reported to the Ar.Gl, even if head of office was confident of overtaking it rapidly with his normal staff.

A system of audit of expenditure of the Audit offices was in operation. All classes of expenditure including advances, of each audit office were subjected to audit by an independent agency. All bills pertaining to Gazetted officers attached to Audit offices were submitted for audit to the AGCR. The bills of the Gazetted officers attached to the office of the AGCR, including the AG himself was sent for audit to the AG P&T. The audit of all bills pertaining to the non-gazetted establishment including Senior Accountants of the All India List and Divisional Accountants, whether attached to Divisions or employed in the main office, and contingent bills were distributed among the offices as prescribed by Ar.Gl. Bills of 17 offices and 5 subsidiary offices were subjected to audit by 11 offices.

STATE OF THE DEPARTMENT

In 1948, the total staff strength of the IAAD was about 15600 with the authorised supervisory Cadre of 204 AAOs and 120 IA & AS officers, and the effective strength of IAAS officers was 39 only. The proportion of IAAS officers to AAOs had fallen to 1 : 1 by 1939, as against 3 : 1 before 1920 and the ambit of control of a supervisory officer was spread over 5 to 6 sections with a total staff 50 to 60 depending on the nature of work, its layout and the number of sections, departments in each office,

which was held to be much in excess of what was obtaining in other departments of Government of India. Against a deputation reserve of 43, the number of officers actually on deputation was 74, which reflected the pressure on the CAG exercised by the Government of India to lend the Services of IAAS officers, even at the expense of his functioning. The leave reserve was ridiculously low, namely six, which gave out the philosophy of management in the Department. The first Indian Ar.Gl. found himself presiding over the destinies of a Department least equipped to face the challenging tasks of the new India, that emerged in the wake of independence. His immediate task was to reorganise and strengthen the Department, which had been weakened since depression due to stoppage of recruitment as an economy measure, and later revived by fits and starts in trickles, instead of planned induction to meet the expanding requirements, which was further ravaged by war due to deputation of officers to priority departments, and further depleted by partition. Close on the heels of independence, the federal financial integration of former princely states and their unions surfaced, which saddled the IAAD with additional duties and responsibilities of the merged/integrated states to the Indian Dominion, since it was required to take over on going offices of the states, set up new finance and accounts organisations in newly formed states, where none existed and undertake selection, absorption and fitment of the personnel of the states into the IAAD cadre and let them join the main stream of the Department over a time in tune with the agreements of accession, integration and formation of union of states and without wounding the susceptibilities of absorbed personnel or the new political masters of the newly formed states, with their own pride and prejudice. At the same time, the Indian Constituent Assembly was shaping a new Supreme Audit Authority in the form of Comptroller and Auditor General of India, totally different in form and substance, and the IAAD was called upon to take over additional duties and responsibilities on a much wider scale, in a free, fair and equitable manner in the new Republic of India, without the hangover of the Colonial past and its concomitant constraints.

ECONOMY COMMITTEE

The Ar.Gl. pointed out to the Economy committee set up by the Government of India that in 1931, in the interest of economy, certain relaxations of audit were introduced along with the downgrading of a number of posts. A system of reduction of the quantum of audit could be safely contemplated only by all round strengthening and improving the efficiency of the remaining processes and making it more intelligent and employing a better staff of men and officers. On the contrary, the

Department was diluted by downgrading the posts and increasing the proportion of lower grade officers. The effect of all these even by the time war broke out, was a considerable weakening of the Audit Department and its vigilance, for securing economies, quite insignificant in comparison with the inestimable losses resulting from the weakening of the vigilance. When war broke out, the Department had continuously to allow large drafts to be made upon its manpower by the Government of India. This was at a time when the work of the Department itself was growing enormously in volume and complexity owing to the colossal expansion in expenditure and the war-time activities of the Central and Provincial Governments. The situation was met by wholesale curtailment or suspension of several audit processes in 1943. It was easy to imagine how grievously it damaged the Department, when such a step was taken. After the war, therefore, the Department had become extremely ill-equipped to discharge its obligations. Furthermore, during war-time while large drafts on the superior officers of the Department were made by the Central Government, the war-time regulations of Government severely restricted recruitment to Class I services and, therefore, prevented the Ar.Gl. from replenishing the IAAS to the requisite extent.

The Economy committee realised that the Department had not expanded at all to keep pace with the growing demands made on it and agreed with the Ar.Gl. that a strong and efficient Audit Department was the best ally that the Finance Ministry can have in ensuring a high standard of administrative integrity and safeguarding the interest of the tax-payer. The Committee further pointed out that with the attainment of independence the Ar.Gl.'s responsibilities have enormously increased and that he would have to make sound arrangements for the audit and accounting of expenditure incurred by Embassies and Trade Purchase organisations abroad. Heavy additional responsibilities were also thrown on the CAG by the various multi-purpose State schemes and State Industrial and commercial enterprises and also as a result of Constitutional changes taking place in regard to former Indian States. The Committee, therefore, recommended that the Department, which had been progressively weakened so much, required considerable strengthening and reorganisation in the matter of personnel, training, and its working processes and suggested to the Ministry of Finance to afford all necessary facilities to the Ar.Gl. for securing the necessary reorganisation. The Committee further recommended that subject to general restrictions regarding uniformity in pay scales and conditions of service, a convention should be established whereby the staff proposals of the CAG in regard to the numbers and character of the posts or miscellaneous expenditure at any rate should be usually accepted by the Finance Ministry.

NARAHARI RAO'S SCHEME

The Ar.Gl. formulated a five year scheme for strengthening the Department, which included, *inter alia*, (i) expansion of the cadre of the superior service officers as well as of the superintending clerical staff, (ii) establishment of a Commercial Audit Branch, (iii) establishment of machinery for the satisfactory audit of India's enormous foreign expenditure, and (iv) removal of various other disabilities from which the offices suffered in regard to accommodation, office equipment, furniture, forms, codes, manuals and essential amenities. The Government of India sanctioned a two years scheme for strengthening the Department. Accordingly recruitment of 30 candidates in 1949-50 and 30 next year for the IAAS, out of which about 10 posts in each year were to be filled by promotion at the discretion of the Ar.Gl. with the corresponding increase in the cadre of the service and the duty posts held by the IAAS officers, was decided upon. The Headquarters organisation of the Ar.Gl. was strengthened by sanctioning 1 Dy. Auditor General on the pay in the regular line of the A.G. selected plus a special pay of Rs. 250 per month, redesignation of two temporary posts of Dy. Auditor General (Inspection) and their upgradation as Directors of Inspection with a special pay of Rs. 200 per month, one Additional Dy. Auditor General on the pay in the regular line as an Accountant General with a special pay of Rs. 250 per month for a period of one year in connection with the audit and accounting arrangements to be made in the states and union of states to organise and implement the scheme of federal financial integration of the States on 1st April, 1950, two posts of Assistant Auditors General in class I of the IAAS with a special pay of Rs. 200 per month and one post of Assistant Auditor General in class II (Senior scale) of the IAAS carrying a special pay of Rs. 100 per month. One post of Additional Accountant General in the office of AGCR in Class I of the IAAS plus a special pay of Rs. 300 per month and upgradation of the post of Comptroller, Orissa to that of AG Class II were sanctioned. Recruitment of 50 SAS apprentices was commenced in 1949-50 and 50 next year, 50 more posts in each year being available for promotion from amongst SAS passed clerks. The SAS cadre was raised by 100 posts in 1949-50 and 100 in the succeeding year for accommodating the new recruits and promotees. The Ar.Gl. was allowed to add 200 clerks in 1949-50 and 600 clerks in 1950-51 in the cadres of the various offices under his own powers. He was empowered to raise the pay of upper division clerks to Rs. 100 in the prescribed scale immediately on passing a qualifying Departmental examination over and above the existing level and creation of a selection grade of Rs. 160-10-300 limited to 10 per cent

of the total strength of the cadre of upper division clerks. A lumpsum provision of Rs. 1.20 lakhs was sanctioned to provide furniture to Audit offices over and above the budget provision in 1949-50 and Rs. 2 lakhs in 1950-51. The first ever major step for strengthening the Department was thus laid at a time when economy measures were implemented by the new Government in independent India.

In 1950, the office of the Comptroller and Auditor General had 15 sections and the total strength was 331 - 9 IAAS Officers, 10 AAOs, 11 superintendents, 25 assistant superintendents, 4 inspection accountants, 12 stenos, 5 SGC, 27 ordinary SGC, 152 UDCs, 17 LDCs and 2 typists and 57 Class IV. Shri A. Balakrishnan took over as ADAI (States) on the 3rd September 1949, who dealt with all matters relating to federal financial integration of the states, transfer of officers, selection and absorption of personnel to IAAD.

INTEGRATION AND EXPANSION

The federal financial integration of former princely states took place in four distinct parallel processes - accession of states to Indian Dominion by signing the instrument of accession before the crucial date *i.e.* August, 15, 1947, handing over of the administration of the small states during the years 1948 and 1949 to the Central Government, which were run as Centrally administered union or through the agency of the adjacent Provincial Government, under the Extra Territorial Jurisdiction Act 1947, which later on merged either with neighbouring provinces or became Centrally administered areas, grouping of certain states to form union of states, which later became Part B states under the Indian Constitution, under covenant, which brought the union of states almost on a par with the rest of India and retained their old financial system till the federal financial integration and the signing of fresh Instrument of Accession by few large states. Based on the recommendations of the Indian States Finances Enquiry Committee under the Chairmanship of Shri V.T. Krishnamachari, a Senior Accountant General was appointed as ADAI (States) to organise, supervise and administer the integration of the accounting and audit offices of Part B States, into IAAD after they came under the control of CAG, by virtue of the Constitution. The fitment of the staff into the various cadres, grades in IAAD and their initial fixation of pay presented the most vexed problem faced by the CAG, which was carried out under the direct control and supervision of the ADAI(States). The Agreements of Merger and Covenants signed by the states at the time of their integration and formation of unions guaranteed to the permanent personnel in the states, future conditions of service not less advantageous than existing ones, and if they

preferred to leave service, an equitable compensation. Similar guarantees were also given in the Instruments of Accession signed later by the Rajapramukhs. According to a formula evolved by the Home Ministry and the States Ministry, each post in the state in respect of departments taken over by the Centre was equated on the basis of its salary and the responsibilities it covered to a corresponding post in the Government of India and a person occupying that post was taken over into the equivalent grade without considering his personal suitability. The fact of his having held the post was deemed to qualify him for a similar grade in the Central Government and after his absorption, he came under the delegated authority of the department concerned and his initial qualification and capacities counted for promotion. However, the CAG persuaded the Government of India to exempt the IAAD from the procedure - as in the case of Defence Services - to enable him to assess their suitability before absorption, so that he could discharge his constitutional responsibilities satisfactorily. The Special Recruitment Board of the Union Public Service Commission and a representative of CAG carried out the assessment of offices and in all 30 offices were taken over to the IAAS, bulk of whom came from the offices of ex-Comptroller, Mysore and ex-Comptroller and Auditor General, Hyderabad. By and large, most of the states or their unions got one or two of their officers absorbed in the IAAS. They were graded according to the number of years for which they had drawn a salary of Rs. 250 per month or more, which, incidentally, was also the starting pay of an IAAS officer in earlier years, and their *inter se* seniority was fixed according to the length of service and pay fixed according to the formula adopted by Government and thereafter their fitness for promotion to the next higher grade was based on their efficiency. By and large, most of them were placed above the 1949 batch of IAAS, which did not affect the career prospects of regular recruits, because of the disparity in age and the promotion policy of the Department to posts above senior time scale by merit helped their integration into the service in a smooth and usual manner. Most of them rose to the higher echelons of the cadre, though none became an ADAI or DAI but quite a few fared well on deputation to state Government companies and corporations etc. The last of the integrated officer retired in 1989. The AAOs were also assessed similarly and fitted into the local cadres in each office. The assessment of class III staff was made by a departmental Committee consisting of a representative of the headquarters' organisation, the AG/Comptroller and one officer from the office concerned and a representative of the state Government, who functioned as observer. The departmental committee judged the merit of individual firstly by equating posts of the office taken

over to those in the IAAD and secondly by assessment of the capacities of the individuals holding the posts with reference to their educational qualifications, technical ability and confidential reports, working rules were framed for fixation of seniority. The Central Civil Services (part B states Transferred Employees) Rules 1953 governed election between the State Rules and Central Rules, fixation of initial pay in the appropriate grade or post on the Central scales of pay, leave, pensions etc. The Central Civil Services (Audit and Accounts Department Transferred Employees) Rules, 1956 regulated the conditions of Service of employees taken over from a Part C state or merged with a part A State.

The number of employees taken over from the accounting and auditing organisations/departments of former states was around 4074.

NEW ORDER

Under the new Constitution, India became a Union of States comprising 9 Part A States, 9 Part B States, 9 Part C States and 1 Part D State. The AG/Comptroller of former provinces continued to function as heads of the Civil Audit and Accounts Offices of all Part A States. The CAG became responsible for the accounting and audit of the transactions of Part B States, except J&K, with effect from the 1st April 1950 (13th April, 1950 for PEPSU only), as in the case of Part A states. Initially, the offices and establishments taken over from the prevailing offices were allowed to continue but the designations of the heads of offices in new cases were modified to suit the changed conditions. The Comptroller General of Audit and Accounts Hyderabad was changed to AG, Hyderabad, Comptroller Mysore to AG Mysore, AG Sourashtra to Comptroller Sourashtra, and a new Comptroller PEPSU was created. The office of the Auditor General Madhya Bharat was amalgamated with that of AG Rajasthan and Travancore-Cochin offices continued under an AG. Bilaspur was united with the state of Himachal Pradesh and Cooch-Bihar with West Bengal and ceased to be Part C states in the Indian union. Ajmer and Delhi came under the audit and accounting jurisdiction of AGCR, Bhopal under AGMP, HP under AG Punjab, Coorg under AG Mardas, Kutch under the Comptroller Assam and Vindhya Pradesh had a separate Comptroller. The Andaman and Nicobar islands were under the jurisdiction of AGCR. The J&K was brought under CAG's jurisdiction from 1st May, 1958.

By July 1950, the number of Civil Audit and Accounts offices increased to 34 headed by 10 AGs including 2 Comptrollers, the Posts and Telegraph audit accounts offices to 11, Defence Audit offices to 8 and Railway Audit offices to 11 with total strength of 19,914. The Civil Audit and Accounts offices constituted 48% and the P&T office 25% of the aggregate strength.

Figure 1.3 depicts the organisation of IAAD as in 1951.

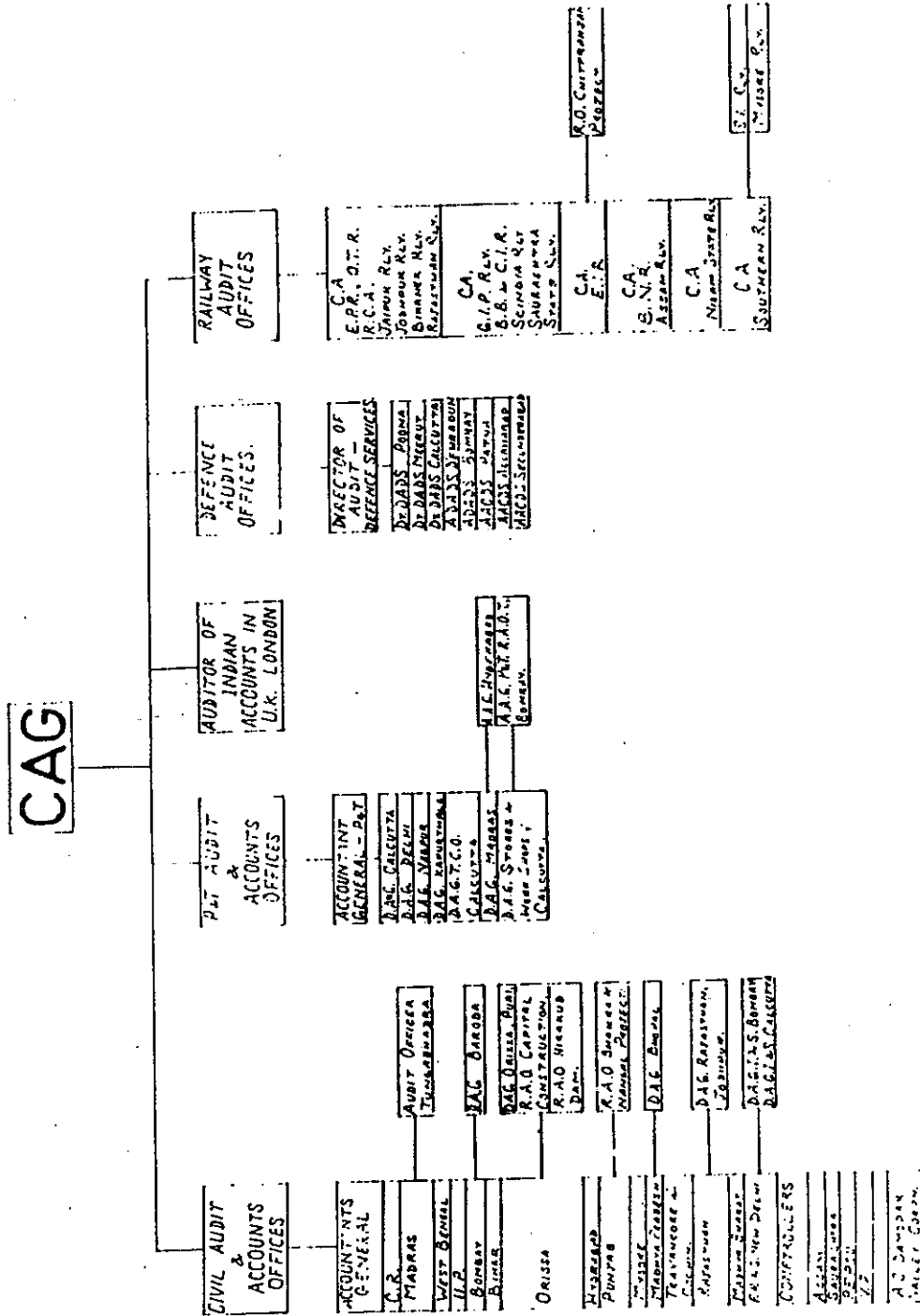


Fig. 1.3: Organisation IA & AD as on 30th June, 1951

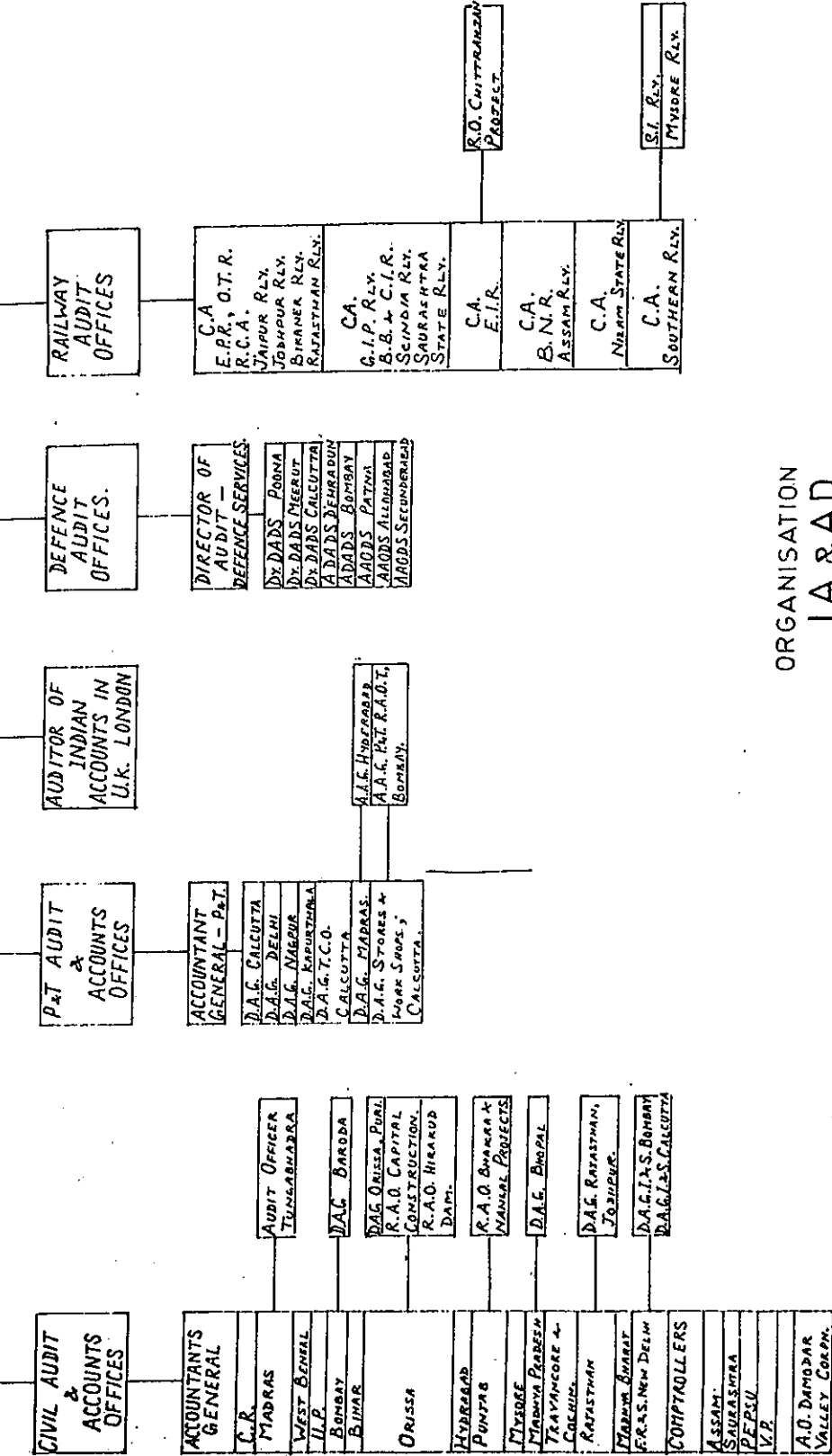
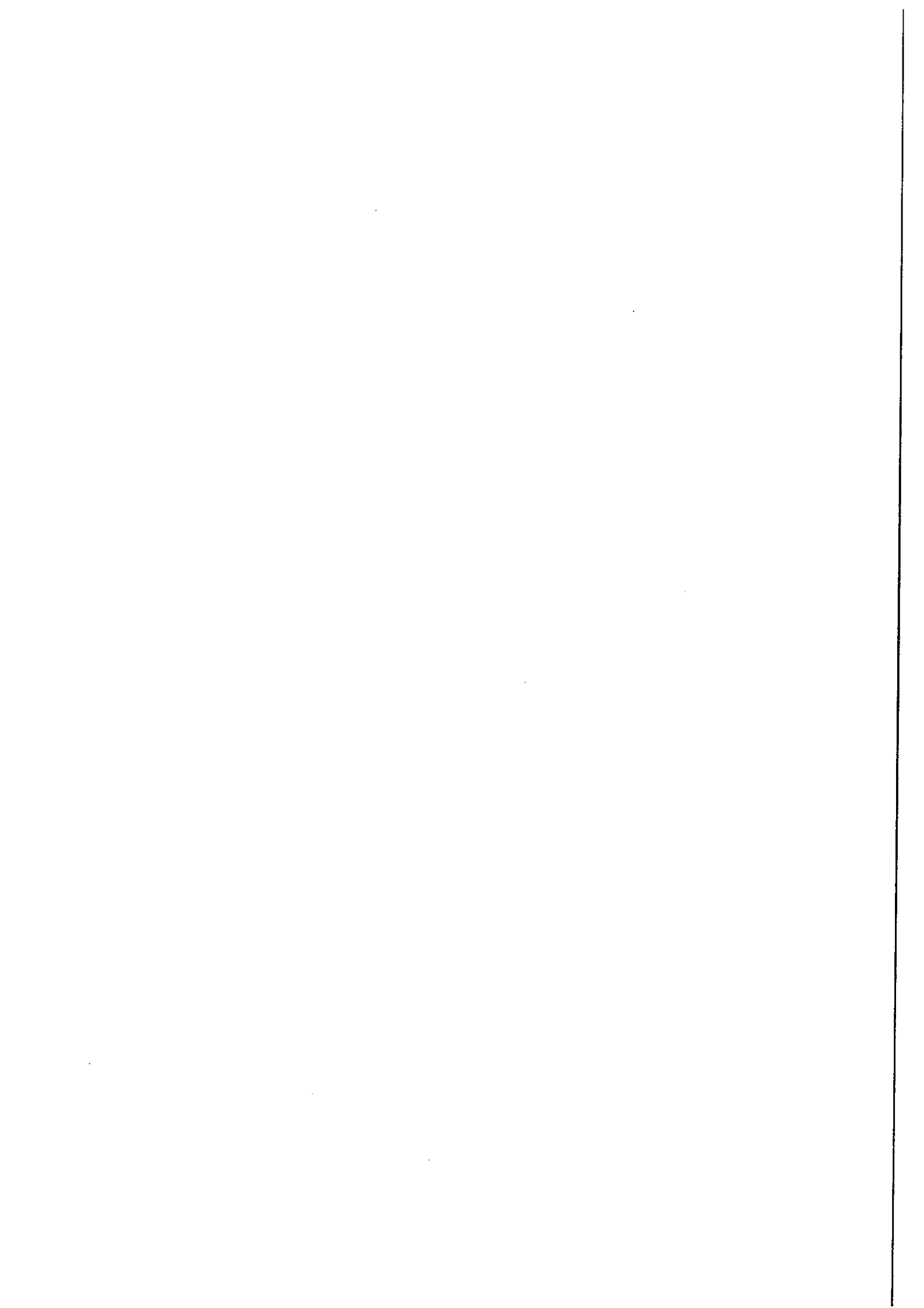


Fig. 1.3: Organisation IA & AD as on 30th June, 1951

ORGANISATION
IA & AD
AS ON 30-6-1951
(Enlarged Chart is attached for better view.)



DELEGATED POWERS

The Ar.Gl. was delegated with both financial and administrative powers. The financial powers were creation or abolition of a permanent post, the maximum pay of which did not exceed Rs. 900 but not the creation or abolition of a whole class or grade of Government servants on maximum pay exceeding Rs. 100; increase or reduce the pay of a permanent post or of a Government servant in permanent employ, if the maximum pay of the post or of the Government servant did not exceed Rs. 900 after the increase or before the reduction, sanction the creation of a temporary post on pay not exceeding Rs. 2,500 for any specified period, if the pay of the post did not exceed Rs. 900, and for more than two years, if the pay exceeded Rs. 900, reduce the pay of a temporary post and increase it within the limits imposed earlier; sanction the revision of the pay of an establishment subject to the conditions imposed earlier and the average additional expenditure involved to be kept within Rs. 25,000 a year; sanction expenditure on contingencies, supplies and services and the purchase of articles for the public service, subject to the provisions of the Civil Account Code and to any orders issued from time to time by the Governor General in Council; sanction recurring expenditure not exceeding Rs. 200 a year or non-recurring expenditure not exceeding Rs. 1,000 on any object for which no scale or limit to his power of sanction was prescribed by any Act, Rule, Code or Order covered by Rule 2 in Part II of the Book of Financial Powers, on condition that the sanction did not involve an express contravention of an existing rule or order of the Governor General in Council and the expenditure was within the powers of sanction of the Governor General in Council; sanction the writing-off finally of irrecoverable advances, of irrecoverable value of stores lost by fraud or negligence of individuals or other causes, and of losses of cash due to robbery, accident, embezzlement and similar causes upto a limit of Rs. 5,000 in each case. He was given full powers of appropriation and reappropriation within the primary units of appropriation allotted to him namely, pay of officers, pay of establishments, allowances, honoraria, etc., supplies and services and contingencies and subject to the provisions of rule 8 in Part II of the Book of Financial powers, to appropriate sums to meet expenditure falling under that unit. He was empowered to delegate, with the previous consent of the Finance Department, any part of the powers conferred upon him to any officer subordinate to him. Sanction of non-recurring grant-in-aid to athletic or recreation clubs, etc., composed of subordinate Government servants under his control, subject to the limit of Rs. 1,000 in any individual case and to budget provision, the purchase of

accounting machines without any monetary limit, subject to the provision of the Rules for the Supply of Stationery Stores, expenditure on the purchase of priced official and non-official publications issued in or out of India for his own office, as well as for the use of officers subordinate to him, subject to funds being available to meet the expenditure and compliance of the requirements of paragraph 13 of the AA order. Except in cases, where one or more Local Governments within the meaning of Article 33-A of the Civil Account Code, Volume I, as well as the Central Government were concerned, and the sanction of the Local Government was required to the commutation of pension in accordance with the preamble to the 'Regulations Governing Procedure for Commutation of Pensions', power was delegated to the Ar.Gl., under Rule 2 of the Civil Pensions (Commutation) Rules, to sanction the commutation of pensions in those cases in which he can sanction the grant of the pension. In respect of pensioners, who have retired from the Indian Audit Department and whose pensions were divisible between the Central Government and the Provincial Government, the Central Government delegated to the Auditor General, the power of authorising the debit to Central Revenues of the whole commuted value of a portion of pension not exceeding the commuted value of the share of the pension chargeable to central revenues, if the Provincial Government to whose revenues, the whole commuted value or a portion of it was first to be charged under the rules, cannot find funds to meet it. He was empowered to accord administrative approval in the case of works relating to non-residential buildings the cost of which did not exceed Rs. 5,000. The administrative powers were that in the case of officers of the Indian Audit Department below the rank of the Deputy Auditor General of India, he was empowered to transfer, censure, suspend, or degrade any such officer, withhold from him any increment or increments of pay, recover from his pay the whole or part of any pecuniary loss caused by him to Government by negligence or breach of orders, promote him to any grade or post in the Indian Audit Department below the rank of the Deputy Auditor General of India or declare him to be permanently unfit for promotion, grant him any leave that may be admissible under rule, and exercise the powers of a Provincial Government under the Government Servants' Conduct Rules and in the case of officers of the Indian Audit Department of any grade lower than Class I, delegate to any officer of the Indian Audit Department the power of granting any leave that may be admissible under rule. He can sanction the grant to any officer of the Indian Audit Department of such pension as was admissible under the rules applicable to the service to which he belonged. He may dismiss from service any officer of the Indian Audit Department other than an officer appointed

thereto by the Secretary of State or the Governor General. With the prior consent of the Governor General in Council to be obtained in each case, the Auditor General may delegate to any authority subordinate to him, to such extent as may be considered necessary, any of the administrative powers exercised by him. The right of appeal which any officer of the Indian Audit Department possessed under the Act or rules made thereunder or under any general or special orders of the Secretary of State or the Governor General was not defeated by this delegation.

The heads of offices, namely the Accountants General, including the Comptrollers, the Directors of Railway Audit, the Director of Audit, Defence Services, the Accountant General, Posts and Telegraphs and the Chief Auditor, Indian Store Department may sanction expenditure or advances of public money in those cases only, in which he was authorised to do so by the provisions of any Legislative enactment for the time being in force, or of rules made under such an enactment; or the Civil Account Code or any other Code issued by, or with the approval of, the Governor General in Council delegating to him financial powers with reference to the provisions of a Legislative enactment or to rules approved or orders issued by the Secretary of State; or any order of the Governor General in Council laying down a scale or maximum scale of expenditure. For work in new Public Works Divisions created under proper authority, an AG was empowered to sanction the creation of permanent and temporary posts of Divisional Accountants on the usual time-scale, rate of pay, plus the usual special pay and compensatory allowance (where sanctioned by a competent authority) and abolish a permanent or temporary post of DA whenever a Division was abolished by the Provincial Government. This delegation carried with it the power to increase or decrease the leave reserve according to the percentage prescribed for the Province.

HEADQUARTER OFFICE

Figure 1.4 shows the organisation of the CAG's office in 1951. Record section dealt with the receipt and distribution of inward correspondence, fair copying, comparison and despatch of outward communications, weeding out records and preparation of the general index of the proceedings of the office. Gazetted Establishment section looked after recruitment, posting, transfer and management of gazetted officers - including appeals and memorials from them, first and second departmental examinations, grant of miscellaneous advances or advances from Provident funds and other miscellaneous matters concerning them. In the Budget section, the budget group scrutinised the budget estimates of all subordinate offices, kept control of expenditure, scrutinised and sanctioned reappropriations and carried scrutiny of appropriation accounts

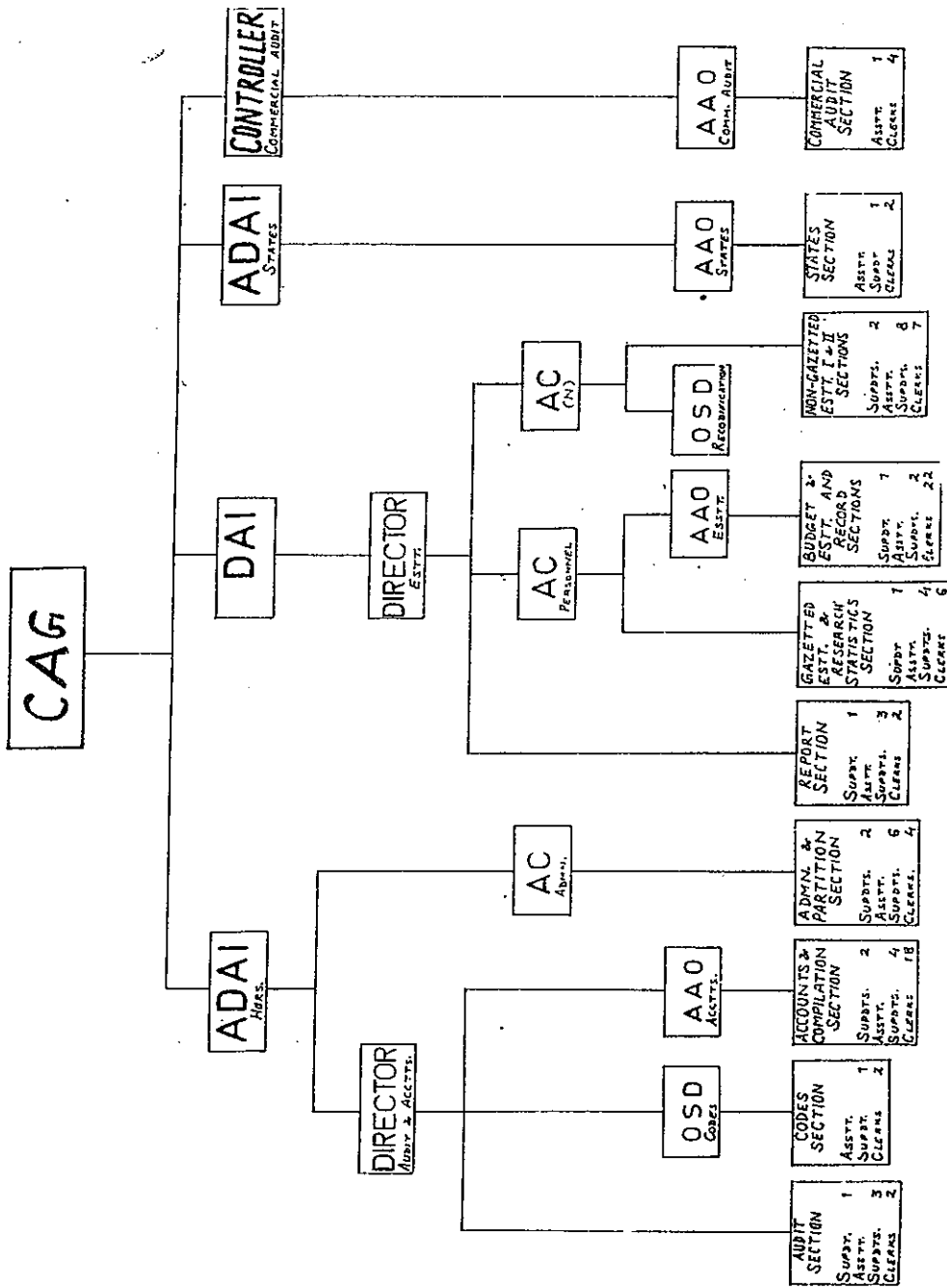


Fig. 1.4: Organisation Headquarters Office as on 30th June, 1951

relating to Audit Grant, while the Establishment group dealt with all matters pertaining to the establishment of HQ's office. AC(P) personally dealt with all routine references from subordinate offices and Government, and fees, allowances, advances etc. of non-gazetted staff. The Non-Gazetted Establishment section was concerned with all items of work pertaining to offices under the control of CAG and had two branches; one dealing with creation of posts, budget, SAS examination, training, contingencies, mechanisation of PF accounts, delegation of powers, pay and allowances and sanctions, gradation lists and appeals and memorials etc., and the other dealt with recruitment, reservations, transfer of personnel, move of offices, relaxation of age, office and residential accommodation and furniture, promotion, application of CCS(TS) Rules, 1949, medical attendance rules and disciplinary matters. Audit section administered provisions relating to financial powers and conditions of service prescribed in the Constitution of India and the laws and rules and orders made thereunder, their correct interpretation and application in practice. The section reviewed audit decisions taken by Audit Officers, cases involving the application of rules governing the financial powers of the Government of India and other authorities; questions regarding the interpretation of service rules and issue of Audit Instructions; suggestions for amendment of service rules; scrutiny of the draft rules and code corrections proposed by the Government of India; miscellaneous items, such as disposal of copies of important orders issued by the Government of India, etc. The section was responsible for the receipt and examination of copies of financial sanctions and miscellaneous documents of general character having financial implications, which were received from the Ministries of the Government of India and the administration of the Manual of Audit Instructions. Administration section disposed report on the audit of payments in India on behalf of the British Ministry of Pensions, reports on the inspection of Audit and Accounts offices by the Director of Inspection and fixation of their tour programmes, complaints as regards delays, etc., and investigation of cases relating to frauds, failures of audit, embezzlements, losses, etc., in Audit and Accounts offices, all references, other than those concerning provident funds, relating to (i) audit procedure in Audit and Account offices and (ii) accounts procedure in Executive offices submitting accounts to the Indian Audit and Accounts Department; scrutinised proposals for the acceptance of new rates of work or for the modification of existing rates of work in all Audit and Accounts offices; scrutinised proposals for relaxation in accounting and audit processes with a view to effect economy; disposed references regarding execution of general bond of indemnity by any bank or firm, memoranda on the state of work in Audit

and Accounts offices drawn up by relieved Accountants General and other miscellaneous references, miscellaneous orders of the Government of India, etc., and scrutinised the proceedings of the standing Finance Committee for Railways and general administration of the codes and publications of the Comptroller and Auditor General including the registration and issue in print of corrections thereto. The duties and functions of Report Section are dealt with in Chapter 8. The Accounts section considered all questions relating to accounts and classification and changes in rules and procedure relating to accounts, administered the Account Code, Vols. I and IV (including Appendix 2 to the Account Code, Volume I — List of Major and Minor Heads of Account); dealt with the Progress Registers of Exchange Accounts; watched adjustment of all transactions under the head "Central Adjusting Account"; and certified the pensionary liability of the Government of Burma to the Government of India. The Research and Statistics section maintained complete statistics of the volume of various financial transactions which came within the purview of the IAAD, upto date statistical picture of various categories of staff of the Department, relevant statistics for efficient administration and control; coordinated the details *inter se* offices and gave advice to secure reasonable uniformity in standards of work throughout, assisted in scrutinising expenditure proposal of the department and controlling budget; prepared Administrative Report, maintained the office library in upto date order; maintained the stock of codes and manuals and their distribution; attended to receipt and examination of copies of questions to be replied in Parliament and collection and preservation of all orders, notes, etc., of the CAG which were classical in nature and very important as regards their significance and application. The Commercial Audit section controlled the policy in regard to commercial audit, established standards of commercial audit, rendered general assistance in organisation of commercial audit Wings in subordinate audit offices and dealt with all cases, which affected Government commercial accounts and audit.

The number of sections rose to 13 by 1952 — the new sections being Budget and Establishment, Research and Statistics, Commercial Audit and one additional Non-gazetted Establishment section. The newly created Budget and Establishment and Research and Statistics sections were entrusted to the AC.Ar.G.(P), while the Commercial Audit section was entrusted to the Controller of Commercial Audit, who was assisted by an AAO, Commercial Audit. The designation of the Assistant Auditor General (Au) was changed to Assistant Comptroller and Auditor General (N). A new post of Director of Establishment was created to hold the supervisory charge of Report, Gazetted Establishment, Budget and

Establishment, Research and Statistics and Record sections. The expenditure of the Headquarter office in 1950-51 was Rs. 7.79 lakhs, which constituted 2.23% of the total expenditure of the IA & AD.

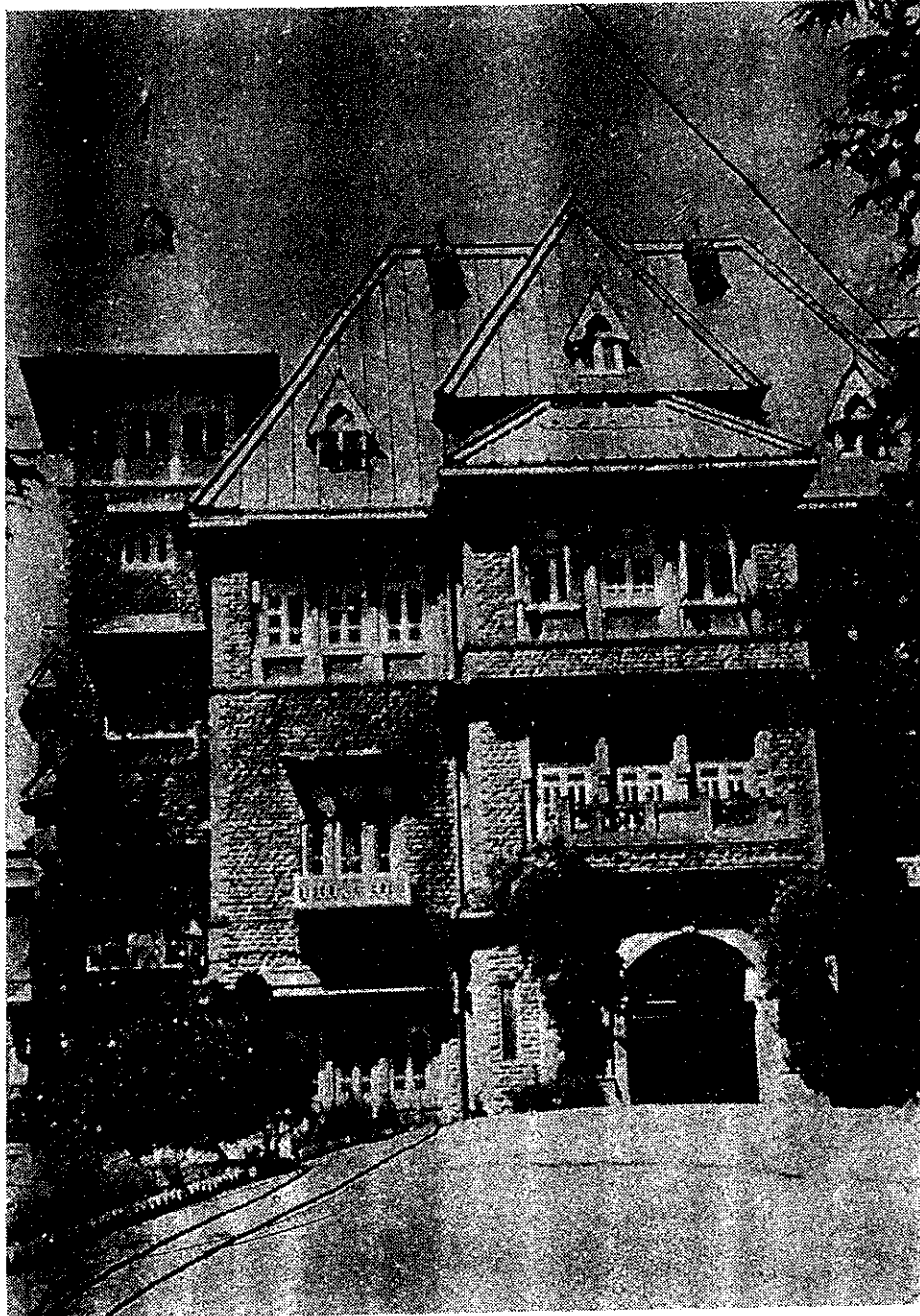


Fig. 1.5: Gorton Castle, Simla, where the Auditor General's Office was located

Auditors General prior to 14th August, 1948

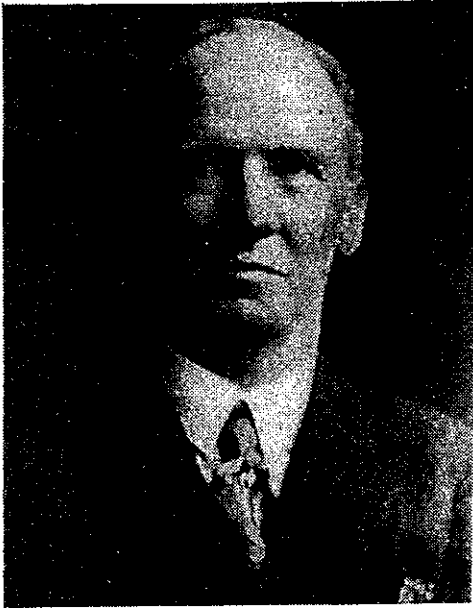


Fig. 1.6: Sir Frederic Gauntlett, KCIE, KBE
1912 to 1914 & 1918 to 1929

Fig. 1.7 Sir Ernest Burdon, KCIE CSI
1929 to 1940



Fig. 1.8: Sir Alexander Cameron Badenoch
1940 to 1945

Fig. 1.9: Sir Bertie Staig, CSI, ICS
1945 to 1948

LIST OF ABBREVIATIONS

1.	Ar.Gl.	— Auditor General
2.	ADAI	— Additional Deputy Auditor General/Additional Deputy Comptroller and Auditor General
3.	AG	— Accountant General
4.	AGCR	— Accountant General, Central Revenues
5.	AG P&T	— Accountant General, Posts and Telegraphs
6.	AG MP	— Accountant General, Madhya Pradesh
7.	AArG(P)	— Assistant Auditor General (Personnel)
8.	AArG(A)	— Assistant Auditor General (Administration)
9.	AAO	— Assistant Accounts/Audit Officer
10.	AR	— Audit Report
11.	AA Order	— Audit and Accounts Order
12.	CAG	— Comptroller and Auditor General
13.	CCS (TS) Rules	— Central Civil Services (Temporary Service) Rules
14.	DAI	— Deputy Auditor General/Deputy Comptroller and Auditor General
15.	DADS	— Director Audit, Defence Services
16.	DRA	— Director of Railway Audit
17.	DA	— Divisional Accountant
18.	GBE	— Gazetted Establishment, Budget and Establishment
19.	HP	— Himachal Pradesh
20.	IAAD	— Indian Audit and Accounts Department
21.	IAAS	— Indian Audit and Accounts Service
22.	LD	— Lower Division Clerk
23.	EDC	— Lower Division Clerk
24.	PEPSU	— Patiala and East Punjab States Union
25.	P&T	— Posts and Telegraphs
26.	SAS	— Subordinate Accounts Service
27.	SGC	— Selection Grade Clerk
28.	UDC	— Upper Division Clerk

SOURCES AND REFERENCES

1. IAAD by Shri M.S. Ramayyar
2. Government of India Act, 1935
3. The Audit and Accounts Order 1936
4. Audit Codes
5. Manual of Office Procedure of CAG of India
6. CAG's Manual of Standing Orders
7. Account Codes

2 The New Statute

SHAPING OF THE CONSTITUTIONAL PROVISIONS

The memorandum on the Union constitution prepared by the Constitutional Adviser, Shri B.N. Rau, in March 1947 provided for an Auditor General of the Union to be appointed by the President, who could be removed from Office in the same manner as a Judge of the Supreme Court, and whose duties and powers were, more or less, on the lines laid down in the Government of India Act 1935, and the memorandum on the provincial Constitution envisaged an Auditor General for each province with suitable duties and powers relevant to the mandate given. The draft Constitution provided for the appointment of the Auditor General of the Federation and Auditors General of the Provinces (Chapter VI Auditor General of the Union and clauses 29 and 30 and Part IV PPSC and Provincial Auditors General) to be inserted on the lines of the provisions in the 1935 Act. The Auditor General for the Federation was to be appointed by the President and would have the same security of tenure, as a judge of the Supreme Court, would be ineligible for further office under the Government, and whose functions extended to the accounts of the Federation as well as the Provinces to be prescribed by federal law. The Provincial legislature could provide by law for the appointment of an Auditor General for the Province, three years after the date of publication of the provincial Act, which was intended to ensure enough time for the changeover in audit functions. Appointment to the office of the Provincial Auditor General was to be made by the Governor in his discretion, who could be removed from office only in the same manner as a High Court Judge, and who would be eligible for appointment as the Auditor General of the Central Government but to no other office under the Government. The report on the audited accounts of the Federation as well as of the Provinces were to be submitted to the President or the Governor, as might be appropriate which were to be laid before the appropriate legislature.

An Expert Committee consisting of Shri N.R. Sarkar*, Shri V.S. Sundaram and Shri M.V. Rengachari§ examined the draft provisions and considered them to be adequate for the purpose of securing the independence of the Auditor General but favoured the continuance of a single Auditor General for the Government of India as well as for the

* Formerly member of Governor General's Executive Council and well known industrialist and a Financial expert.

§ Budget officer of Government of India.

Provincial Governments as they felt that the latter would prefer such a course and choose not to use their power of appointing a separate Auditor General of their own. In case the option to the State to have its own Auditor General was retained, they suggested that the Auditor General of a province should be eligible for appointment to another province also. The drafting Committee chaired by Dr. B.R. Ambedkar and consisting of Shri Alladi Krishnaswamy Iyer, Shri K.M. Munshi and Shri N. Madhava Rao agreed to clauses 106 to 109 and 174 and 175 of the draft Constitution but clauses 174 and 175 were modified to provide for an Auditor General for the State to be appointed by the Governor, since the provincial Constitution Committee had suggested in its report that the appointment of the Auditor General of a province should be made by the Governor in his discretion, not on the advice of his Council of Ministers.

The Constituent Assembly deliberated on these provisions during 30th May, 1949 to 1st August, 1949. Several amendments were proposed by members, particularly, S/Shri T.T. Krishnamachari, B. Das, R.C. Sidhwa, Prof. K.T. Shah and Pandit Hridayanath Kunzru. Shri T.T. Krishnamachari's amendments sought to change the designation of the Auditor General to cover control over governmental spending, to provide for his taking an oath similar to that taken by the Judges of the Supreme Court, to charge the entire administrative expenses of his office on revenues of Government of India, so as to make the expenditure of the institution non-votable and to provide for the conditions of service of his staff to be prescribed by rules made by the CAG, subject to any Parliamentary law and approval of President. Shri B. Das suggested that the appointment of the Auditor General by the President by "warrant under his hand and seal" and to grant him the same status as members of the UPSC and the Chief Justice of the Supreme Court of India was opposed to charging his expenses to the revenues and pointed out the incongruity in letting the Executive make the rules regarding his functions. Prof. K.T. Shah's amendment was for choosing among chartered accountants of not less than ten years' standing to the office of the Auditor General, since technical qualification and practical experience of auditing accounts were essential for anyone holding that office. Pandit Hridayanath Kunzru's amendment proposed to enlarge the scope of Article 126 by adding Government of any state or any Authority so as to confer additional duties on CAG for auditing the accounts of autonomous bodies in view of the increasing number of autonomous corporations set up by the Government. The amendment to designate the person performing the functions of the Auditor General in a State as Auditor-in-Chief in order to distinguish him from the Auditor General of

India, to provide for the salaries and allowances of the staff of these offices to be fixed by the Auditor General and the Auditor-in-Chief in consultation with the President and the Governor respectively were accepted by the Assembly. There was a good deal of deliberations on these amendments in the Assembly. All the members who participated in the deliberations emphasised that the Comptroller and Auditor General was the most important functionary under the Constitution in his position as the watchdog of the country's finances; and that in a democracy, while it was for the Legislature to sanction and for the Executive to spend moneys, the Comptroller and Auditor General had to scrutinize that the moneys sanctioned by the Legislature were properly spent by the Executive. The amendments moved by Shri T.T. Krishnamachari, Shri B. Das and Shri H.N. Kunzru with slight modifications, were accepted. Prompted by the Drafting Committee, which apparently had second thoughts on the question of the desirability of permitting multiplicity of audit authorities, one for the Union and one for each State, Shri T.T. Krishnamachari introduced an amendment in August, 1948, for diluting articles 210 and 211 enabling the state Legislatures to create their own Auditor-in-Chief. He argued that since the Constituent Assembly had already adopted articles, whereby the auditing and accounting would become "one institution", so to say, under the authority of the Comptroller and Auditor General, it was not necessary to have separate provisions for the States. He accordingly proposed the addition of new article, 127 A, requiring the Comptroller and Auditor General to submit the report on the accounts of a State to the Governor for being laid before the State Legislature. These were adopted without any discussion. He, however, opposed the amendment proposed by Professor Shah to restrict the selection of CAG from among chartered accountants on the ground that though an original one and quite in conformity with the ideas prevalent in the commercial world, was out of tune completely with the existing practice in the matter of the appointment of the Auditor General in this country and elsewhere. According to him "Actually the man who is an Auditor General is not an Accountant *per se*. He has a number of other duties to perform and in so functioning, he has got to have a knowledge of the entire administration and I think the present method of appointment of Auditors General in India is perhaps the best. We had some very good Auditors General, who were administrators, and who had been in the Finance Department, and who have functioned as Accountants General in various places, and who had held other important and responsible positions, so that it is not merely a question of arithmetic or accounting knowledge that is necessary, but a comprehensive knowledge of the entire administration. From that point

of view, I think, the House will readily concede that the view taken by Professor Shah, however plausible, is extremely narrow. A person who has got the qualification of only registered accountant and nothing else, which will probably be the case, if you rule out administrative experience, will not suit as an Auditor General. Having some experience of registered accountants myself, I do not think it is a type of work, that is impossible for anybody else, who has got a comprehensive knowledge of administration and accounting to get to know. All the knowledge of a registered accountant is certainly known to a person, who holds the position of an Auditor General in the Government of India or Accountant General and I see no reason why I should support Mr. Shah's view and ask the House to accept his amendment, which, if anything, will upset the arrangement that now exists and will make it very difficult for the future Government to choose an appropriate person to function as Auditor General, Sir, I oppose the amendment". The Amendment was negatived.

While considering the proposed Article for adoption Dr. Ambedkar observed "..... I cannot say that I am very happy about the position which the Draft Constitution, including the amendments which have been moved to the articles relating to the Auditor General in this House, assigns to him. Personally, speaking for myself, I am of opinion that this dignitary or officer is probably the most important officer in the Constitution of India. He is the one man, who is going to see that the expenses voted by Parliament are not exceeded or varied from what has been laid down by Parliament in what is called the Appropriation Act. If this functionary is to carry out the duties - and his duties, I submit, are far more important than the duties even of the judiciary - he should have been certainly as independent as the Judiciary. But, comparing the articles about the Supreme Court and the articles relating to the Auditor General, I cannot help saying that we have not given him the same independence, which we have given to the Judiciary, although I personally feel that he ought to have far greater independence than the Judiciary itself.

"One difference, if I may point out, between the position, which we have assigned to the Judiciary and which we propose to assign to the Auditor General - both in the original as well as from the amendments that are moved - is that Auditor General is not to have any such power. The absence of such a power means, that the staff of the Auditor General shall be appointed by the Executive, the staff shall be subject to the Executive for disciplinary action. I have not the slightest doubt in mind that if an officer does not possess the power of disciplinary control over his immediate subordinates, his administration is going to be thoroughly

demoralised. From that point of view, I should have thought that it would have been proper in the interests of the people that such a power should have been given to the Auditor General. But, sentiment seems to be opposed to investing the Auditor General with such a power. For the moment, I feel that nothing more can be done than to remain content with the sentiment, such as it is today.

"..... With regard to the point made by my friend, Mr. Sidhwa that many of these rules with regard to the duties of the Auditor General are made by the Executive, and, therefore, since by the amendment which I have suggested we are continuing to give these powers the same operation which they had before, we are practically investing the Executive with the authority to prescribe the duties of the Auditor General. Obviously, there is an incongruity in this position, in that an officer, who is supposed to control the Executive Government with regard to the administration of the finance should have his duties prescribed by rules laid by the Executive. Now, the only reply that I can give to my honourable friend, Mr. Sidhwa, is that these provisions have been taken bodily to a large extent from the provisions contained in section 151 of the present Government of India Act, 1935, which deal with the custody of public money, and section 166, which deals with the rules made by the Governor General with regard to the duties of the Auditor General. Under the scheme of that Act, the rules were required to be made by the Governor General in the exercise of what is called his individual judgement, that is to say, he would not be required to take the advice of his Ministry in making these rules. To that extent the rules made by the Governor General prescribing the duties of the Auditor General would undoubtedly be independent of the Executive. Today we are not vesting the President with any such power of independent judgement so that if any modification in these rules were to be made by the President he would undoubtedly be acting on the advice of the Ministry of the day, that is to say, the Executive. I admit that to that extent there is a certain amount of anomaly, but I do hope, my friend will continue to function as a Member, when the new Parliament is constituted, will take on himself the earliest opportunity of urging parliament to change the position and to convert the rules into laws made by parliament."

At the revision stage, the Drafting Committee renumbered the articles, as 148 to 151. When the revised draft came up for consideration before the Assembly, Shri T.T. Krishnamachari moved an amendment on behalf of the Drafting Committee to introduce changes in the article relating to the conditions of service of the Comptroller and Auditor General. In the form in which it appeared in the revised draft the article

provided that, subject to the provisions of any law made by Parliament, the conditions of service of persons in the Office of the Comptroller and Auditor General would be such as might be prescribed by rules made by him; but he was required to obtain the approval of the Union Government for the fixation of salaries, allowances, leave and pension. The amendment proposed by him widened the scope of the article to include the conditions of service of all such persons, as well as the administrative powers of the Comptroller and Auditor General, and would, subject to the provisions of the Constitution and of any law made by Parliament, be regulated by rules made by the President, after consultation with the Comptroller and Auditor General. This amending clause was adopted without any discussion.

The observations of Dr. Ambedkar on the basic shortcomings in the constitutional provisions by not investing the CAG with the power over his subordinates, since the prevailing sentiment ran counter to it, and the anomaly in investing the Executive with the authority to prescribe the functions of the Auditor General, which he hoped the successor parliament would correct, turned to be prophetic, as the events in the next decade unfolded.

THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

Articles 148, 149, 150 and 151 of the Constitution of India formed the basic structure of the Institution of CAG of India and are reproduced below :

"148 (1) There shall be a Comptroller and Auditor General of India, who shall be appointed by the President by warrant under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court.

(2) Every person appointed to be the Comptroller and Auditor General of India shall, before he enters upon his office, take and subscribe before the President, or some person appointed in that behalf by him, an oath of affirmation according to the form set out for the purpose in the Third Schedule.

(3) The salary and other conditions of service of the Comptroller and Auditor General shall be such as may be determined by Parliament by law and, until they are so determined, shall be as specified in the Second Schedule :

Provided that neither the salary of a Comptroller and Auditor General nor his rights in respect of leave of absence, pension or age of retirement shall be varied to his disadvantage after his appointment.

(4) The Comptroller and Auditor General shall not be eligible for further office either under the Government of India or under the Government of any State after he has ceased to hold his office.

(5) Subject to the provisions of this Constitution and of any law made by Parliament, the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor General shall be such as may be prescribed by rules made by the President after consultation with the Comptroller and Auditor General.

(6) The administrative expenses of the office of the Comptroller and Auditor General, including all salaries, allowances and pensions payable to or in respect of persons serving in that office, shall be charged upon the Consolidated Fund of India.

149. The Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and, until provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor General of India immediately before the commencement of this constitution in relation to the accounts of the Dominion of India and of the Provinces respectively.

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

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

(2) The reports of the Comptroller and Auditor General of India relating to the accounts of a State shall be submitted to the Governor or Rajpramukh of the State, who shall cause them to be laid before the Legislature of the State."

The form of oath or affirmation to be made by the Comptroller and Auditor General of India included in the Third Schedule of the Constitution was as under :

"I, A.B., having been appointed Comptroller and Auditor General of India do swear in the name of God/solemnly affirm that I will bear true faith and allegiance to the Constitution of India as by law established, that I will uphold the sovereignty and integrity of India,

that I will duly and faithfully and to the best of my ability, knowledge and judgment perform the duties of my office without fear or favour, affection or ill will and that I will uphold the Constitution and the laws".

"The salary and other conditions of his service laid down in the Second Schedule to the Constitution was as under :

12. (1) There shall be paid to the Comptroller and Auditor General of India a salary at the rate of four thousand rupees per mensem.
- (2) The person who was holding office immediately before the commencement of this Constitution as Auditor General of India and has become on such commencement the Comptroller and Auditor General of India under Article 377 shall in addition to the salary specified in sub-paragraph (1) be entitled to receive as special pay an amount equivalent to the difference between the salary so specified and the salary which he was drawing as Auditor General of India immediately before such commencement.
- (3) The rights in respect of leave of absence and pension and the other conditions of service of the Comptroller and Auditor General of India shall be governed or shall continue to be governed, as the case may be, by the provisions which were applicable to the Auditor General of India immediately before the commencement of this Constitution and all references in these provisions to the Governor General shall be construed as references to the President."

COMPARISON WITH OTHER SAIs

At the time when the Indian Constitution was framed, there were two types of state audit, namely Executive and Legislative, in various countries in the world. The Auditor General under 1935 Act was an executive type appointed by the Governor General in Council and depended on the Ministry of Finance for administration, management and funds but his Reports and Accounts were subjected to scrutiny by the PACs in federal and provincial legislatures. National Audit Institutions, which were exclusively legislative owed their allegiance to the representative assembly, which elected them. The most extreme form of legislative types were prevalent in Belgium, Austria and Israel, where the Chief auditors were chosen by the legislatures and the law protected the activities and controlled the finances of state audit, against any form of ministerial interference and were independent of the Executive in its most complete form. It was not independent of the legislature and the quality of audit work depended upon legislative understanding of the Auditor's role. While Israel and Austria acquired an enlightened modern

view, the Belgian Parliament tended to look at its *cour des comptes* through the glares of classical finance. The General Accounting office was a legislative audit in a less extreme form, after the Reorganisation Act of 1945, which made it "a part of the legislative branch of the government". But it retained some of its old functions since 1921 such as settlement of claims and the rendering of legal decisions and collaborated with Bureau of Budget, which was an executive authority for planning budget by furnishing information on request. The GAO was known as the right arm of the Congress and the links between GAO and Congress were close and intimate. The Exchequer and Audit Department's Act of 1866 and 1921 in U.K. had set up an audit on behalf of both the Legislature and the Executive but depended on the latter for administration and management. According to the rules then prevalent in U.K., the Executive had the discretion to decide the authority to prepare and render accounts for audit, the form of the accounts to be rendered by the departments to the CAG and also controlled the number and the status of the auditors through its authority to regulate recruitment and salaries legally.

The state audit in U.K. was described as a hybrid form, intermediate between a 'Legislative' and an 'Executive' type and with elements of both. The National Audit Act 1983, has completely revised it to a legislative type, which is discussed later. Most of the Commonwealth countries - Canada and Australia - had patterned on the U.K. model of state audit, though regulated by the statutory enactment of the federal legislatures, were mostly Executive type of Audit institutions. These did not prevent these National audit institutions to develop into powerful instruments of parliamentary financial control.

In France and Germany, the CAG was the servant of both the Legislature and the Executive. The *cour des comptes* and the *Bundesrechnungshof* in principle served neither, although in practice they cooperated with both, and an autonomous type of audit prevailed - both statutorily and traditionally. The law and constitution of the Fourth Republic provided for development of audit conducted specifically on behalf of the Legislature and the *cour* described itself in 1953 as "the permanent auxiliary of the representative assemblies, as well as of the Government", but was completely independent of both and had not shown any signs of transforming itself to become a parliamentary organ. The Weimar Constitution of 1919 specifically established legislative control of finance through active Budget and Audit Committees. The *Rechnungshof* was independent of the Reich Government and subject to the law, though legal relationship between state audit and the legislative assembly remained undefined. But Hitler dismissed the Chief Auditor of

Germany immediately after his seizure of power in order to suppress possible criticism. Post war German Federal Republic returned to the best arrangements achieved by the Weimar regime and the Bundesrechnungshof addressed all its reports to the Bundestag, through the Finance Minister. The Budget and Audit Committee of the elected assembly was revived and the audit body's representatives attended their sessions. The work of the Bundesrechnungshöfes was much more closely integrated with parliamentary control than that of the French cour des comptes but was not exactly a 'legislative' audit, since it enjoyed the status of constitutional autonomy. The Supreme Audit body was not subordinated to the legislative organ, its financial control activities were neither classed among the functions of the legislative power nor was it listed among the law courts, although its members had the same independence as judges and took decisions upon judicial principles. The Bundesrechnungshof was not entrusted with a jurisdiction. Its relations with the Executive were characterised by 'its' independence of the Federal Government and its status of equivalence with federal Ministry. It was to some extent a connecting link between Executive and Legislature. Although independent of each, its activity concerns both of them.

The Tribunal de Contas. of Portugal reorganised in 1930 and 1933, after Dr. Antonio de Oliveria Salzar came to power, had nominated members by the Minister of Finance and enjoyed the irremovable status but their functions were strictly limited to a control of regularity. It was neither directly nor indirectly responsible to the Assembly and in effect was a part of decorative institution and a front of sinecures and at best as a part of the Executive, which gave credibility and acceptability to a dictator. Audit in Soviet Union served more comprehensive purposes than anywhere else in the world.

In communist countries, the audit institutions were part of the Executive, as no separate legal status in relation to the Legislature existed. The national audit was located within the structure of the Ministry in East Germany and was a part of the special division of the Ministry of Finance. The audit in East Germany was a fair reflection of Soviet system.

People's commissariat of state control to establish the strictest control over accounting for public funds the property and over expenditures, established by the decree of the Presidium of the Supreme Soviet dated 6th September 1940, was set up with the avowed purpose of creating a genuine check upon the execution of Government decisions. It was endowed with powers to impose punishments upto dismissal upon official and to give binding instructions. It published details of

abuses committed by party members and management of factories. But there were parallel agencies employed in identical tasks, like, the agencies of the Finance Ministry, which conducted independent audit, and the commission of party control, whose functions, inter alia, included ascertainment of the implementation of the decisions of the Party Executive by party organisation and by Soviet and economic institutions and a Central Audit commission with fifty members whose duties were to conduct a financial audit of the Party Executive and subordinate institutions and an efficiency audit of the Secretariat of the Party Executive and Central Party organisations, apart from direct inspections by workers and peasants, set up by Lenin. Although the role of State Audit and State Control can hardly be constitutional in the Western sense, they functioned like specialised instruments of the administration.

After the upheaval of 1956, Poland reverted from the Ministry of state control to the Supreme Court of Control, an organ of Segm, whose President was appointed and revoked by the Segm to supervise the state administration and all public enterprises in accordance with the broad criteria, -regularity, efficiency and general efficiency. It was an attempt to create a kind of 'legislative' *cour des comptes* though with far wider power than were normal in western countries. In sum, state audit in the communist countries were executive type and enjoyed several advantages and was allowed to make a real contribution to the system of financial control through the mechanism of plan, its implementation and performance.

Compared to the SAIs elsewhere, the CAG of India, as envisaged in the Constitution, was an officer of the Constitution - neither legislative nor purely executive, though he was appointed by the President, on the advice of the Prime Minister, and was required to take an oath, while entering office to uphold the Constitution, but can only be removed from office by the Parliament, like Supreme Court Judge. The state audit was fashioned on the pattern of its counterpart in UK, but the CAG was vested with accounting and audit functions of both federal and state governments. The actual working of the SAI in the next four decades showed it to be different from the proto type.

By its fundamental nature the state audit does not belong necessarily to either Legislature or Executive, but is an independent neutral authority that serves the Executive and Legislature of Governments in a variety of ways and the body politics and the public at large, to provide fair and equitable means to ensure accountability and is judged by its total performance.

NEW AUDIT CODE

The new principles and directions of audit were issued, in the form of a reprint of the first edition of the Audit Code, on 12th June 1950 by Shri V. Narahari Rao under Article 149 of the Constitution of India and the provisions of Government of India (Audit and Accounts) Order, 1936, as adapted by the India (Provisional constitution) Order 1947. It incorporated such adaptations and modifications, as were found necessary by the Constitutional changes introduced by the Constitution of India as also the changes made since the issue of earlier edition in November 1921. Less important instructions and regulations governing procedures were embodied in the Audit Manual as before. The structure and substance of the Code was more or less identical to the earlier one except for the changes necessitated by the political, constitutional and functional changes brought about by the new Constitution. The functions of the CAG were derived from the provisions of Articles 149 and 151 of the Constitution, and until the Act envisaged under Article 149 of the Constitution to regulate the duties and powers of the CAG was made by the Parliament, he performed such duties and exercised such powers in relation to the accounts of the Union and of the States, as were conferred on or exercisable by the Auditor General of India, immediately before the commencement of the Constitution in relation to the accounts of the Dominion of India and of the provinces respectively. As explained in the earlier chapter, they fell broadly under two categories, namely, those of an Accountant and of an Auditor. The duty of keeping the accounts of the Union Government and of the states entrusted to CAG was subject to certain specified exceptions, which were dealt with in greater detail in chapter I of the Account Code, which were normally the functions of the executive authorities but were entrusted to the CAG during the evolution of Indian Administration, an historic accident, which was found convenient and economical both by the Government at the Centre and the Provinces. The duties and powers of the CAG with regard to the audit of accounts of the Union Government and State Governments, as laid down in the Audit and Accounts Order, 1936, as applicable to the earlier Dominion and the Provincial Governments, were continued to be performed. The Auditor of Indian Accounts was brought under the Auditor General and the transactions in the United Kingdom became a part of the accounts compiled by the AGCR. Paragraph 17 was amended to delete 'in India' so as to make the authority of the Auditor General to inspect any office of accounts, which was under the control of the Dominion or of a Province, including treasuries and such offices responsible for the keeping of initial or

subsidiary accounts, as submit accounts to him, complete. Para 18 was amended to delete the exclusion of the books or documents in United Kingdom. Although the rules and directions contained in this Code and other Codes or Manuals issued by him were primarily intended to be applied in relation to the accounts of the Union Government or of the State, they could be made applicable, *mutatis mutandis*, to the accounts of any other authority, the audit of which was undertaken by or on behalf of the CAG. Reports referred to in Article 151 of the Constitution embraced the Appropriation Accounts, the whole of the accounts of the Union or of the State including accounts of receipts and of all transactions relating to Debt and Remittance heads. The expression 'any other authority or body' used in Article 149 of the constitution was held to include private commercial and quasi-commercial undertakings in which Governments participated. Article 149 was intended to be most exhaustive of the means, whereby duties other than those specified in other provisions of the Constitution itself can be imposed upon the CAG and did not preclude him from undertaking any additional duties in respect of any authority or body by consent on such terms and conditions as may be settled between him and the Government concerned by specific legislation. Para 19 of the Order empowered the Ar.Gl. and other officers and establishment of the IAAD by special or general directives given by him from time to time to perform all such duties and functions as were imposed on, or undertaken by, the CAG under the provisions of the Constitution and of any law made thereunder or under any executive arrangements. The Ar.Gl. was required to work in consultation with the government concerned in order to enforce propriety and secure regularity in public expenditure and render all legitimate assistance to the Finance Ministry/Department in regard to application of financial rules or orders concerning which there may be doubts. The provisions relating to adherence to concordats for regulating the relationship between Audit and Executive and regarding relations of Audit with the Crown Representative were deleted.

As auditor, he was solely a critical and quasi-judicial authority and exercised his duties according to his knowledge and judgement by the sanction of the Constitution. He was one of the most important authorities set up by the Constitution, acting on behalf of the Legislatures. He was independent of all Departments including the Finance Ministry/Department and was placed beyond the political and party influences of the day. His oath of office under the Constitution required him to uphold the Constitution and the laws and discharge his duties without fear or favour, affection or ill will. In the discharge of his duties it was his business, subject to the provisions of Article 149 of the Constitution, to

watch that the various authorities of the State set up by, or, under the Constitution, act in regard to all financial matters in accordance with the Constitution and the laws of Parliament and appropriate Legislatures and Rules or Orders issued thereunder. He was given complete liberty in reporting of relevant facts, and of expressing opinions upon the conduct of Departments and Ministries in regard to their financial transactions and accounts and upon decisions of the Finance Ministry/Department affecting them. Nothing can fetter his discretion or judgement in any manner as to matters, which he may bring to the notice of Parliament/State Legislatures in the discharge of his duties. In fact, it was his duty to call attention of the Parliament/State Legislatures to every matter to which he thought their attention should be directed. The efficiency of audit conducted by him determined to a large extent the financial integrity of the administration and the security of public funds. The vigilance of audit secured the taxpayer against wasteful expenditure and loss of public funds and its zeal and vigour, to a large extent determined the measure of financial control which the Parliament/State Legislatures would be enabled to exercise over the Executive.

The primary function of the Audit was to verify the accuracy and completeness of accounts to secure that all revenue and receipts collected were brought to account under the proper head, that all expenditure and disbursements were authorised, vouched and correctly classified and that the final account represented a complete and true statement of the financial transactions it purported to exhibit. The right of independent criticism was held to be inherent in the auditorial function, which was explicitly or tacitly recognised in the statutory provisions defining the position of the CAG and his functions. Government audit necessarily functioned in a dual role, firstly on behalf of the Executive Government to check the compliance by Government servants subordinate to it, with the rules and orders issued by it in the discharge of its responsibility to the Legislature or other authority, and secondly on behalf of the Legislature to secure that the Executive government acted in accordance with the law and also with the views and requirements of the Legislature.

The distinction between auditorial and administrative functions was clearly recognised and the function of Audit was to verify that financial rules and orders satisfied the provisions of law, were free from any audit objection and that they were properly applied. Audit of the CAG was a financial audit and not an administrative audit and criticism in Audit was limited to financial criticism based on the accounts. It was not the function of the Audit to range over the field of Administration and offer suggestions how Government may better be conducted. It was the

responsibility of the Executive to enforce economy in the expenditure of public money but it was the duty of Audit to bring to notice wastefulness in public administration and infructuous expenditure, and in certain events, the criticism may be made public in the Audit Reports on the Appropriation Accounts. In the course of scrutiny of accounts and transactions of Government, Audit was entitled to make such queries and observations and to call for such vouchers, statements, returns and explanations in relation to them as it may consider necessary in the interest of proper discharge of its duties. All queries and observations were couched in language which was courteous and impersonal.

While auditing Government Accounts no independent enquiries from private individuals or members of the general public were made and Audit confined itself to calling upon the Executive to furnish any necessary information and in case of difficulty, it conferred with the Executive as to the best means of obtaining the evidence, which it required. The final discretion as to whether an objection should be pressed or dropped rested with the auditor. But there was no discretion in regard to competent sanction of an expenditure or recovery of amounts due to Government. All objections were not of equal importance and certain residuary discretion rested with the CAG and with the AG to refrain from pressing an individual objection, when there was sufficient assurance that the aim of audit to secure regularity and propriety had been safeguarded for the future.

Under Article 150 of the Constitution, CAG, in his dual capacity as keeper and auditor of accounts of Government, was responsible for securing that entry of financial transactions in the accounts conformed to such forms, rules, directions and agreements and during audit it was examined whether all financial transactions were properly recorded in the accounts and were allocated to the proper heads of accounts and the principles of allocation between capital and revenue expenditure enunciated by the Government. Audit of Expenditure involved audit against provision of funds, sanctions to expenditure, against rules and orders and propriety. Audit against provision of funds was directed mainly to ascertain that the money expended has been applied to the purpose or purposes for which the Grants and Appropriations specified in the schedule of authorised expenditure authenticated by the Parliament and that the amount of expenditure against each Grant or Appropriation did not exceed the amount included in that schedule. Existence of sanctions to expenditure, either general or special, was verified and also the competence of the authority sanctioning it by virtue of powers vested in it by the provisions of the Constitution and of the Laws, Rules or Orders made thereunder or by the rules of delegation of

financial authority made by a competent authority and it was seen that sanction was definite and needed no reference either to the Sanctioning Authority itself or to any higher authority. Utmost care and attention was to be devoted to audit of sanctions to expenditure. Audit against Rules and Orders consisted in verifying that the expenditure conformed to the relevant provisions of the Constitution and of the Laws and Rules made thereunder and by also in accordance with the financial rules, regulations and orders issued by the competent authority either in pursuance of the provisions of the constitution or of the Laws and Rules made thereunder or by virtue of the powers formally delegated to it by the higher authority. The work of audit against regularity was a quasi-judicial character, though the final authority to decide on the correct interpretation vested with the Government. The scrutiny of rules and orders was carried to satisfy that they were themselves intravires and facilitated the transactions of government business in a manner to make their audit very effective. While scrutinising Rules and Orders it was ensured that they were not inconsistent with any provisions of Constitution or of any Laws made thereunder, that they conformed to the essential requirements of audit and accounts as determined by CAG, did not conflict with the orders of or rules made by any higher authority and the issuing authority possessed the rule making power.

The object of audit against propriety was to support a reasonably high standard of public financial morality, of sound financial administration and devotion to the financial interests of Government. The general principle which have for long been recognised as standards of financial propriety were the guiding factors for conducting such audit and any challenge of such expenditure was on the ground of transgression of universally accepted standard of official conduct or financial administration.

While auditing Debt, Deposit and Remittances, the general principles and rules governing audit of expenditure was applied *mutatis mutandis* and the extent of audit depended on the nature of transactions, their scope and effect. The subsidiary accounts of Government Commercial Undertakings, were audited to ensure that they presented a full and true picture of the financial results of the undertaking in terms of Commercial ideas of liability and asset, debit and credit, profit and loss, verification of the correctness of the allocation of expenditure between Capital and Revenue, basis of valuation of assets and the adequacy of provision for depreciation and bad debts, keeping in view the fundamental difference between private and Government Undertakings and also scrutinise the system of internal control and adjust the extent of scrutiny to the adequacy of the system of internal control and on the

completeness and accuracy with which it was applied. Principles governing audit of miscellaneous transactions like Workshop Accounts, contracts, grants of lands, assignment of revenues and other concessions involving relinquishment of revenues, refunds, financial stock taking of big engineering projects, calculation of net proceeds of certain taxes and duties etc. were also laid down.

Audit of receipts was not a statutory function of the CAG and was limited to verification of the accounts rendered to him to satisfy that sums due were regularly recovered and checked against demand, and sums received were duly brought to credit in the accounts and the scope also covered receipts accruing under Debt and Remittance heads. Instructions for conducting audit of receipts, specifically entrusted to the CAG, was laid down under 1936 Order. Audit of the accounts of Stores and stock was limited to audit of payments for purchase of stores since it formed a part of expenditure of Government and disposal of stores including writes off etc.

In order to ensure the accuracy of the original data on which the accounts and his audit work were based, inspection of any office of accounts under the control of the Government including those responsible for keeping initial or subsidiary accounts, was carried out. The primary objects of inspection were to see that the initial accounts from which accounts rendered by the departmental officers were compiled or on which they were based were properly maintained in the prescribed forms and the financial rules and orders were observed and to test the degree of care exercised by the departmental authorities responsible for keeping the accounts over the accuracy of the original records. Test audit was applied on such accounts, vouchers etc., as was not audited in the Central Audit Office or which could not be checked adequately except during local audit. It was ensured that the initial accounts were maintained in proper form and the financial rules were properly observed and the test audit was conducted in sufficient detail to verify the accuracy and completeness of the accounts according to the prescribed rules for audit of expenditure and receipts of the Governments. During inspection of accounts of the treasuries it was seen that Rules prescribed by Government were understood and observed and was concerned primarily with the accuracy and regularity of the accounts and not with the administration of the office. The results of inspection were incorporated in an inspection report containing more important defects of procedure and financial irregularities and describing briefly the general state of accounts and the nature of general financial control over transactions and a test audit note wherein errors and minor irregularities, which were not important enough to be reported to the higher authority, were incorporated.

The general principles and rules relating to the audit of Government accounts were also applied for audit of accounts of non-Government institutions entrusted to the Accountant General like local fund, public or quasi-public fund or non-Government institution or any private accounts.

The Supplementary Audit Regulations covered different facets of Audit. The principle and procedure of appropriation audit were explained. While conducting appropriation audit, it was seen that the total expenditure under a Grant did not exceed the amount of that Grant or Appropriation as specified in the authenticated schedule or schedule of sanctioned expenditure, and that the total expenditure on each of the sub-heads fixed as units of appropriation under a Grant or Appropriation did not exceed the allotment thereof, as modified by orders of re-appropriation passed by competent authority, from time to time. It was both a responsibility to the Legislature and also to the financial authority of the Executive Government *i.e.*, the Finance Ministry or Department. The Accountant General was required to see on behalf of the Executive Government that if under the financial rules of that Government a particular object of expenditure required specific allotment, all expenditure on it was audited against such allotment and if a lumpsum allotment was made for a group of items of expenditure of an office, the total expenditure thereon was audited against the lumpsum placed at the disposal of the disbursing officer for the purpose. Appropriation Audit was conducted in two stages, namely sanction audit and audit of expenditure against allotments. The audit of orders of allotment and re-appropriation involved seeing that an authority making allotment under a Grant or Appropriation did not allot amounts in excess of those available under the Grant or Appropriation, that the amount appropriated was available under the unit from which it was allotted and that the order was issued by the competent authority. Not only a close watch over orders of allotment and re-appropriation was kept, the progress of expenditure against the Grant or Appropriation as a whole, and allotments for sub-heads and subordinate units of appropriation also received special attention. Based on the booked expenditure, warning slips were issued to disbursing officers and controlling authorities of the likely excesses round the corner for taking appropriate remedial action.

Instructions in regard to audit of pay and allowances of both Gazetted and Non-gazetted Government Servants were laid down in sufficient details, which indicated the importance attached to the regularity audit. While auditing the grants-in-aid made by Government to a body, fund or concern both the original grant as also the expenditure incurred by the grantee, were audited. The general principles and rules

governing the audit of expenditure were applied during audit of grants-in-aid and the extent of audit of expenditure from a grant-in-aid by the grantee depended on whether the grant was conditional or unconditional. In the case of the former, it was ensured in audit that the prescribed conditions had been fulfilled either by scrutiny in Central audit or local Inspection or with reference to reports from the grantee regarding the fulfilment of the conditions or by obtaining certificates regarding utilisation from the local authorities or bodies etc. The nature of contingent charges, the responsibility of the officers and departments for effective control of expenditure and the function of audit in regard to each class of contingent expenditure were explained. Under audit of miscellaneous transactions, procedure for audit of pension vouchers, interest warrants, and other vouchers regarding payments of miscellaneous nature was explained.

Works Audit was a specialised branch of the Department and the scope of audit, the procedure for conducting audit in all stages—preliminary stage in the divisional office, in the audit office, and test audit during periodical inspection of the divisional offices were dealt at length. While the preliminary audit was conducted by the divisional accountant in accordance with his duties and functions and prescribed procedure in the divisional office, audit in the audit office was conducted to verify the sufficiency of the authority for incurring the expenditure, accuracy of the classification of the charges against the works, persons, services and heads of accounts concerned, proof of payment to the correct individual and the observance of the standards of financial propriety. Periodical inspections and test audit of initial accounts and such other accounts, vouchers etc. as were not rendered to audit office or as can not be checked accurately except in the local audit, were also carried out to supplement the central audit.

Audit depended for its effectiveness on its right and duty to report results to the proper authority, so that appropriate action may be taken to rectify the irregularity or impropriety, where possible, or to prevent a recurrence of it. Such an authority may be the department, government itself, or in the last resort the Legislature, through Public Accounts Committee. The highest qualities of understanding, balanced judgement and sense of proportion was called for on the part of the reporting officers in the treatment of results of audit, and for assessing the individual irregularity. All observations and objections were conveyed in courteous and impersonal terms in a legible and intelligible manner. Any statement of criticism or of irregularity in audit report was accurate, fair, moderately worded and dispassionate. Innuendo was forbidden and a charge which cannot be substantiated was not even hinted. The system

and procedure for pursuance and clearance of objections, the delegation of authority to waive objections, treatment of erroneous payments admitted in audit and action on defalcation and other losses were clearly laid down. The AG conducted review of treasury accounts in such form and detail as settled with Government. The results of audit conducted by CAG under para 13 of the Audit and Accounts Order 1936 were reported to the Legislature concerned through the medium of reports required to be submitted under Article 151 of the Constitution. Two separate reports on accounts, namely Audit Report and Appropriation Accounts and the Audit Report on the Finance Accounts on Governments of Union and States were submitted for being laid before Parliament and State Legislatures. The reports on Union Government were issued in four separate volumes, namely, Audit Report on the Appropriation Accounts of the Defence Services, Audit Report on the Appropriation of Accounts of the Post and Telegraphs, Audit Report on the Appropriation Accounts of the Railways and Audit Report on the Appropriation Accounts - Civil *i.e.*, for the remaining departments of the Union Government. These Reports were dealt with in accordance with the procedures decided by the Parliament and the State Legislature framed under Article 118(1) and 208(1) of the Constitution.

The prevailing procedure for drawing up of the Audit Report and the Appropriation Accounts as explained in Chapter 1 was continued. Audit Report on the Finance Accounts was an auditor's presentation of the general accounts of Government to the Legislature and gave a just and impartial picture of the financial position of Government. While the Finance Ministry or Department of the Government concerned considered the recommendations of the Legislature or of the PAC emerging out of the Audit Report, the AG watched action taken upon each AR. A systematic record of the orders of the Government upon the reports of PAC was kept by the AG as they constituted a body of case law on the accounts of Government. The Finance Ministry or Department published an epitome of such orders and kept them upto date.

The instructions for writing a para or a report were rather rigid, which would have constituted a tight rope walking even for an acrobat, and the work process was virtually a battle of wits between the auditor and the auditee, where the benefit of doubt always went to the latter but the results thrown up ultimately was the common minimum, which seldom appeared without response from the Department and Government in the early days, when Audit was treated as an integral part of the Administration. Later, when the number of paras in each Report increased, in the wake of expanding expenditure, the responsiveness of the executive diminished perceptibly.

REGULARITY AND PROPRIETY NORMS

The Prime Minister expressed concern, during his meeting with CAG on 4th October 1951, that he was being forced by the authorities in charge of his security to travel in IAF planes but he was anxious at the same time to evolve a formula in connection with any journey performed purely for party or political purposes, where fees should be recovered from himself and non-officials accompanying him purely for party purposes. The CAG told him that security considerations were paramount and he should conform to the advice of security officials irrespective of the purpose of the journey. He apprised the FM of the discussions he had with PM and conveyed his view that the PM had no choice in the matter of using IAF planes and by paying to Government the amount he and his party members would have spent on fares for ordinary air travel, propriety would have been taken care and the extra cost would be purely for security purposes, not falling within the ordinary condition of travelling allowances and if he agreed, he could advise PM accordingly. He made it quite clear these security considerations can not be held to apply to other Ministers in the Centre or the states. Simultaneously CAG sent a note on identical lines to DAI and AGCR.

"In view of the fact that the Hon'ble Shri Jawaharlal Nehru is not only the Prime Minister of India but also the President of the Congress, the question of the treatment of the cost of journeys performed purely for party or political purposes in his capacity as President of the Congress arises. Shri Jawaharlal Nehru is not free to choose the manner of his journeys in view of the security considerations arising from his unique position in the country and the inseparable fact of his being the Prime Minister. Government cannot permit him to travel as he pleases and they are bound to make all the necessary security arrangements at the expense of the State. It follows that for whatever purpose he may travel, Govt. will have to insist upon his conforming to security requirements and to travel in a special plane. Moreover, he usually travels by one of the IAF planes, which have anyhow to fly a certain number of hours for technical reasons. All the same, I am told that in order to conform to financial proprieties, Shri Jawaharlal Nehru has decided upon reimbursing Govt. a single fare for himself for air journeys for purely political or party purposes, on the basis of rates charged by air service companies between places connected by air and in other cases, on the advice of the Director General of Civil Aviation who will compute a reasonable single fare on the basis adopted by regular Air Companies in fixing their tariff generally. As regards any other persons travelling with him for party or political purposes, fares will be recovered on the same

basis as in the case of Shri Jawaharlal Nehru. No recoveries can, of course, be made for his official staff and other security officials who proceed with him on duty.

These arrangements involve payment to Government by Shri Jawaharlal Nehru and party members of amounts, which are not less than the expenditure they would have incurred by normal modes of travel as private individuals. The extra cost borne by Government is justified solely by security considerations."

This was the beginning of a series of instructions from Auditor General on the subject of regulating the pay and allowances, TA, DA, and reimbursement of other expenses incurred by the Ministers at the centre, the Chief Minister and other ministers in the states, the Speaker of the Parliament and State Legislatures, Chairman of the Rajya Sabha and Upper Houses in states having bicameral legislatures and other VIPs of union and state governments including union territories. One AG was transferred for raising hasty objections on some TA advance taken by the CM of the state. In another Part A state, one AG objected to an ex-Governor General, who became the CM later, drawing his emoluments as CM in addition to his pension as ex-Governor General, which brought out the intervention of the CAG to smoothen out matters by making new regulations. The As.G. were required to look into each case personally and communicate objections confidentially to the CMs/or their secretaries and pursue carefully upto finality. The author himself raised certain objections on TA bill presented by the Chief Minister of a State, when his Secretary went on dragging his feet by legal and technical quibblings but later on when the CM was voted out by his own party, retrenchment slip was issued to the Treasury to recover from the ex-Chief Minister, who continued to be an MLA. Unusual or special cases were reported to CAG for obtaining orders. During the first decade, enough case law was built on both regularity and propriety aspects of such audit, which made the work easier for successors. In several cases, based on objections raised in audit, monies were recovered either during the tenure in office of the CMs or Ministers or after they demitted office. Cases which were not regularised properly or involved write off or avoidable expenditure or losses were commented upon in the Audit Reports in some states. Even as late as 1970, there was a case of reimbursement of the medical expenses of an ex-president's wife, which was not specifically provided under the Constitution and the rules made thereunder and until the enabling statute changes was brought about, AG was required to accommodate such expenditure on informal understanding with the Home Ministry.

OTHER MEASURES

The various measures initiated by the first CAG of India for impressing on Govt. of India for taking over the preaudit functions, accounting functions, intensifying and increasing the quantum of audit and improving the quality of audit work and reporting results, revival of commercial audit, recognition of the right and responsibility of CAG to audit the accounts of the newly formed companies and corporations with large Govt. investments and the need for statutory provision by Parliament, training and development of personnel at all levels, by creation of IAAS Training School for training the IAAS probationers at Simla in 1950, Training School for SAS apprentices at Madras, introduction of regular schemes for training of clerks for promotion as upper division clerks and departmental candidates to qualify in the SAS examination, and launching of large scale building programme to house the old and new offices of the IAAD all over the country are dealt with in the relevant chapters. Although he ceased to recognise the Concordat and the new Constitution granted him a status and authority, which was not enjoyed by any of his predecessors, he strove to maintain excellent relations with the new Govt. — both at the Centre and the states. He met the President and the Prime Minister periodically and kept them informed of the activities of the IAAD. Shri Narahari Rao discussed with Dr. John Mathai in 1949 and it was mutually agreed that any proposal of CAG could be turned down only by the Finance Minister, who would discuss with CAG before rejecting his proposal. The minutes recorded by Dr. John Mathai, Minister of Finance are reproduced below :

"I would like office to observe the following convention hereafter regarding proposals coming from the Auditor General. If the Ministry is unable to accept a proposal, it should be reported to me before orders are issued so that the matter may be discussed by me personally with the Auditor General. No reference need be made to me in cases where the Ministry is in agreement with the Auditor General."

This convention was adhered to during his tenure.

Dr. Rajendra Prasad, the first President of India laid the foundation stone for the new office of the Comptroller and Auditor General of India on 21st July 1954. He observed as under :

"According to our Constitution the office of the Comptroller and Auditor General has an independent status and some special powers have been vested in it. Although for purposes of affiliation this office falls under the Ministry of Finance, yet like the Supreme Court and the Union Public Service Commission, it is a statutory body and as such has a status of its own. Our Constitution has guaranteed the independence of the

Judiciary, with the Supreme Court at the head, for preserving and protecting the right not only of individuals against individuals but also of individual against the State. The Judiciary has the power even to declare a law invalid when the Legislature has exceeded its powers. Similarly the office of the Comptroller and Auditor General with his wide-spread organisation all over the country has the power to see that the moneys granted by the Legislature to the Executive authorities are spent for the purposes meant and that the accounts are maintained in a proper and efficient manner. He has the power to call to account any officer, however, highly placed, so far as the State moneys are concerned."

"I consider it, therefore, not only appropriate but necessary that the office of the Comptroller and Auditor General should be provided with all the necessary facilities to enable it to function in a way calculated to ensure the discharge of the duties allocated to it in the best possible manner. In a country like ours where huge amounts are allocated to different Ministries and the various offices attached to them, it is of the highest importance that a proper check is maintained on expenditure and that the funds drawn by various Government departments are not in excess of the appropriations."

"In a democratic set-up involving allocation of hundreds of crores of rupees, the importance of this kind of scrutiny and check can never be over emphasised, particularly at the present moment when Government is incurring large expenditure on so many welfare projects. Apart from these, the Government has of late been taking up industrial undertakings in its hands which have to be worked on purely business lines. It is essential that every rupee that we spend on all these is properly accounted for. This important task, I am afraid, a task not always very pleasant, devolves upon the Comptroller and Auditor General and his office. In accordance with the powers vested in him, he has to carry out these functions without fear or favour in the larger interests of the nation."

CHANGE IN TENURE AND PENSION

The provision regarding the tenure and pension of CAG was found unsatisfactory by the Government of India and a Bill was introduced by the then Finance Minister Shri C.D. Deshmukh on 28th April 1953 to fix the tenure as six years and to grant additional pension of Rs. 600 per annum for each completed year of Service as CAG, subject to the ceiling already prescribed. Eight Members of Parliament spoke on the Bill, which was passed and became the Comptroller and Auditor General (Conditions of Service) Act, 1953 (Act No. 21 of 1953). The immediate effect of the Act was that Shri V. Narahari Rao's term of office was

extended up to 14th August 1954 and he became entitled to the pension admissible under the rules applicable to him and the additional pension allowed under the Act.

Excerpts from the speeches of members who participated in deliberations on the Bill are quoted below for their significance both in regard to the institution of CAG as also the first incumbent of the post.

Shri Vallatharas mentioned that the tenure and pension proposed for the Comptroller and Auditor General was not on par with the Supreme Court Judge and the Members of the Public Service Commission and was inadequate, particularly, regarding its application to the present incumbent of the post and the age limit proposed fell short of what was laid down for a Supreme Court Judge or member of Public Service Commission, and the qualifications for the post needed to be laid-down. A more comprehensive Bill was needed which should be referred to a Select Committee. Shri S.S. More, who spoke on the Bill quoted from the proceedings of the Constituent Assembly, particularly Dr. Ambedkar's speech and Shri B. Das's speech, to stress the importance of Comptroller and Auditor General as a watch-dog for seeing that the sovereign interests of the people were not damaged by the Executive in power (the Supreme Court Judge and the Public Service Commission members being the other two).

Dr. S.P. Mookerjee did not see any logic in the argument advanced by few that the Bill was being brought forward for the purpose of favouring an individual, who has been particularly lenient to the Finance Ministry or the present Government and asserted that the record of the present incumbent of that office was just in the opposite direction and he had no hesitation in paying his tribute of admiration to the manner in which the present Comptroller and Auditor General has discharged his very onerous responsibilities and unpleasant duties. He pleaded for giving the Auditor General the same age-limit, salary, emoluments and pension as applicable to a judge of the Supreme Court. As regards the present incumbent, though it was not desirable to discuss a particular person in the House, and he was not here to say things about Mr. Narahari Rao, which were not known to Members of the House, he acknowledged that it was a difficult task for India to have an Indian Auditor General who would have enormous experience to his credit and also who would not be afraid of doing his duty, whenever the occasion demanded it. "I have not the least doubt in my mind that the present incumbent of the office has to the extent that it is possible for any individual to do, laid down traditions and has discharged his duties in a manner for which we can well congratulate him."

"So far as this particular institution is concerned, the post of the Comptroller and Auditor General is undoubtedly a most important post

in our national structure, because only if this gentleman can build up his institution in a smooth and efficient manner, without any fear or expectation of favour, will it be possible for Parliament and the Legislatures in the States to exercise their inherent right of supervising and controlling the expenditure in the whole country. Otherwise, this would not be possible."

Shri Damodara Menon stated that there can be no doubt about the proposition that the Comptroller and Auditor General of India occupied a position, which was supremely important for the safeguarding of our financial interests and it was very essential to make the office of the Comptroller and Auditor General of India independent. He should not be made to depend upon the favour of the Government or of any other authority for the continuance of his office or for his own financial interests. He endorsed the view of Dr. Mookerjee, regarding the present incumbent and added that "the officer who was for the first time appointed to this high post has functioned very well indeed".

Shri K.K. Basu deplored that instead of comprehensive bill Government chose to bring a minor one dealing with his condition of Service and pension and suggested organising an independent Audit Department with commercially qualified auditors.

In regard to the suggestions for non-extension of his Service mentioned by a Member, the Finance Minister stated "The Indian Audit and Accounts Department, for instance, happens to be - for reasons which I shall have to elaborate later on - a department where a very large number of extensions - not only the present extension to the Comptroller and Auditor General, but other extensions also - have had to be given, because - again that is a matter which I hope to prove - of the unexpected onset of responsible duties on that Department, and therefore it is not good merely laying down a general principle and then opposing very carefully thought-out recommendations on that score." It has not been possible for Government to bring forward a more comprehensive Bill including conditions of service, duties, powers of the Auditor General as it required further review and consideration. He mentioned that this was the only occasion on which this office has been held by a person who did not belong to the Indian Civil Service or to the Civil Service of U.K. and therefore the question of pension became essential. In regard to the qualifications for the post of the Comptroller and Auditor General he drew attention to Prof. Shah's amendment for laying down qualifications (to be drawn from Registered Accountants or equivalent, which were discussed long and disposed after the short speech by Shri T.T. Krishnamachari), when the House concluded that it was not practicable to lay down qualifications, which was reflected in the

Constitution, where complete discretion has been left to the President to appoint Comptroller and Auditor General - preferably a person who has had administrative experience. He said "The plain intention is that the Auditor General will be chosen from among people who have the kind of administrative experience which is needed as a background for the correct discharge of the duties of this high office. And it is very unlikely that we shall go outside the administrative sphere for making our choice, much less to very lowest levels of the administrative sphere in order to select a person with two years or even six years of service. Therefore, the question, incidentally, of how this present pension clause will apply to someone with six years of service will not arise and if we do come across that difficulty at any future time, well, then we shall have to think again".

In regard to the qualifications for the appointment, he read out the following extract from the Book - *The Control of Public Expenditure - Financial Committee of the House of Commons*, by Basil Chubb.

"The position of the Auditor General is unique in many respects. Although he is a civil servant by training and though he works with the Civil Service and his subordinates are civil servants, yet he is not one of them. His constitutional status and duties isolate him" - it is the Constitution which isolates him - "and he is, in the words of Sir Frank Tribe himself, 'very much of lone wolf'. Unlike any civil servant, he has no chief. He has statutory duties and large discretionary powers, and, though it is his job to aid the House, the responsibility for his actions is his alone. The annual reports he writes are his personal comments, apart from a few matters on which he is directed to report."

Again, although he conducts the audit of the public accounts and heads a staff of auditors, he need not himself be a trained auditor. In practice, he is by profession an administrative civil servant. His position is thus somewhat analogous to that of the amateur head of a department or professionals, which is a feature of British administration. Yet, he is not entirely amateur, for he brings to this post the training and knowledge of a senior civil servant and the views of the departments, and as an officer of the House, he also regards it as his duty to watch the trends of parliamentary opinion."

I submit that if we continue to make our choice from the field which has been indicated here, we have every chance of getting a Comptroller and Auditor General who would do credit to that particular job."

In regard to the addition of 'Comptroller' to his designation, he quoted what Shri T.T. Krishnamachari said while moving the motion for adding the word 'Comptroller' to the Auditor General's designation: "It is quite possible that we might empower Parliament to enlarge the scope of the work of the Auditor General if it was thought fit that the

nomenclature of the Auditor General should be such as to cover all duties that devolve on him by virtue of the powers conferred on him by the Draft Constitution."

"I think therefore, it was as a measure of caution that the label was changed from Auditor General to Comptroller and Auditor General. As a matter of fact, since we have had no legislation on duties and powers, we have not enlarged the powers so as to make that first part of the title, namely Comptroller, fit in very well."

In order to give a sort of background to the discussion, regarding the duties of the office itself, he stated members agreed that this was one of the most important offices in our Constitution, and the way in which its powers and privileges have been defined form one of the most important safeguards in our democracy. He gave an account of the stage in which the Department was found by the present Comptroller and Auditor General, to justify the necessity to retain his services: "The Audit and Accounts Department suffered terrific ravages during the war and was completely neglected instead of being augmented simultaneously with the enormous growth in the volume and complexity of expenditure. The mistaken policy of retrenchment adopted in 1930 resulted in reduction of staff and watered down its quality. The Department was depleted of its technical staff for war work. Several processes of audit were, therefore, relaxed or abandoned."

"I think it is within the personal knowledge of some of the Members of the Public Accounts and Estimates committee what a depleted and broken down machinery was inherited by the present Auditor General in 1948, when he took over the Department. The Department required augmenting several-fold at all levels, but, as you know, technical men cannot be produced at short notice. Therefore, it has been for him a herculean task to arrest the rot and to build up, at the same time, an adequate organisation. This, the Auditor General has been attempting to do by special measures of recruitment, training of staff at all levels and, as I said, in the meanwhile extending the services of many senior officers. At a time when his own organisation was inadequate to cope with the work in hand, a very large measure of additional work came upon him from the merged and integrated States with little or no financial regulations. Now, that is the point; the point is not the area or the population; the point is what kind of system did he inherit. Can we equate the one-third of the old India, so to speak, that we added, with the part that seceded in the quality of its Accounts and Audit Department? I have only to ask the question and need not wait for any answer. Therefore, it was the imperfect quality of the Audit and Accounts Organisation of the Part B States, that is really the crux of the problem. Now, they had to be brought in conformity with

the Constitution and that task has been duly discharged. I am in a position to say that because I have been associated with the attempts which the Comptroller and Auditor General has been making in this regard and I can say that that task has been discharged in the best possible manner. But, that does not mean that there are still no reforms to be carried out. Conditions of accounts cannot be corrected in a day, especially as one received complaints in a general form but not in a form specific enough to enable us to follow them and to track down the source of the evil. So, still greater reforms have to be carried out in reforming what can fairly be described as a century-old system of accounts and audit. Now I should like to point that in no democracy except Pakistan, which inherits our system, are accounts required to be compiled by the Comptroller and Auditor General. It is the Executive - and that deals with the point raised by Mr. Basu - it is the Executive that is, responsible for the accounts and the Auditor General is concerned with the audit. A very important and serious reform in regard to the separation of audit from accounts has to be carried out and the present Auditor General has continuously impressed this on the Public Accounts committee and has received their support. I might say that Government for their part are inclined to accept this in principle and are only deterred by the actual administrative and other difficulties of carrying out this somewhat gigantic task. I might also add that we have received requests from several State Governments imploring us not to carry this out because they have not the same confidence in the machinery that they will then be called upon to employ for this purpose. This has also a bearing on the introduction of exchequer control in regard to restricting expenditure on the vote of the Legislature by what might be called a fool proof system. There is also another characteristic which distinguishes our arrangements from those which obtain in other countries. Nowhere in the world, the Federal Auditor General is the Auditor General of the States also. The States have their own Statutory Auditors General in the United States, Canada and Australia. The Auditor General of India, therefore, shoulders a burden, the like of which does not exist - one could honestly say - anywhere in the world. His machinery, on account of the failures of past Governments, shall we say, is most inadequate, at least in quantity and here and there also in quality. Since the commencement of the war - that is a point which was made by Dr. Mookerjee - there has been an enormous increase in governmental activity and expenditure; controls, State-trading, State-enterprises have all imposed an unprecedented volume of additional work of special complexity. Further, the attainment of independence and the adoption of our non-static - shall we say dynamic - economic and social policies and the Five Year Plan, these have resulted in a further expansion of expenditure and consequent

added responsibilities. So, in order to cope with many of these difficulties - as I am going to say later - we feel that we should not be deprived of the assistance of a very experienced Comptroller and Auditor General.

"In regard to the age limit or the limit of tenure and the size of the pension, the Finance Minister stated that "We took the six years from the similar provision in regard to the Union Public Service Commission, and we thought that that was a reasonable period. The Constitution-makers seemed to regard that as a suitable period for somewhat similar, or at least similar important jobs. We thought we could not be far wrong if we were to adopt that period. The danger of laying down a very high age limit, in view of the likely source from which he will be drawn, since, it may not be right for any person holding such a high office for staying for a length of time, no matter how good and how deserving he may be, as the risk of his getting stale and losing the fresh outlook and initiative needed for discharging the responsibilities competently cannot be ruled out. He objected to the age limit and thought it safer to have some sort of period tenure, such as suggested in the Bill. As regards the point whether this was offered as a bribe to the Comptroller and Auditor General and, whether he was tempted to temper his criticism of Governments' conduct of affairs, he appealed to opposition members not to indulge in these suspicions, which was most unfair to the officer concerned. He was provoked to state that the present Auditor General has been writing not only to him, but also to the Prime Minister to relieve him of his responsibilities at the end of his regular tenure of five years and it was only at the request of Government, which, if Parliament approved, he hoped that he could be induced to stay on. Within one year, one ought to be able to make a choice and train the officer for the job."

There can be no better tribute to the first CAG of India, than what emerged during the deliberations on the Bill, irrespective of the party affiliations of the participants nor could a better case be made out to bring out a comprehensive Bill on the audit functions and powers of CAG in conformity with the basic structure laid down in the Constitution.

FAREWELL MESSAGE

The farewell message of Shri V. Narahari Rao to all Officers and Staff of the Indian Audit and Accounts Department summed up what he inherited on assumption of charge and how the Department tackled the problems after Independence and what he expected the Department would do in the post Independence era, which are reproduced below :

"On the eve of my relinquishing the office of the Comptroller and Auditor General of India, which I have had the honour of holding

for a period of six years immediately after the Independence of India, I wish to express my sincere thanks and appreciation of the manner in which you have served and supported me. As I have stated on more than one occasion, the Department had suffered most seriously, particularly since the commencement of the war, and it was most inadequately equipped for the unprecedented demands upon it in connection with the war and the post-war problems and momentous constitutional changes which nearly doubled the already heavy functions and responsibilities. I am thankful that notwithstanding the innumerable handicaps, the Department has struggled valiantly to give a good account of itself and to gain in strength and honour for itself steadily. After all the pre-Independence turmoil, the Department is today like the proverbial Phoenix which has just risen strong and youthful from its ashes. There is however no room for complacency. Hard, sincere and fearless work which may be rightly expected of the citizens of young and Independent India, will take you and the Department to great achievements and glory in the service of the country."



Fig. 2.1: Shri V. Narahari Rao, the first Indian Auditor General
1948 to 1954

LIST OF ABBREVIATIONS

1.	As.G	—	Accountants General
2.	CM	—	Chief Minister
3.	DA	—	Daily Allowance.
4.	FM	—	Finance Minister
5.	GAO	—	General Accounting Office
6.	MLA	—	Member of the Legislative Assembly
7.	P A C	—	Public Accounts Committee
8.	P M	—	Prime Minister
9.	SAI	—	Supreme Audit Institution
10.	TA	—	Travelling Allowance
11.	UK	—	United Kingdom
12.	UPSC	—	Union Public Service Commission
13.	VIPs	—	Very Important Persons

SOURCES AND REFERENCES

1. Debates on Constitution Bill in the Constituent Assembly
2. Constitution of India
3. Audit Code 1950 First Edition
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5. Lok Sabha debates on CAG (Condition of Service) Bill 1953.
6. The Control of Public Expenditure - Financial Committee of the House of Commons by Basil Chubb.

3 Reorganisation and Consolidation

NEW APPROACH

Shri A.K. Chanda, who was Secretary to the Government of India, Ministry of Production, was sworn in as CAG on 15th August 1954. He had joined IAAS on 3rd March 1926 and worked as AAG, DAG, Examiner Local Fund Accounts, Bihar and Orissa, DAG, in UP and Bombay and Examiner Local Fund Accounts under the Government of Madras. His services were placed at the disposal of Government of India, initially to work as AFA, Ministry of Supply and Finance, and later DFA/JFA, Supply Finance and Additional FA. He was OSD, Partition. He was appointed Financial Commissioner, Railways and *ex-officio* Secretary to Ministry of Railways in July 1951. In November 1952, he became Secretary to the Government of India, Ministry of Production and continued so, until he was appointed as CAG of India. While in office, he had in all four DAIs, Shri P.H.S. Rao, till 12th January 1955, Shri K.C. Choudhuri from 13th January 1955 to 15th September 1958, Shri A. Kalyanaraman from 13th June 1958 to 18th June 1960, and Shri P.C. Padhi thereafter. Shri A. Kalyanaraman was entrusted with the Report work for the first time in the Department and the Personnel work was entrusted to ADAI but after his retirement, the original position was restored. One ACA (Railways) and *Ex-officio* DDRA was created in 1960.

Both as Secretary, Production and Financial Commissioner, Railways, Shri Chanda had considerable experience on the working of the newly formed companies and the Indian Railways - which was the largest public sector enterprise in the country. His views on formation of companies or corporations and approach to commercial audit of the new public sector undertakings are discussed in Chapter 12. The Indian Companies Act 1956 gave legal status to Government companies and provided for supplementary audit by CAG, who also advised Government on appointment of auditors to companies. A separate organisation for Commercial audit - the Director of Commercial Audit with branch offices at New Delhi, Calcutta, Bombay and Bangalore - was formed for conducting Supplementary audit of Government companies, advising the Company Law Administration/Department on appointment of Auditors to Government companies and carrying out the reviews on PSUs. Government audit in companies was loosely described as reviews - an extension of the principle of auditing beyond formality towards

faithfulness, efficiency and economy audit - and was expected to give increased coverage of audit of Government companies. He also advised the Government to adopt the system of appointment of FA & CAO and Directors of Finance to the PSUs by the Government of India and let them function more or less on the exchequer control pattern obtaining in U.K., which was agreed to by Government. Initially, in most of the large undertakings, the Railway pattern of financial and accounting system was installed. A positive aspect of the new approach was the beginning of the system of deputation of officers of the Department - both IAAS, AAOs and SAS accountants - to the PSUs to help them in their formative stage to organise and manage the financial and accounting arrangements in them.

He endeavoured to forge a new approach in relations with Executive Administration. In his first meeting with the Secretaries to Government, held on 18th November 1954, he suggested various measures to obtain expeditious settlement of audit objections and also to make files available to Audit. The Ministry of Finance issued directions* on the subject in consultation with the CAG and the Cabinet Secretary.

Accordingly, irregularities of serious nature, such as defalcations, culpable negligence, etc., were required to be reported by the AG concerned, as soon as they were discovered, to the Secretary to the Ministry by name, who was to bestow urgent attention to the rectification of the defect or remedial action to be taken and inform the AG as quickly as possible, of the action Government took or proposed to take. Other irregularities discovered in the course of audit, which were likely to find a place in the Audit Report, were required to be discussed by an officer of the rank of DAG with the Deputy Secretary dealing with the subject, in the Ministry concerned. If these discussions did not result in the settlement of the differences and removal of the objection, the matter was taken up by the Additional Accountant General or the Accountant General, as the case may be, with the Joint Secretary or Secretary of the Ministry concerned. The Deputy Secretary was to keep the Secretary of his Ministry informed, from time to time, of the progress of the disposal of these objections, to give the latter an opportunity to intervene, if necessary, and expedite a settlement. As soon as the AG decided to include a particular case in the Audit Report, the draft paragraph was to be sent to the Secretary concerned for his information to enable him to look into the papers and make himself familiar with the case before it came up for the consideration of the Public Accounts

* D.O. letter No. F.26/SF/55 dt. 6th January, 1955 of Shri M.V. Rangachari, Department of Revenue and Expenditure, Ministry of Finance, addressed to all the Secretaries to the Government of India.

Committee, if he has not already seen them. The content or the language of the paragraph was not required to be specifically agreed to nor any prior agreement as to what should be mentioned in the Audit Report to be arrived at but no dispute on the facts, as stated, was to arise later, though the conclusions and opinions would be those of the AG. This need not, however, preclude a Secretary from taking up with the AG the desirability or otherwise of mentioning particular cases in the Audit Report. It was also settled that files required by Audit Officers should be readily made available to them without any apprehension that objections may be taken in audit merely based on contradictions in the views expressed in notes by subordinate officials and higher authorities. If the contents of any file or any part of it were 'secret' or 'top secret' the file was to be sent personally to the AG or the head of the Audit Office specifying this fact, who would deal with it in accordance with the standing instructions for handling and custody of such documents.

The circumstances under which the office of the DRA was merged in the CAG's office in 1955 and an ADAI (Railways) was inducted in the headquarters office, with a Dy. Director and AO Railways, with 2 sections are explained at length in Chapter 15. An AC (Report), to assist ADAI (R), one Director of Audit and Accounts to deal exclusively with auditing and accounting matters were added in the headquarters office.

The office of CAG shifted to the new complex at Bahadur Shah Zafar Marg shown on cover page. Most of the buildings for housing the offices of As.G. in the various locations for which foundation was laid by his predecessor were completed during his tenure and some of them are exhibited in Vol. II, III and IV.

REORGANISATION OF STATES AND OFFICES

On the basis of the recommendations of a Commission constituted under the Chairmanship of Shri Saiyed Fazal Ali, the Governor of Orissa, by Government of India in December 1953, the State's Reorganisation Act, 1956 was enacted. As a result, not only certain territorial changes of existing states were made but certain new states were formed. The states were reorganised more or less on the basis of linguistic and cultural affinity and the prevailing categorisation into Parts A, B, C & D was dispensed with. Instead, 14 states came into existence, namely, Andhra Pradesh, Assam, Bihar, Bombay, Kerala, Madhya Pradesh, Madras, Mysore, Orissa, Punjab, Rajasthan, Uttar Pradesh, West Bengal and Jammu and Kashmir and 6 union territories - Delhi, Himachal Pradesh, Manipur, Tripura, the Andaman and Nicobar Islands and the Laccadive Minicoy and Amindivi Islands. Consequently, the offices of the AG

Hyderabad and Madhya Bharat and Comptroller, Saurashtra ceased to exist and the audit and accounts jurisdiction of the remaining offices were readjusted to conform to the territorial changes of respective states. The audit and accounting of Union Territories of Manipur and Tripura was entrusted to the AG Assam. While AG Andhra moved to Hyderabad, a branch office remained at Madras. AG, Madhya Pradesh functioned from Gwalior with a branch office at Nagpur. Under the Bombay Reorganisation Act, 1960 Gujarat State was formed out of the existing Bombay State and moved to Ahmedabad. Chandernagore, a French possession, was merged with West Bengal, under the Chandernagore (Merger) Act 1954 from the 2nd October 1954 and the AG West Bengal became automatically the audit and accounts office. After the *defacto* transfer of the administration of French Establishment in India from 17th November 1954, a Chief Commissioner was appointed to administer Pondicherry, Karaikal, Mahi and Yaman, which had its own Pay and Accounts office and the AG Madras was entrusted with the statutory audit of the territory, who had a resident office at Pondicherry. Dadra and Nagar Haveli became a union territory under an Administrator from 11th August 1961 under the Dadra and Nagar Haveli Act 1961 and came under the audit jurisdiction of AG Maharashtra. These changes in organisation and audit jurisdictions added to the reporting responsibilities of CAG.

By the time he relinquished charge, the total number of officers and staff in IAAD was 39,917 - 310 IAAS officers, 623 AAOs, 3037 SAS accountants, 1291 DAs, 22,367 UDCs/SGCs, 288 stenos, 6961 LDCs and 5040 class IV. Branch-wise distribution was - 19 Civil Audit and Accounts offices including two offices abroad, with a total strength of 28,105 (223 IAAS, 430 AAOs, 2161 SAS, 1273 DAs, 16790 UDCs/SGCs, 187 PAs, 3333 LDCs and 3708 class IV), Commercial Audit Organisation with a total strength of 609 (11 IAAS, 27 AAOs, 78 SAS, 284 UDCs/SGCs, 10 PAs, 67 LDCs and 132 class IV), Railway Audit Branch with a total strength 1742 (26 IAAS, 57 AOs, 258 SAS, 939 UDCs/SGCs, 21 PAs, 136 LDCs and 305 class IV), Defence Audit Branch 576 (11 IAAS, 21 AOs, 80 SAS, 267 UDCs/SGCs, 14 PAs, 37 LDCs and 146 class IV), P&T Branch - 8589 (18 IAAS, 76 AAOs, 366 SAS, 18 DAs, 4114 UDCs/SGCs, 28 PAs, 2561 LDCs, 765 sorters and 643 class IV) and CAG's office with a total strength of 490 (21 IAAS, 12 AAOs, 94 SAS, 172 UDCs/SGCs, 23 PAs, 62 LDCs and 106 class IV). The expenditure of the Department 1960-61 was Rs. 830.42 lakhs - CAG's office Rs. 16.67 lakhs, Civil Audit and Accounts offices (including offices abroad) and Commercial Audit offices Rs. 844.12 lakhs, P&T Rs. 166.65 lakhs and Railway Rs. 55.55 lakhs and charges recovered were Rs. 252.56 lakhs.

RIPPLES IN RELATIONS

The relations between the Finance Ministry and CAG's office were not as smooth as it was during his predecessor's tenure or even the first half of his own tenure. It came to such a pass that he was constrained to mention to the Finance Minister, Shri Morarji Desai, in July 1959, as to how he was disturbed by the changing trend. In the past, despite his differences with the two previous Finance Ministers in office, he received the consideration deserved by reason of the constitutional and independent status and he had regular meetings with the Secretaries of the Finance Ministry to resolve differences and also to exchange views on financial and administrative issues and there was hardly any need to invoke the convention, which required his proposal to be considered by Finance Minister himself, if they were to be negatived. Such a close association was continued even after he took over as the Finance Minister and the CAG has been, as it should be, strengthened, but differences tended to arise at the official level and the manner in which some of the cases had been considered and noted upon, gave him the impression that the Ministry felt that the CAG had no financial conscience and in order to clear the impression he bothered to trouble him, not as a complaint against any individual in the Ministry, but to recreate the general atmosphere of better understanding and mutual respect and resolution of differences amicably. Various proposals referred to the Government of India, which were not accepted by the Ministry of Finance were enclosed to the Communication, which included cases of air travel by IAAS officers drawing pay less than Rs. 800, equation of the status of AAOs with Registrars in missions abroad for the purpose of higher foreign and house rent etc., allowances, delegation of powers to the Director of Audit in U.K. to issue certificates in regard to staff under him, inclusion of construction allowance in the foreign service terms of IAAS officers deputed to HSP Limited, increase in the number of class I/selection grade posts in the AG's grade from five to nine, grant of compensatory allowances to DDC, extension of the period of compensatory allowance attached to certain posts of DAG, OAD, fixation of pay of AAOs on promotion to the IAAS, payment of certain allowances and grants to IAAS officers posted abroad, proposal to train IAAS officers abroad, grant of special pay to certain officers on deputation at 20% of their pay and grant of foreign allowances in respect of period of leave after completion of the period of an assignment abroad. Cases relating to staff on which a dead end was reached were grant of extraordinary leave beyond three months to an official in a field office, reimbursement of medical expenditure in the case of certain

officials, grant of one or two awards to the wife of a deceased employee from the compassionate fund, allowances to staff detained on duty beyond the prescribed hours, grant of a scale on deputation offered by the borrowing department, grant of winter and equipment allowance to non-gazetted staff in Srinagar, inclusion of special pay for reckoning Simla winter allowance, relaxation of leave rules in a hard case of an individual, reckoning special pay attached to a post for deputation purposes, counting of temporary service for pension etc. He felt that a general direction from him should help the settlement of most of these cases. The CAG concluded by stating that "I am sure that we both feel the same way that nothing should be allowed to disrupt the relationship which normally subsists in a democracy between Finance and Audit or to weakening the authority of either".

By the time he completed his tenure, he was not happy with the treatment meted out to Audit comments by the Executive administration and apprehended that the adversary position adopted by some of the departments was not a healthy feature, Dr. Appleby's criticism of Government Audit and the silent acquiescence to it of certain elements in Administration and Government and his own helplessness to blunt it - despite the support given by PAC and to a limited extent by the media - which is explained in detail in Chapter 12 - must have influenced his farewell impression. He gave expression to his sense of frustration and dismay, while giving evidence before the JPC on CAG's (DPC) Bill, as explained in chapter 4, when he contradicted the ideal state of relations described by Shri M.S. Ramayyar in his Book. He was also upset by the lowering of the position of CAG in the new order of precedence ordained after Constitution came into force, which he strongly felt was not in conformity with the status given to CAG under the Constitution. The media attention and coverage of CAG's Reports, he felt, was a healthy trend of the developing parliamentary democracy, which added to the responsibility and need for caution on the part of Government auditors. Shri A.K. Chanda wrote few books* and several articles during his tenure, which received wide recognition and acceptance, both in India and abroad.

EXPANDED SCOPE OF AUDIT

Shri A.K. Roy, Secretary, Ministry of Finance (Department of Revenue and Economic Affairs) and *Ex officio* Chairman CBR assumed charge as CAG on 15th August 1960, and after serving the GOI for over 31 years.

* Federalism in India, 2. Indian Administration, 3. Under the Indian sky, 4. Aspects of Audit control.

He joined the IAAS on 9th April 1929 and served in the office of the Director of Audit, UP, CA, EB Rly and Deputy Government. Examiner, Bengal and CA, NW Railway till October 1935, when his services were placed at the disposal of Reserve Bank of India and, Government of India. He worked as AFA, DFA/JFA, Supply Finance (MP), OSD Income Tax Department, CIT in UP and Bombay before becoming JS(F), Member CBR & *Ex officio* Joint Secretary, and later Additional Secretary Ministry of Finance. He had over 31 years of varied and specialist experience mostly in the Ministry of Finance, before he became the CAG.

Shri A.K. Roy introduced the concept of audit of evaluation of the operations of the governments by suggesting to the Accountants General in March 1961 to conduct efficiency audit of important schemes implemented by them. The fundamental change in the pattern of Government expenditure, its nature and scope of activities and the manifold increase in expenditure on public and welfare activities called for reorientation of audit approach and method of working so as to ensure that each activity was functioning most economically and producing results expected of it. A new Audit Code embodying the changes in the audit principles and techniques was in the anvil but meanwhile the AsG were asked to introduce a system of examination of important schemes as a whole with a view to see how far they have fulfilled the expectations, whether the amounts have been fruitfully utilised, and whether the cost per unit of the scheme as a whole varied substantially from the cost as initially estimated, or that incurred on other similar schemes, and comment upon the results of investigations in the Audit Report. Shri G.S. Rau, ADAI (Report) elaborated* the concept of review to cover amount of original estimates and targets anticipated, revision of estimates and reasons for such revision, if the revision was not due to revision of targets, completion of the Projects and Schemes according to time schedule, a critical examination of the total expenditure as compared to estimates, in the case of Irrigation Projects, availability of water and power as estimated and their utilisation to the extent anticipated, fulfilment of the objects of the Schemes and return on the scheme as anticipated. Review of four or five projects in a year was to be conducted for inclusion in the Audit Report. Periodical review expected to be completed over a number of years to bring out the growth of expenditure as compared to the estimates and the quantity of works executed was also suggested for inclusion in Reports. In

* D.O. No.1386-Rep/203-61 dated 30th May, 1961.

December 1962s, a set of instructions in regard to the broad lines on which audit should be conducted for schemes selected for efficiency audit was issued. Besides the scrutiny of individual transactions with a view to detect cases of improper, extravagant, wasteful or uneconomical expenditure, an important function of Audit was to examine how far the agency or authority, whose transactions were under audit, adequately discharged its financial responsibilities in regard to the various schemes undertaken by it. In view of the radical change in the pattern of governmental expenditure in the context of various development programmes and welfare activities in successive plans, it was essential to examine in audit the expenditure incurred on different schemes to ascertain whether (a) such schemes were executed and their operations conducted economically and (b) they produced the results expected of them. In regard to (a) above the broad lines of examination suggested were—

—Whether technical estimates or detailed programmes and cost schedules were framed and the same were adhered to; if not, whether there were adequate reasons for excesses, delays, etc. or whether these were occasioned by inefficient handling, wastes, etc. or due to indifferent proportion of original estimates.

—Whether there have been any serious avoidable delays (due to inefficient handling, planning and co-ordination of the work) in the progress of works or schemes resulting in increase in the total cost of the scheme or any loss of revenue due to delayed execution or holding up of other connected schemes.

—Whether there has been any wasteful expenditure including that resulting from lack of co-ordination amongst the several aspects of the scheme, such as, staff having been engaged long time before the procurement of machinery required for running a Centre or *vice versa*.

—Whether there has been any waste due to some of the facilities (e.g. buildings, equipments, staff, etc.) on which expenditure has been incurred under the scheme proving unnecessary or going unutilised.

—Whether there have been any serious or recurring losses.

—Whether the performance/cost compared well with the results obtained in respect of similar schemes in other fields in the public sector.

In order to examine in audit as to how far a particular activity was producing results expected of it, it was necessary, *inter alia*, to ascertain —how far the physical targets (e.g. completion of certain construction works, setting up of certain construction works, setting up of certain

§ No.65-Codes/8-61-II dated 1st December 1962, of ADAI(H) to all AsG, DA, FRSCSM.

organisations, centres, etc.) have been achieved within the estimated time;

—how far any returns, where these were anticipated, were actually accruing; and

—how far the final purpose or objects of the expenditure have been achieved, for example in the case of irrigation projects it should be ascertained if the estimated supply of water for irrigation purposes and power has actually become available as a result of the completion of the projects, and whether their actual utilisation was to the extent anticipated. Similarly, whether the anticipated number of persons were being trained up every year in a technical centre and getting absorbed in the trade concerned to the extent anticipated.

For conducting audit investigation on such questions the procedure suggested for adoption was that as soon as a major scheme was sanctioned, detailed programmes and estimates relating to it was to be obtained from the Administrative authorities indicating (a) sub-head of estimates (b) the physical targets of the scheme, (c) returns anticipated, (d) other objects in view, and (e) broad organisational details of the scheme including method of expenditure, control and supervision. For watching any excesses over estimates, so far as expenditure on public works was concerned, detailed records were already maintained in accounts offices. In other cases, where the actual expenditure was not booked in the accounts in sufficient detail to enable a comparison with the sub-heads of the estimates, monthly statements showing the expenditure during and to end of each month against the various sub-heads of the estimates and the variations of actuals as compared to estimates, were to be obtained from the departmental authorities. The monthly expenditure shown in the statement against each sub-head should give reference to the relevant bills, which were to be test-checked with the relevant expenditure vouchers. Any cases where substantial excesses have occurred due to waste, inefficiency, etc., were to be investigated by Audit. Both central and local audit, which should include an intelligent scrutiny of departmental files, etc., was to be directed so as to detect and keep a collective record of serious and unjustified excesses over estimates, expensive delays, infructuous expenditure and losses, etc., due to inefficiency as well as of any short-falls noticed in the achievement of the physical targets, returns or final objects envisaged by the scheme. To supplement the results of central and local Audit, the administrative authorities were to be asked to furnish annually till the completion of the scheme a review of the actual working of the scheme during each year, mentioning *inter alia*, any major excesses over estimates and any serious delays along with

justification therefor, as well as the extent to which the physical targets, returns and final objects visualised were achieved. The Programme Evaluation Reports of the Administrative Departments of Government or any reports of a Committee appointed by the Legislature were to be seen.

While examining the information collected on the lines suggested, attention was to be directed to cases, where the interest of the tax-payers was adversely affected due to insufficient planning and execution of a scheme or project. Audit Officers were cautioned to be careful to avoid offering even implied criticism in cases, where, although the original anticipations have not been realised, there were no plausible indications of inefficiency or waste on the part of the Administrative authorities, as for example, where excesses over original estimates of expenditure were occasioned by unanticipated rise in cost of materials, new and unforeseeable items of work discovered as the work progressed, or delays and lesser yield of revenue were caused by circumstances which could not have been reasonably anticipated.

OVERALL PERFORMANCE AUDIT

In the context of Five Year Plan, the various auditing agencies were required to make an intelligent study of the Five Year Plans of the Central and State Governments, and the expenditure on plan schemes included in their yearly budgets. The portion of the total plan targets intended to be covered by each year's expenditure was also to be ascertained. On the basis of the results of the efficiency audit of individual big projects and schemes, an attempt was to be made at the end of each year to make an overall appraisal of the progress and efficiency of the plan expenditure upto the end of the year with reference to the total plan targets and anticipations. The findings of overall performance audit were to be suitably included in the Audit Reports of the respective Governments. For this purpose, in respect of the plan expenditure of the Central Government coming under their audit, the various State Accountants General and other Audit Offices concerned was asked to furnish necessary reviews to the Accountant General, Central Revenues to enable the latter to include in the Civil Audit Report of the Central Government a consolidated para regarding the expenditure incurred by the Central Government on the Five year plan. These directions and guidelines were incorporated later, as paras 56 to 58 of MSO (Tech) Vol. I.

Shri A.K. Roy described* performance audit as a facet of the discretionary audit that the Department was used to in earlier years, and

* Speech delivered at Simla on 28th October, 1961.

observed "Though the broad principles of performance audit can be laid down, the detailed technique will have to be evolved having regard to the nature of the scheme and purpose for which it is designed to serve. It will require some new thinking and initiative and its effectiveness will depend not only on the direction, which comes from the top but also on the men, who would be in intimate and day to day touch with the audit of the transactions of the various schemes and programmes".

A separate section, consisting of picked personnel, who have exhibited special aptitude for audit work was to be entrusted with the responsibility for propriety and efficiency audit, under the direct charge of the AG with an AO/AAG to carry out routine work of the section was created during 1961-62 in most of the civil audit offices. The proposed innovation transformed the audit approach, technique and processing of results in the later years, and the reviews spread over all branches of audit and their presence dominated the different types of Reports presented by the CAG to the Government of India to be laid before the Union Parliament and to the State Governments to be laid before the State Legislatures. Naturally, the attention of the PACs was also focussed on them. The efficiency-cum-performance reviews or appraisals, as they came to be called later, exposed the implementation of the various projects programmes and schemes in successive national plans, both at the macro and micro level, for the country as a whole and individual states, in a manner and scale, never witnessed before with far reaching efforts. Quite a few eyebrows were raised in Administration at different levels about the competence, relevance and utility of such a review. But the results amply justified their need and utility. These Reports were the first ever reviews of projects, programmes and schemes implemented by Government by a neutral agency, who was familiar with the functioning of the departments of the various Ministries of Government. The doubting individuals in Administration were left by the way side by the march of events reflected in the reviews reported every year and the strong support and encouragement given by the Committees in Parliament and the State Legislatures. The new Administration that was emerging in the fast moving scenario, where Governments expended substantial resources to catch up with lost centuries due to alien domination, also responded positively. Thus, the first step to go beyond regularity and accountancy audit and to convert the conventional auditing and reporting on mere transactions audit was taken at the end of the first decade, after the new SAI was installed under the Indian Constitution. When Shri A.K. Roy pronounced them, they had neither any statutory basis nor mandatory sanction except his own right to report on what was audited by him under the Constitution. The origin of audit

beyond the realms of formal audit to reach out to the new frontiers of efficiency, economy and effectiveness Audit (the three E's Audit as they were called later) in most of the Western countries was identical. In U.K. the CAG practised it after the first world war, which caused few battles with the Defence Departments and Ministries. After the second world war, it gathered momentum. The programme evaluation audit was given statutory basis in U.S.A., in Australia and in Canada. The end of second world war saw the growth and development of efficiency, economy, and effectiveness audit in some of the countries of Europe. Although Government Audit in India adopted and adapted it only in 1961-62, the progress in mastering the technique, art of conducting reviews and presenting reports on them, in the next two to three decades was so rapid and remarkable, that would have surprised even the founding fathers.

NEW STANDING ORDERS

The inadequacy and deficiency in the principles, instructions and guidelines for audit issued earlier manifested in different forms and effects, mainly due to the delay in bringing the legislation regarding the duties and functions of CAG envisaged in the Constitution. The apparent conflict between the system designed earlier to suit an agency subordinate to the Government in many ways and a mandate, which was restrictive in several respects and the new SAI enshrined in the Constitution — an independent accounting and auditing authority common to both the Union and State Governments, which in its operations, had to reckon with the new urges, demands, and pressures of autonomous Governments and their independent Legislatures also contributed to the confusion. In supersession of the previous Audit Code and manuals, Shri A.K. Roy issued on 2nd August 1962 the Manual of Standing Orders (Technical) in two volumes integrating the audit principles and instructions, and incorporating the changes in audit procedure and practices during the earlier decade in tune with the far reaching changes in the sphere of governmental activities and the nature and volume of transactions subjected to audit, for departmental use only, by virtue of article 149 of the Constitution of India and the Government of India (Audit and Accounts) order 1936, as adopted by India (Provisional Constitution) order 1947. In Volume I subjects were arranged groupwise and principles and details of audit procedures arranged accordingly, as per the prevailing orders and instructions, and contained seven sections, spread over 866 paragraphs on 358 pages. Three Sections (III, IV and V) covering 678 paragraphs were intended primarily for the guidance of the offices of Accountants General and to the extent applicable, to separated Accounts Offices not under the

control of the Comptroller and Auditor General, subject to such modifications as prescribed in the relevant Manuals. The major changes incorporated in the new compilation, as compared to the provisions of the earlier Audit Codes and manuals are worth recalling. Section 1 defined the functions of CAG and his position vis-a-vis the various executive authorities set up by the Constitution of India, enlarged the term "report" used in article 151 of the Constitution of India to include accounts of the receipts and all transactions relating to Debt and Remittance heads and incorporated the duties and functions vested on the CAG by the Indian companies Act 1956, namely, advising the Government on the appointment of auditors to Government Companies and issuing directions in regard to the manner in which Companies' accounts should be audited and giving instructions in regard to any matter relating to the performance of function as such and authority to conduct supplementary or test audit of Company's accounts. Section II contained a new para, in regard to financial transactions of a secret nature, which indicated that the CAG has agreed to modify the scope of audit to the extent prescribed in each case. The concept of efficiency audit and overall performance audit and arrangements for conducting such audit as also the techniques to be adopted were explained. A new chapter on audit of receipts defined scope of audit of receipts, in view of the omnibus nature of Art. 151 of the Constitution, which related to the totality of the accounts of the Union and all the States, including receipts of Union and States, and functions of audit to satisfy that adequate regulations and procedures have been framed by the Revenue Department to secure an effective check on assessment, collection and proper allocation of taxes and to satisfy itself by adequate test check that such regulations and procedures were actually carried out. The statutory provisions of audit of Government companies, audit by professional auditors, issue of directions to them by CAG, the scope and content of the supplementary or test audit by CAG, scrutiny of professional auditors' reports, scope and content of Commercial audit of Government companies, submission of reports to Legislature and the audit procedure for conducting audit of commercial statutory corporations were explained at length. The Chapter on audit of accounts of non-commercial autonomous bodies, entrusted to the CAG under the relevant Acts setting them up, dealt with their audit in accordance with the general principles and rules prescribed by the CAG to regulate the audit of accounts of the Government. Apart from ascertaining, *inter-alia*, whether a proper system of accounts, control of expenditure and stores, internal check, service regulations and financial delegations existed and were observed, the broad aim was to ascertain how well they were discharging

their financial responsibilities, and how far the funds placed at the disposal of such bodies were utilised in fulfilment of the object envisaged by Government, and audit findings were to be reported to the prescribed authorities and included in the Conventional Audit Report, where grants from Government were involved. Section III contained supplementary audit instructions, spread over 454 paragraphs, nearly half the contents of the compilation. Certain innovations in regard to the system, procedure and form of drawal of pay and allowances of Gazetted Officers, accounting, auditing, reporting, introduction of preparation of service cards once in five years in lieu of history of service, accounting and auditing of G.P.F. in the P.F. Group and formation of a separate section for appropriation audit were also given in the section. A chapter on audit of the accounts of embassies and missions abroad was a new feature, where in the financing arrangements, procedure for payments abroad and audit arrangements were explained. Section IV incorporated the revised procedure relating to Public Works Audit introduced in most of the Public works divisions from 1st April 1962 with a view to curtail certain unnecessary items of work and to make audit more effective. Watching progress by the divisional offices and procedure for preparing a consolidated register of expenditure and estimate on the project, where several divisions were entrusted with the execution of works of the project and auditing transactions under the suspense head "Purchase" during local audit and a revised form for issuing of Audit Note Part I along with monthly account of a division including objection in respect of works included in part 1 of the works Register and all objections regarding want of or excess over financial sanctions, where such sanctions were required in addition to the technical estimates, were the new innovations.

The withdrawal of Audit Code by CAG did create a commotion in the Government of India and Parliament but subsided after the Constitutional position of the CAG and his competence to issue instructions for audit was explained by the Finance Minister. This was not surprising, since the need to provide in the draft Bill certain broad principles defining the scope, extent and method of auditing government expenditure was raised by the Ministry of Finance, and Shri A.K. Roy, had taken a definite stand that his instructions to his own department were of executive nature and he could not agree to the suggestion that the Audit Code should be prepared by him after consultation with the President and laid on the table of Parliament, as it rendered independent audit meaningless. Nowhere in the world auditors took their code of work from the authorities whose transactions they were auditing.

NEW OFFICES

Under the Bombay Reorganisation Act, 1960 Gujarat State was formed out of the existing Bombay state and a new office of AG Gujarat was formed, which was initially located at Ahmedabad, Bombay and Rajkot. Nagaland was formed with effect from the 1st December 1966 as the 16th State after the state of Nagaland Act 1962 was enacted and AG Assam was assigned its audit and accounting functions, until AG Nagaland with head quarters at Kohima was created.

Dadra and Nagar Haveli became a union territory administered by an Administrator from 11th August 1961 under the Dadra and Nagar Haveli Act 1961 and came under the audit jurisdiction of AG Maharashtra.

Under the Goa, Daman, Diu (Administration) Act 1962 they became a union territory under an Administrator from 27th March 1962, which had its own Directorate of Accounts and AG Maharashtra became the Statutory Audit Officer, which was transferred to AG Central on its formation in 1971. After the Punjab Reorganisation Act 1966 two new states "Punjab" and "Haryana" and a new union territory "Chandigarh" was formed with effect from the 1st November 1966 and the office of the AG Punjab was redesignated as AG Punjab, Haryana and Himachal Pradesh. A separate AG for Haryana and Himachal Pradesh states was appointed from 1st April 1969.

OTHER MEASURES

Shri A.K. Roy introduced the audit of revenue receipts of the Government of India in accordance with the memorandum of understanding reached by him as Finance Secretary and the predecessor CAG and how he went about organising it is explained in Chapter 17 in Vol. II. Director of Revenue Audit was appointed in Headquarters office in 1962 who functioned under ADAI(HQ). The audit of revenue receipts of some state governments was also taken up. Revenue Audit units were set up as part of OAD in most of the field offices. By 1960, the personnel employed on revenue audit was 22 AOs, 55 SAS accountants and 165 UDCs in the field offices and the group supervision was provided by DAG (OAD)

CONTRIBUTION TO PUBLIC SECTOR

The system of deputation of IAAS to Public Sector Undertakings was continued by him on an enhanced scale and the deputation reserve was increased with the concurrence of the Finance Minister, Shri T.T. Krishnamachari, to meet the requirements of the PSUs, although he

himself was short of officers due to large scale expansion of work and staff in his department. Of the 260 IAAS officers on deputation, 120 were deputed to various Public Sector Undertakings. These officers not only contributed to the growth and development of PSUs in their formative stage but also brought back rich experience and skill, which helped to improve Commercial audit in IAAD in the next two decades.

NEW STRAINS AND SETTLEMENT

The Finance Minister, Shri Morarji Desai chose to write to Shri A.K. Roy on 4th September 1960 to express his anguish at the language used in an ordinary communication sent by AC(N) regarding early finalisation of pending cases relating to persons who participated in the last Government servants strike in the offices of IAAD. While expressing regret at the language of the letter, Shri A.K. Roy assured that nothing was farther from his intention and pointed out the growing tendency on the part of the Expenditure Department to constitute itself as the Administrative Ministry for the Indian Audit Department. His predecessor had brought it to his notice and this tendency had become more evident from its attempt to interpose itself between the CAG and the Ministry of Home Affairs in the matter of dealing with the recent strike and in regard to the collection of information and statistics relating to the strike, as though IAAD was one of its attached or subordinate offices, which he cannot obviously accept and the letter sent by AC(N) was intended to make the position clear. His office had to deal with three separate authorities simultaneously, which kept it on its toes all the time. Even in exceptional circumstances, like a general strike, when a Central authority to coordinate action in various departments was called for, which he felt, cannot be Expenditure Department of the Finance Ministry. Apparently there was no perceptible improvement, as was evident from the abrupt and unhelpful postures assumed by the Finance Secretary in processing the draft Bill on CAG's duties and powers.

Shri A.K. Roy brought to the notice of the new Finance Minister, Shri Sachindra Chaudhuri, in July 1966, that during the last twelve months or so quite a number of proposals sent by his office have either been turned down or decisions postponed by the Ministry, some of which were not only perverse but had also affected the efficiency of Audit and created serious discontent in the Department. The list of illustrative cases included proposals to increase the IAAS cadre by 70 more time scale (duty) posts, entrusting less important supervisory duties in a section to a senior clerk to be designated as assistant superintendent and granting additional remuneration of Rs. 30 per month, withdrawal of resignation by the officials and sanction of the full matching grant to the

staff benevolent fund at Re. 1 per mensem in respect of each contributing member. He had accepted them under the impression that they were passed by the Finance Minister and constituted his superior judgement even though he was not extended the courtesy of personal discussion, as required by the Convention. But he was informed that many of them were decided at the level of Joint Secretary in the Expenditure Department and their unreasonableness had led to serious misunderstanding in the Department about the attitude of the Finance Ministry towards Audit. He suggested an inquiry into how the convention was allowed to fall into desuetude since he has a duty to the Department and to his successor and was important for future relations between Government and CAG.

He also discussed with the Finance Minister, on 9th August 1966 the procedure to be followed in dealing with expenditure and administrative proposals from his office, when the Secretary Department of Expenditure was also present. The Finance Minister was of the definite view that there was no question of deviating from the undertaking given by Dr. John Mathai in 1949 and agreed that convention must be followed in future. The recent deviation was attributed to loss of relevant papers in the Ministry by the Expenditure Secretary, although CAG was strongly of view that it was due to deliberate mischief-making on the part of certain officers of the Expenditure Department. A detailed working procedure for discussion and settlement of petty and minor cases at lower level should be evolved by the Secretary, Expenditure and the DAI. No system would work smoothly unless persons concerned wanted to make a success of it and a precondition for working would be that the present JS(P) should have nothing to do with CAG's organisation and Secretary, Expenditure agreed to do the needful in due course.

The agreed procedure was issued in the form of a Government order* reproduced below.

"It is always open to the CAG to ask for a discussion with Finance Minister on any matter that may be considered important by him. In order, however, to fully observe the convention that in a case where the Finance Ministry are unable to accept proposals emanating from the CAG, it should be reported to the Finance Minister so that before orders are issued, the matter may be discussed by the Finance Minister personally with the CAG and the following procedure should be followed:—

* GOI, MOF (DE) Office Order No. F 19(50)-EGI/66 dated 20th September, 1966.

- (1) Communications containing proposals from the CAG's office will bear an indication if they are made with the specific approval of the CAG. Where the Finance Ministry are unable to accept such a proposal, even after discussion, the matter should be discussed by Secretary (E) with the CAG. If no agreement is reached, the matter would be placed before the Finance Minister, suggesting also a personal discussion, if so desired by the CAG.
- (2) The procedure at (1) above will also be observed where rules and orders affecting the conditions of service of persons serving in the Indian Audit and Accounts Department are to be issued after consultation with the CAG and the Ministry feel difficulty in accepting his views.

In respect of cases where the CAG's comments are asked for on questions such as application or modification of existing rules and regulations or matters relating to Audit procedures and the Ministry feel difficulty in accepting the views expressed with the CAG's approval, there should be discussion between Secretary (E) and CAG before taking a final decision.

- (3) For normal processing and for disposal of routine references the following procedure should be observed:—
 - (a) Cases not seen by the CAG can be dealt with at the appropriate level in the normal manner.
 - (b) The procedure for periodical discussion between JS(Per) and the Addl. Dy. CAG/Dy. CAG in respect of pending cases should continue.
 - (c) The proposals made by, or with the approval of CAG or which have been made in pursuance of a policy approved by CAG, to which the Ministry have some reservation, should, instead of being referred back through letters be discussed first at these meetings.
 - (d) Urgent cases can be discussed individually and, if necessary, between Addl. Dy. CAG/Dy. CAG and JS(Per) or CAG and the Secretary (E).
 - (e) Undue delay in disposing of references from CAG's office should be avoided. Once a quarter a statement of outstanding should be put up to Secretary (E)".

AUDIT BULLETIN

Shri A.K. Roy introduced a quarterly "AUDIT BULLETIN" incorporating information on matters of common interest, important decisions on techni-

cal matters, administrative orders issued by the Government of India, State Governments and the Comptroller and Auditor General, important decisions of the Supreme Court on matters of interest to Audit, state of work in the Audit and Accounts Offices, extra curricular activities, e.g. Recreation clubs, sports and welfare activities, staff associations etc., to be issued from the CAG's office in the months of March (for the quarter ended December), June, (for the quarter ended March), September (for the quarter ending June) and December (for the quarter ended September). Necessary information to be included in the "Bulletin", duly approved by each Head of Office alongwith copies of relevant circulars/notifications etc., was to be sent so as to reach the CAG's office by the 15th of January, April, July and October respectively. Since then one hundred Bulletins have been issued. They not only filled the communication gap between the Head and large body but also constituted the only professional dissemination of knowledge and their application in the different field offices, apart from news on recreation and cultural activities in the IAAD.

IAAD - 1966

In 1966, the total strength of the IAAD was 44,720 - 434 IAAS, 1042 AAOs, 4534 SAS accountants, 116 DAs, 25,607 UDCs including SGCs, 321 stenos, 7227 LDCs and others and 5439 class IV employees - distributed over (i) Headquarters office - 534 (19 IAAS, 13 AAOs, 117 SAS, 163 UDCs including SGCs, 22 stenos, 93 LDCs and others and 107 class IV, (ii) P&T Branch - 8138 (30 IAAS, 99 AAOs, 500 SAS, 21 DAs, 3925 UDCs including SGC, 2865 LDCs and others 30 PAs, 668 class IV), (iii) Railway Audit Branch - 2039 (35 IAAS, 71 AAOs, 292 SAS, 1083 UDCs including SGCs, 30 PAs, 176 LDCs, 352 class IV), (iv) Defence Audit Branch - 709 (15 IAAS, 24 AOs, 120 SAS, 315 UDCs including SGCs, 15 PAs, 46 LDCs, and 174 class IV), (v) Commercial Audit Branch - 1134 (20 IAAS, 58 AOs, 210 SAS, 17 DAs, 481 UDCs including SGCs, 11 PAs, 111 LDCs and 226 class IV) and (vi) Civil Audit and Accounts offices - 32,166 (315 IAAS, 777 AAOs, 3295 SAS, 78 DAs, 19640 UDCs including SGCs, 213 stenos, 3291 LDCs and others and 4557 class IV) spread over 19 offices including those abroad. The expenditure of the Department in 1966-67 was Rs. 1454.71 lakhs - CAG's office Rs. 23.69 lakhs, Civil Audit and Accounts and commercial offices, including offices abroad - Rs. 1462.20 lakhs, P&T Rs. 260.21 lakhs and Railways Rs. 86.68 lakhs and charges recovered were Rs. 378.06 lakhs.

Shri A.K. Roy dealt with at length as to how the Finance Ministry made it difficult for him to administer the IAAD for discharging his duties and functions under the Constitution, during his evidence before the Joint Parliamentary Committee on the Draft CAG's DPC Bill.

INSPECTION OF OFFICES

The system of Inspection of Civil, Posts and Telegraph Audit and Account Offices in accordance with the procedure laid down in the Manual of Instructions for the Inspection of Offices and Test Audit of Accounts undertaken on behalf of the Auditor General was in vogue from 1920, which was carried out by the Inspection Accountants of Headquarters Office. It was later on extended with necessary modifications the Railways, Military Accounts, Customs and Press Accounts under special rules.

Offices were grouped into three Inspection Circles - each in charge of an Accountant - Northern Circle with Headquarters at New Delhi, Eastern Circle at Calcutta and Southern Circle at Bombay to cover the offices situated in the Circle. Inspection Accountants were recruited from the local Accounts Offices out of the panel maintained in the Headquarters Office and they were under the administration of the Head of the Office, which they were inspecting under specific delegation of the Auditor General and their tour programmes were arranged by the Administration section in the Headquarters Office. The Head of the Office inspected was required to submit within a fortnight or at the outside a month after the completion of the inspection, a short report describing generally the results of the Accountants' investigation and including any important discovery, which the Accountant made and stating specifically, whether the inspection had been carried out in accordance with the AG's wishes and whether the AG considered the work of the Accountant to have been useful. The reports were sent to the Administration Branch I, for further follow up action. The system suffered a set back during the depression and the second world war.

Shri V. Narahari Rao strengthened the system when posts of Directors of Inspection were created. The DI was required to inspect the Civil and Post and Telegraphs Audit and Accounts Offices and was assisted by Inspection Accountants recruited mainly from the field audit and accounts offices for a period of not more than three years from out a panel maintained at headquarters office. The tour programmes of the Director of Inspection were approved by the CAG and due notice was given to each audit and accounts office before commencement of inspection. The DI was required to submit within three weeks of the formation of the inspection, a report in six copies, 3 to HQs office, 2 to Head of Office and 1 for his file, mentioning the important irregularities in procedure, or in the application or observance of rules and other points of importance. A synopsis giving his general impression and a summary of really important matters or special problems and a

statement of minor irregularities left to be settled by the head of the office were to be appended to the Report. Administration Section I submitted one copy to the CAG for advance information (Shri V. Narahari Rao decided in September 1949 to have a spare copy of the Report to him and the DAI modified in 1959, which was to be sent to ADAI (H) who brought to the notice of CAG such matters deemed necessary). A digest of all points of general importance noticed during the inspection of the various offices was sent by the DI in the first week of February. Relevant portions were given to different sections for information and necessary action. The Director followed up the Report with heads of offices concerned and decision on important points were communicated to field offices. Shri A.K. Chanda, re-defined the role of the DI *vis-a-vis* the Head of the Office. The inspection by DI not only enabled the CAG to judge whether his ultimate responsibility for the efficiency of the offices under his control was adequately discharged but also enabled the Accountants General to satisfy themselves about the proper discharge of their primary responsibilities for the efficient working of their offices. It was not intended to be an inquisition or mere fault-finding report but a report on state of office inspected not only to inform the CAG but also helping the Accountant General in controlling his office more efficiently and in overcoming the various short comings prevailing in his office. The branches and sections to be inspected were selected by the DI at his discretion after taking into account the views of the AG, who arranged to supply of the relevant records for examination by the DI. During the course of inspection draft inspection notes were prepared as and when points arose for consideration and were discussed at appropriate level for obtaining necessary clarifications, securing verification of facts and initiating remedial actions wherever possible without delay. Important matters requiring urgent consideration and also serious irregularities were discussed with the head of the office personally without delay. In preparing the final reports, cases where no *malafide* or deliberate intention to circumvent procedures was established were omitted unless they were of intrinsic importance for other reasons. The form and content of the Inspection Report was broadly laid down. The report included major points in regard to which final conclusions could not be reached after personal discussions, matters of general interest, which merited circulation to other offices and points which required to be brought to the notice of the CAG for his information and orders. The report was discussed with the head of the office before it was finalised. An annexure was added to the report to indicate the points to be looked into at the next inspection, points to be scrutinised in other offices and intimated to other inspecting offices, and

important points referred to Comptroller and Auditor General and the decisions reached thereon. Four copies of the inspection reports were prepared, of which two were sent to the head of the office inspected and one for the CAG. The fourth copy was retained by the Director of Inspection for further action. On receipt of the Inspection Report in Headquarters office it was submitted to ADAI(H) who brought to the notice of the CAG such matters as were deemed necessary. Administration Section examined the inspection report expeditiously and obtained orders of ADAI(H) on points requiring further action and communicated the decision to the DI as quickly as possible, and to the head of the audit office inspected, where necessary. The DI pursued the Inspection Reports direct with the head of the office concerned for settlement. Points which could not be settled and those involving the question of major policy or on which decisions of general nature were to be taken were referred by the DI to the CAG. DI prepared a digest of all points of general importance noticed during the inspection of various offices every year in the first week of February. The important deficiencies thrown up during inspection of the offices were discussed during Conference of Accountants General when measures to remedy them and improve the functioning of field offices were also discussed and action taken to implemenent the decisions taken.

It was decided during the AsG's conference held in November 1965 that "the Directors of Inspection should bring out the efforts made by the Accountant General to set right the defects noticed earlier, the measures taken by them and how far these measures have been helpful in achieving the desired results, by means of 'Comparative Statement' with explanatory notes where necessary, comparing the defects as noticed during the last inspection and analysing the causes for progress/deterioration. The form of the statement was to be devised by the Headquarters office in consultation with the Directors of Inspection". The ADAI(HQ) also visited the office inspected and discussed the draft report of the DI with AG.

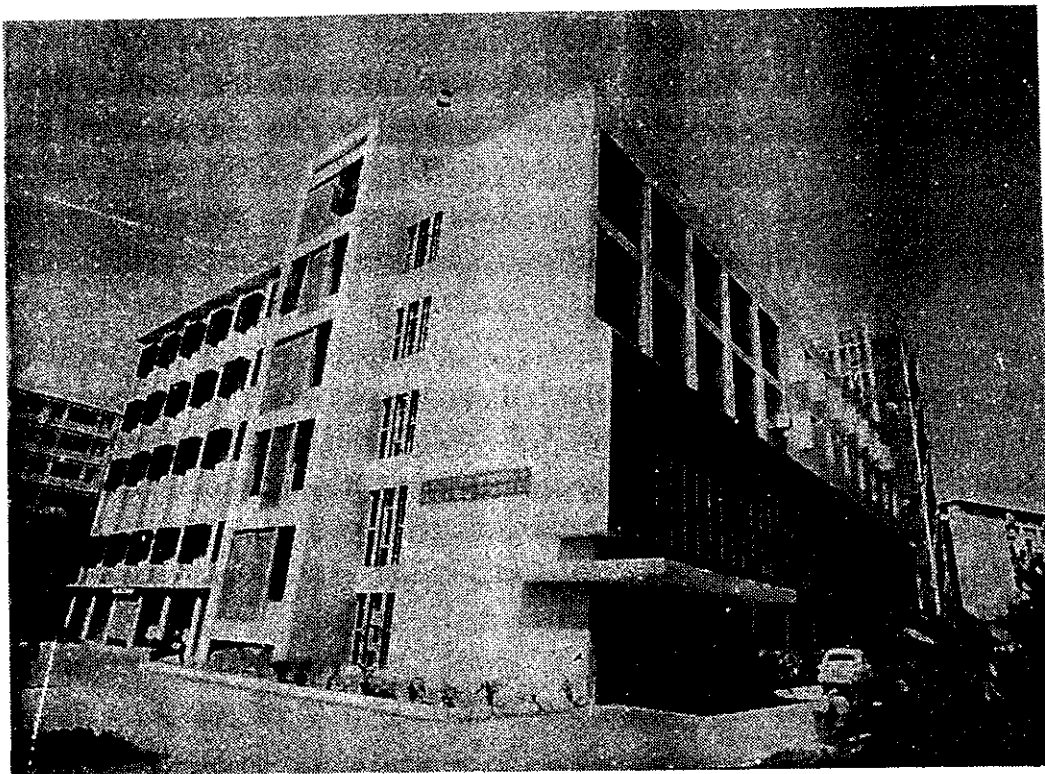


Fig. 3.1: The office of C.A.G.



Fig. 3.2: Shri A.K. Chanda
15-8-1954 to 14-8-1960



Fig. 3.3: A.K. Roy
15-8-1960 to 14-8-1966

LIST OF ABBREVIATIONS

1.	ADAI(HQ)	—	Additional Deputy Comptroller and Auditor General (Headquarters)
2.	ADAI(R)	—	Additional Deputy Comptroller and Auditor General (Reports)
3.	AC(N)	—	Assistant Comptroller and Auditor General (Non-Gazetted)
4.	AFA/DFA/JFA	—	Assistant Financial Adviser/Deputy Financial Adviser/Joint Financial Adviser
5.	ACA(Railways)	—	Assistant Comptroller and Auditor General (Railways)
6.	AAG	—	Assistant Accountant General
7.	AO	—	Accounts/Audit Officer
8.	CA	—	Chief Auditor
9.	CBR	—	Central Board of Revenue
10.	CIT	—	Commissioner of Income-tax
11.	DAG	—	Deputy Accountant General
12.	DDRA	—	Deputy Director of Railway Audit
13.	DAs	—	Divisional Accountants
14.	FA&CAO	—	Financial Adviser and Chief Accounts Officer
15.	FA	—	Financial Adviser
16.	GOI	—	Government of India
17.	GPF	—	General Provident Fund
18.	JPC	—	Joint Parliamentary Committee
19.	JS(F)	—	Joint Secretary (Finance)
20.	JS(P)	—	Joint Secretary (Personnel)
	JS (Per.)		
21.	LDCs	—	Lower Division Clerks
22.	MSO	—	Manual of Standing Orders.
23.	OAD	—	Outside Audit Department
24.	OSD	—	Officer on Special Duty
25.	PA	—	Personal Assistant
26.	PF	—	Provident Fund
27.	PSUs	—	Public Sector Undertakings
28.	Secretary(E)	—	Secretary (Expenditure)
29.	UK	—	United Kingdom
30.	UP	—	Uttar Pradesh
31.	USA	—	United States of America
32.	UDCs/SGCs	—	Upper Division Clerks/Selection Grade Clerks

SOURCES AND REFERENCES

1. Report of the Commission on Reorganisation of States
2. M.S.O.(Tech.) Vol. I & II.
3. Minutes of AGs Conference.
4. MSO (Administrative)

4 CAG (DPC) Act 1971

THE SHAPING OF THE BILL

The legislation envisaged in Article 149 of the Constitution of India regarding the duties and powers of the Comptroller and Auditor General of India took over 20 years, spread over the tenure of four Comptroller and Auditors General of India, for incorporation in the Statute Book of the country. During this long time span, the vacuum was filled by the transitory arrangements of continuing the provisions of the Audit and Accounts Order, 1936, despite being an anachronism in a Republican Constitution with a parliamentary form of Government on a quasi-federal set-up with a common CAG, which to a certain extent cramped the style and functioning of the Supreme Audit Authority, because of its built-in constraints and hampered the growth and development of the Institution to its fullest extent in the sub-continent. Yet, there was phenomenal growth and development in the sphere of Accounting, Auditing and Reporting, mainly due to the distinct personality and genius of each Comptroller and Auditor General, who, though suffered equally under the disabilities arising out of the absence of statute, forged in the letter and spirit of the basic structure enshrined in the Constitution, persisted in interpreting the Articles in the Constitution to the changing requirements of Audit and Accounting, which, at times, went beyond the limits of the AA Order, 1936. The Legislation regarding the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor General, implicit in Article 148(5) of the Constitution of India, did not materialise at all, notwithstanding the obvious intention of the Constitution makers and repeated demands of some Members of the Parliament later, as and when any opportunity to discuss the CAG or his Reports offered itself, and ultimately it boiled down to making of rules by the President after consultation with the CAG. Most of the practical difficulties in administration of the IAAD arose out of this anomalous situation, which did irreparable damage to the growth and development of the professional personnel at all levels to their full stature required to meet the changing needs of Government Accounting and Auditing functions in the fast changing national scenario of the developing country. Although the SAI of India has the largest number of accountants and auditors under a single departmental umbrella, the professional status and dignity, which flowed from their jobs and skills as obtaining in advanced countries, where comparable SAIs function, or even in the profession of Accountants and Auditors in India, were denied

to them, apart from granting them less advantageous conditions of service than what were allowed to comparable jobs in Government or merited by market values. Although Government auditors and accountants constitute a class by themselves, and their availability is less than the expanding demands of Governments, quasi-government institutions, autonomous bodies, institutions, local bodies etc., they were allowed emoluments and status, which left them with a terrible inferiority complex, despite their skills and achievements. What Dr. Ambedkar confessed to have been denied in deference to the sentiment of the times, which he hoped would be corrected by future Parliament, was perpetuated in the coming years.

FIRST DRAFT BILL

Shri A.K. Chanda proposed a draft Exchequer and Audit Bill on the Conditions of Service and Duties and Powers of the CAG of India in October 1958 to the then Finance Minister. A revised draft, confining to duties and powers of the Comptroller and Auditor General was suggested in January 1960 by the Special Secretary, Ministry of Finance, with the approval of the Finance Minister, which incorporated *mutatis mutandis* the provisions of the Audit and Accounts Order 1936, except provision for exchequer control, was discussed and finalised in July 1960 in a meeting presided over by the CAG, when S/Shri L.K. Jha, A.K. Roy and A.K. Mukherjee were also present. The CAG felt that even after the passing of the proposed bill, there would be three distinct laws to regulate the conditions of service and powers and functions of CAG, viz. Order-in-Council issued under the Government of India Act, 1935, namely Audit and Accounts Order 1936, CAG (Conditions of Service) Act 1953 and the CAG (Duties and Powers) Act, 1960 proposed to be enacted and suggested the appropriateness of having one comprehensive Act, for regulating the conditions of service of CAG and defining his powers and functions.

REVISED DRAFT

A revised draft covering both was proposed by the Ministry of Finance in September 1960, which incorporated certain new concepts both in regard to the conditions of service and the duties and powers of the CAG, namely, limiting the pay of a person appointed as CAG, who was in receipt of pension or gratuity by reduction of the amount of such pension and/or gratuity to him subject to the maximum of Rs. 13,333, provision for relieving the CAG of the duties and functions relating to keeping the accounts of any particular class or character, vesting with the Executive the power to decide finally on the classification of a particular

transaction or class of transactions, empowering Government to certify certain documents as secret to be withheld from audit scrutiny and specific provision for audit of the sanctions to expenditure accorded by the CAG, which were obviously not acceptable to the new CAG, Shri A.K. Roy. The sum and substance of his disagreement was that proposed reduction of pension and the pension equivalent of the retirement gratuity from the emoluments of CAG was not specifically provided for in the second schedule of the Constitution, which incorporated identical provision in the case of Supreme Court Judges, who were to retire after attaining the age of 65 years and in whose case there was no bar of holding office after retirement, unlike the CAG, whose tenure was fixed as six years and was debarred from holding any office in the Government after retirement. Leave entitlement should be identical to what was given to the Secretary to the Government of India belonging to an All-India Service. Retirement benefits should be the same to the incumbent of the office, irrespective of the service to which he belonged, prior to his appointment as CAG and should be identical to that provided for Supreme Court Judges. Vesting the final authority with Governors of the States to determine the classification of expenditure was not only unconstitutional but superfluous as well, and the CAG did not agree with the opinion of the Law Ministry in the matter, and questioned its views having regard to the provisions of Article 150 of the Constitution and the independent position assigned to the CAG under the Constitution. Any limitation on accessibility to records, even if based on the analogy of the provision in the Audit and Accounts Order 1936, which was made in a wholly different context, was anomalous after independence, and also went against the 1955 agreement, by which papers necessary for audit including secret papers, were agreed to be made available to the Principal Audit Officer or CAG depending on their nature. In fact, the convention was based on the recognition, that unless all relevant documents and papers were made available to Audit, objections might be raised, which would have been avoided otherwise, and objections when raised might not present the irregularities in their proper and correct perspective creating an erroneous impression. The person holding the high Office of the CAG would not be less patriotic than any other person and can be trusted with all information and documents relating to the receipts and expenditure of the State. No country in the world, which called itself a democracy, had a legislative provision debarring the CAG from having access to any accounts, books etc., relating to the receipts and expenditure of the country. The CAG strongly felt that such a provision struck at the root of a democratic form of Government and should be deleted. Provision for audit of sanctions by independent

authority was *ultra vires* of the Constitution, as audit of sanctions to expenditure was an integral part of the audit of expenditure, which was the sole function of the CAG.

ATTORNEY GENERAL'S VIEWS

As the differences were fundamental and since no agreement could be reached on the four main objections raised by the Comptroller and Auditor General, the Law Ministry sought the opinion of the Attorney General without even showing the statement of case to CAG on the plea of urgency. The CAG was constrained to present his case separately to the Attorney General, which Shri A.K. Roy did admirably well, though confessed to be a layman. Shri M.C. Setalvad, the then Attorney General of India held, that provision to vest with the Executive the power to classify transactions was not permissible under the Constitution, withholding of documents and papers from the CAG on a certificate, as was contemplated, would substantially interfere with the exercise of his function of making reports, and would clearly cripple the adequate performance of the duty laid on the CAG by Article 151 of the Constitution, and would be unconstitutional, and an officer of the position of C&AG could certainly be trusted to deal with confidential and secret matters in a proper manner and provide safeguards, which would prevent their secrecy being affected, and provision to entrust audit of CAG's sanctions to an authority designated by the Executive was unconstitutional, but he can be expected to make rules, to provide for audit of such sanctions. There was no discrimination in providing for reductions in salary under Article 148(3) of the Constitution.

The then Law Minister, Shri A.K. Sen, did not agree with the view of Attorney General and was of the view that the provisions were valid and *intra vires*. According to him, classification of expenditure of a transaction was not a question of form but substance, and any direction would fall within the ambit of Article 149 of the Constitution. Parliament was competent to deal with the matter and any challenge on the ground of excessive delegation could be met by providing that any general or special order of the President or Governor for laying before Parliament as soon as possible and if not repealed or amended would become effective automatically. It was for Parliament to decide, as to what was secret, and should not be subjected to audit by CAG, and any certification by the President or Governor was not *ultra vires* of the Constitution.

NEW ISSUES

The need to provide in the Bill certain broad principles defining the scope, extent and methods of auditing Government expenditure and to

empower Government to withhold documents not connected with accounting records, books, vouchers etc., from the scrutiny of Audit check were raised by the Secretary, Expenditure and Economic Affairs, Ministry of Finance in August, 1962. The CAG was of the definite view, that the manner in which he was to discharge his responsibilities under Article 151 of the Constitution had been left entirely to him, and his instructions to his own Department were of executive nature, which changed according to the change in the scope and nature of Government activities and limitation of skill and manpower, and could not agree to the suggestion that an Audit Code should be prepared by him after consultation with the President and laid on the Table of Parliament, as it rendered 'Independent Audit' meaningless. There has been no single instance in which he had exceeded, what he regarded as his proper function under Article 151 of the Constitution, and it was for future PAC to observe on such encroachment by CAG, and no CAG could possibly risk a repetition of any such observation by the PAC. He reiterated his stand in regard to production of documents to Audit and pointed out the need for goodwill on both sides but was prepared to reinforce the existing convention by exchange of letters which, would, on the one hand, enjoin all Departments to assist him by supplying him with all papers and documents required by him and on the other, agree for Government removing certain papers in their files not strictly relevant for the performance of his functions, and continue the practice of not demanding vouchers for secret service expenditure, and accept certificates from Executive authorities. Shri L.K. Jha agreed to attempt a draft of the proposed convention.

THIRD DRAFT BILL

The Economic Secretary sent the revised draft with 24 clauses in four chapters - Preliminary, Conditions of Service of CAG, Duties and Powers of CAG and Miscellaneous, in January 1965, alongwith draft of the convention to be established between Government and CAG in regard to withholding of secret documents. The understanding that CAG would continue preparing the Combined Finance and Revenue Accounts of the Central and State Governments and would arrange for the audit of his sanctions was indicated. The Finance Secretary pressed for an early reply since Government had informed the Parliament that the Bill would be introduced before the close of the financial year and he desired to discuss but went abroad. No fruitful discussion took place and apparently the game was being played out in the penultimate minutes. The third CAG also retired without finalising the draft bill to be presented to the Parliament.

SHRI S. RANGANATHAN

Shri S. Ranganathan, Secretary, Ministry of Commerce and Industry, was appointed as CAG to succeed Shri A.K. Roy and he was sworn in on 15th August, 1966. He had joined the I.C.S. on 11th October, 1932 and served as Assistant Collector, Joint Magistrate, Magistrate and Collector until October 1939, when he joined Govt. of India as Under Secretary to Government of India. He was appointed to the Finance and Commerce Department (Pool) Cadre from 12th October, 1939. He worked as Dy. Secretary, Ministry of Finance, Dy. Director of Inspection, Customs and Central Excise, Second Secretary CBR, Secretary CBR and *ex-officio* Joint Secretary to the Ministry of Finance till October 1946 and OSD, CBR till 1947. He became Joint Secretary, Ministry of Commerce, Works, Production and Supply on 1st February, 1951 and later Housing and Supply Ministry until May 1952, when he became the Secretary of the same Ministry. He became Secretary, Commerce and Industry in August 1956 and functioned so for nearly 10 years. He retired from ICS in August 1966 and became CAG of India. Nearly two third of his service was in Govt. of India, of which half was as Secretary in the various Ministries. His knowledge, expertise and standing among the ICS officers enabled him to carry the Ministries of Govt. of India, particularly the Ministry of Finance, Departments of Revenue & Expenditure, Bureau of Public Enterprises, the Ministry of Industry and the Ministry of Home Affairs, the implementing the major policies and innovations introduced by him. He had only two DAIs - Shri P.N. Bhandari until 10th February, 1969 and Shri A.K. Mukherji from 11th February, 1969 to 29th January, 1973, But the latter helped him a good deal in formulation of new policies and programmes and get them implemented, apart from providing continuity in management of the expanding Department.

Shri A.K. Mukherji joined as an IAAS probationer on 24th August 1938 and after working as AAG\ DAG Bengal, DAG, Bihar and Examiner, Bengal and AC(P) in Headquarters office was promoted to class I in June 1949 as CA, Central Railway/Controller of Coal Accounts. He returned to Headquarter's office as Director of Establishment in April 1951. He was Comptroller PEPSU from January 1952 and Additional AG/AG,UP in July 1953, AG, Assam, AP/Hyderabad, WB. Except for a short spell as Director of Audit, Indian Accounts, London he worked in CAG's office for nearly a decade—ADAI (Headquarters), ADAI (Railways) and DAI in February 1973 and was re-employed for one year as OSD to study and report on the implementation of the New Act. In his total span of 34 years, he held positions of AG level and above for about 18 years and nearly 13 years of his service was in the headquarters

where he made noteworthy contributions in shaping policies and reforms in the Department including the processing of the CAG's (DPC) Act, 1971. He was a member of the Audit Committee, International Monetary Fund in 1964. The common joke in the Department during his period was that what Shri Mukherji did not know about IAAD was not worth knowing. He played an important role during the tenure of Shri A.K. Roy and Shri S. Ranganathan in shaping their policies and programmes. He assisted the ARC and later on organised the major changes in commercial audit. The contributions made by him are discussed in the relevant chapters dealing with the subject or issue. He was one of the rare IAAS officers, who made rich contributions for professional and managerial development of the IAAD.

COMMENTS ON BILL

The new CAG, sent his comments in February, 1967, wherein, among other things, the provision for CAG to lay down, by notification in the official gazette, regulations for carrying into effect the purposes of the Act, in so far as they related to the scope, extent and procedures of audit, including the preparation of Audit Report was objected to, and suggestions to entrust to CAG (i) the audit at his discretion of the accounts of a body or authority, where substantial sums have been invested or advanced by Government (ii) the audit of the accounts of a body or authority to whom a contract has been awarded on the basis of negotiations (iii) the power to make eligible any person nominated by the CAG to perform his duties regarding audit and furnishing audit certificate and (iv) the audit of payments of subsidies to various bodies or authorities, were made. The new suggestions were based on the recommendations of the Administrative Reforms commission in 1967. After discussions for nearly two years, the differences persisted on audit of contracts and payment of subsidies and CAG explained the need and scope of the proposed provisions to the Committee of Secretaries, who did not favour their inclusion in the Bill on legal and administrative grounds. The Deputy Prime Minister's orders were obtained to exclude them from the Bill. That Shri Morarji Desai, an able and experienced Minister both in the State and in Central Government, who had strongly upheld CAG's right to audit in the Parliament, agreed to exclude the important suggestions, was most unfortunate. The Bill, as finally emerged, did not include the provisions suggested by CAG, but his views on them were brought out distinctly in the summary circulated to the Cabinet. Had the Cabinet provided for CAG's audit on negotiated contracts of large value, quite a few scandals associated with such contracts, which caused disquiet and resentment in

the minds of people, which was reflected in the Parliament and the media later, probably could have been exposed or avoided. Surprisingly, the draft convention to be signed by every incumbent of the office before he was sworn in as CAG enclosed to the Cabinet note, which was the bone of contention for few years, to which the CAG in office had committed, was not even mentioned in the Minister's speech for obvious reasons, while piloting the CAG's (DPC) Bill in Parliament.

THE CAG'S (DPC) BILL 1969

The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Bill (Bill No. 46 of 1969) was introduced in the Lok Sabha at 12.42 hours on July 23, 1969 by the then Minister of State for Finance, Shri P.C. Sethi, which was referred to a Joint Committee¹ of the Houses consisting of 30 members - 20 from Lok Sabha and 10 from Rajya Sabha. The Joint Committee received 13 Memoranda/representations on the bill from different associations/individuals etc. and held 16 sittings from 18th December, 1969 and submitted their report on the 12th November, 1970. The Committee heard oral evidence of the former Comptroller and Auditors General of India, and other organisations and individuals, who chose to present their views before them. The evidence of the past and the present CAG, who had actually participated in processing the Bill earlier, was constitutionally relevant not only to know their perceptions on the aspects of the proposed bill, particularly on what it did not contain but also to obtain an insight into the problems and difficulties faced by them, while in office, in dealing with the Finance Ministry, Government of India, which they never publicised when they

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- 1 The composition of the Committee was Shri S.M. Joshi, Chairman, and 22 Members of Lok Sabha namely 1. Shri Sonubhau Dagadu Baswant, 2. Smt. Jyotsna Chanda, 3.*Shri Y.B. Chavan, 4. Shri Dinka Desai, 5. Shri Nageshwar Dwivedi, 6. Shri J.M. Imam, 7. Shri S. Kandappan, 8. Shri S.S. Kothari, 9. Smt Sangam Laxmi Bai, 10. Shri Dhuleshwar Meena, 11. Shri Anand Narain Mulla, 12. Shri P.K. Vasudevan Nair, 13. Shri D.N. Patodia, 14. Shri Chaudhuri Randhir Sing, 15. Shri S.M. Siddayya, 16. Shri S.N. Shukla, 17. Shri Sant Bux Singh, 18. Shri R. Umanath, 19. Shri Nagendra Prasad Yadava, 20** Shri PLaokai Haokipl, 21. *Shri Vidya Charan Shukla. and 12 members from Rajya Sabha namely, 1. Shri M. Anandam, 2. Shri Anant Prasad Sharma, 3. Shri Gurumukh Singh Musafir, 4. Shri C.D. Pande, 5. Shri T. Chengalvaroyan, 6. Shri Sundar Mani Patel, 7. Shri Kalyan Roy, 8. Shri Thillai Villalan, 9.*** Pandit Bhawaniprasad Tiwari, 10. ****Shri B.N. Mandal 11. @Shri V.B. Raju.
- * Appointed on the 26th August 1970.
 ** Appointed on the 1st September, 1970, vice Shri Prakashchand B. Sethi resigned.
 *** Ceased to be member of the Joint Committee w.e.f. 2nd April, 1970 on his retirement from Rajya Sabha and was reappointed on the 23rd May, 1970.
 **** Appointed on the 23rd May, 1979, viced Shrimati Sarla Bhaduria who ceased to be member of the Joint Committee w.e.f. 2nd April, 1970 on her retirement from Rajya Sabha.
 @ Appointed on the 1st September, 1970.

occured for reasons best known to themselves and how they tackled them. Shri A.K. Chanda stressed on the status, independence and the terms and conditions of the CAG's service, particularly, his pensionary benefits. He felt that assignment to CAG of a rank below Secretary, even a Cabinet Secretary, in the warrant of Precedence was a very unusual phenomenon and went against the spirit of Dr. Ambedkar's view on equation of the responsibilities of CAG with the Supreme Court Judges. Proper status and proper independence were the two essential attributes of the Office and the manner in which the high office was treated would be evident from the fact that the salary of Dy. CAG was equivalent to that of Addl. Secretary and the ADAIs to the Joint Secretaries but were not accorded equivalent rank in the Government heirarchy. While in all other Democracies the CAG was looked upon as a friend and guide to the Government and an aid to the Administration in the higher echelons to fulfil their responsibilities, in India a peculiar situation has developed in which the highest office was looked upon as the enemy of the Government and everyone tried to denigrate him as far as possible, which was very unfortunate and was not conducive to the evolution of a healthy Parliamentary system or of financial control. Finance Ministry tended to consider the CAG as an attached or subordinate office in the matter of establishment, which reflected Government's attitude towards the CAG's outfit. CAG should be left to make his own budget which the Parliament could consider and decide after consulting him. The disharmony between him and the Finance Ministry was illustrated by refering to the incident, when the Finance Minister made some derogatory statement on Dr. Appleby's remarks on audit functions, and he drew the attention of the Prime Minister to it, who said, that he was not even competent to deal with it, and he ultimately wrote to the Speaker, who expunged the remarks, which was symbolic of the attitude of the Finance Ministry and the Finance Minister towards the Office of the Auditor General. CAG should be given appropriate pension so that he can live in dignity after his retirement. Where the Government investment was substantial there should be provision for second audit by the CAG and audit of negotiated contracts beyond a limit should be entrusted to him.

According to Shri A.K. Roy, the lacuna in the system was that the CAG's budget proposals were placed before the Ministry of Finance, and he had no spokesman in the Parliament to explain the difficulties and the Ministry of Finance can deny him the tools to carry out the functions effectively, which should be corrected. The CAG had no means of implementing the powers provided in the bill, as he was completely in the hands of the Ministry of Finance, which was most unfortunate, and it

was the latter's action, which came under his purview, and he felt it completely wrong, that the CAG should have to fall at its feet. During the last 20 years, although the number of Secretaries had gone up from 24 to 47 and 17 new States and 9 Union Territories had been added to the Indian Union, there had been only one DAI of the rank of Addl. Secretary and all the Accountants General, who had earlier been equal to the Chief Secretaries in States were reduced to the level of Divisional Commissioners, despite the increase in their duties and functions. Consultation did not mean concurrence and the possibility of Executive taking decision contrary to the CAG's advice existed, and he should be required to mention such cases in the Audit Reports. Wherever Government have significant financial stake in a corporation or a company, provision for supplementary audit by CAG should be made. Proposed powers to be given to CAG were not more than those given to any Auditor of a public company. He has no sanction to enforce timely submission of reports or avoid delays and some machinery should be found to ensure, that his reasonable requests were complied with, as in the case of auditors in the Public companies. A sub-committee of the Parliament should examine the requirements of CAG and he should have the right to go to the Committee to ask for them. Auditor General should inform, and not ask for, which could be the forum of the Parliament. He felt the CAG was not equipped to audit either negotiated contracts, exceeding Rs. 1 crore or the whole range of state receipts, and should be allowed adequate time to take up such work in future. A senior auditor in the AG's office did far more responsible work than any upper division clerk in the Secretariat with twice his pay. He did not accept the general proposition that there should be separation of audit and accounts. Five fold increase of expenditure of the IAAD from 1950-51 to 1969-70 did not mean that their requirements have been dealt with adequately. He did experience difficulty in dealing with the Ministry of Finance. While the CAG tried to present the Report within the year following the year to which it related, there was need for full discussions with the Government at various levels and in writing and files have to be seen, and if there was delay in obtaining replies or making available the files, the Report naturally got delayed. While there has been no delay on the part of the Government of India in placing the Audit Report before the Parliament, there has been delay in the case of States (cited the case of Bihar, where there was delay of 18 months) and it was for the Legislature to take action against such delays. Government cannot make any changes in the Report but delay was of advantage to the Executive.

Shri S. Ranganathan, however, did not share the views of his predecessors, and stated that, by and large, he did not have any serious

occasion to face such difficulties, and the convention has been, on the whole, working satisfactorily, and he cannot himself think of any statutory provision, which can improve on it. According to him, reliance should be placed on building up conventions, rather than thinking in terms of any statutory provision of the kind mentioned. He gave expression to the feeling that the pay scales of the Audit Department from top to bottom were pitched on the lower side, which was more historical than deliberate. He felt that if the Finance Minister, who was a party to the convention made himself accessible to CAG for discussion on any particular matter, and was not convinced about the CAG's views, especially, in matters of expenditure sanctions, he did not think the CAG would want to go to a different or higher forum as a matter of appeal. If he felt sufficiently strong about his views, in the last resort he should quit. Ultimately, the Cabinet and the Government as a whole can take a decision. It was not practicable to go and appeal to some other forum. He had no difficulty in obtaining sanctions for posts from the Finance Ministry but his difficulty has been in a number of cases to find men with enough experience. Consultation or concurrence was a matter of executive decision on which he would not stand in the way. There was no rational justification for keeping the CAG out of the purview of government companies and banks and by such exclusions, Parliament would be the loser and the benefits of the PAC as a collective forum will be lost on the entities. He saw no virtue in separation. There were various difficulties in bringing out Audit Reports in time and the demand for printing them in State language, which was bound to increase in future, will aggravate the problem. A Parliamentary Committee to solve the problems and differences between the CAG and the Ministry of Finance was not practicable. He confessed that there was a kind of imbalance or comparative imbalance, which detracted from the structure to the cadre as a whole, by not having a post of Secretary in the Department.

JPC'S REPORT

The Committee considered the Bill, clause by clause, at their 14th and 15th sittings held on 5th and 6th November, 1970 and adopted its report on 12th November, 1970. The Committee suggested amendment of six clauses of the Bill. clause 3 was to be amended to enable the CAG to get salary, which was equal to the salary of a Judge of the Supreme Court, clause 4 to fix his tenure as six years or until he attained the age of 65 years whichever was earlier, clause 6 to fix the pension at Rs. 15,000 per annum or such high pension admissible to him under the rules of the service to which he belonged and grant of pension of Rs. 2000 per annum for each completed year of service for a CAG who demitted office by

resignation, clause 13 to provide audit of subsidiary accounts of government concern by CAG, clause 14 to extend his audit to all bodies and authorities, who have received substantial amount by way of grants or loans including the receipts and the right to report the results of audit, clause 16 to relieve the CAG of audit of minor receipts not in the public interest after consulting him, and a new clause 20 to empower the CAG to conduct atleast supplementary or test audit of the accounts of the Food Corporation of India, as in the case of a Government company. That the Committee did not endorse any of the suggestions of the CAG was the last straw on the camel's back.

There were 5 minutes of dissent[§] by members of the Committee in regard to the incongruity in the Government's reluctance to extend CAG's Audit to nationalised banks, Reserve Bank of India, Industrial Finance Corporations and LIC of India but keenness to provide for undue interference in the operation of bodies or authorities in private sector, which have received assistance from Government, importance of propriety Audit by CAG, how the proposed powers and duties conferred by the Bill fell short of the independent status accorded to CAG in the Constitution, the basic flaw in not providing for the conditions of Service including salary, status and other conditions of service of the staff of the CAG's organisation and the limitations imposed on the audit of the books of the grantees.

FINAL PHASE

Shri Y.B. Chavan, the Finance Minister introduced the Bill in the Lok Sabha on 15th November, 1971 and eight Members of Lok Sabha participated in the deliberations on the bill, who raised various issues individually and severally, which centred around the basic flaws or omissions in the Bill. Inadequate status and position given to the Accountants General in the States, total absence of any provisions relating to the staff of the CAG - recognition, status, protection of salary and other conditions of service - omission to provide specific guidelines with regard to the method of audit or his functioning or relationship with the Financial Committees of Parliament, exclusion of audit of banks, financial corporations, LIC from the purview of CAG's Audit, non-inclusion of any provision for audit of contracts and the constraints imposed by the ceiling on aid to grantees for CAG's audit, were the main issues raised during the deliberations and several amendments were proposed to modify the Act suitably. The Finance Minister, in his reply, made it clear that Government have accepted that the status of CAG

[§] Minutes of dissent were recorded by Shriyuts S.S. Kothari, R.R. Umanath, D.N. Patodia, P.K. Vasudevan Nair and Kalyan Roy.

should be the same as that of Supreme Court Judge, as provided in the Bill, and did not propose to bring out any measure under Article 148(5) of the Constitution in regard to conditions of service of the staff of the CAG's organisation, which would be decided in consultation with the CAG, as was already obtaining. There was no need to stipulate CAG's relationship with the Parliamentary Committees in the Bill, which should be left to be evolved by conventions already established. The JPC had gone into the question of CAG's audit of public financial institutions and Government's view was that the specific Acts of these institutions provided for CAG's audit, when required, which was sufficient and adequate and any provision for making CAG's audit compulsory would make his work impossible. The Attorney General had advised Government that in terms of Article 149 of the Constitution, Parliament would not be competent to provide for audit by the CAG of contracts, which was also Government's legal and constitutional view, apart from its impracticability, the logic of which has been appreciated by the majority members of the JPC. He concluded by stating that as a first attempt the legislation proposed was comprehensive enough and all the amendments proposed by the sponsors were negatived. The Rajya Sabha considered the Bill on 24th November, 1971 and five members spoke on the obvious omissions and weaknesses of the Bill. The sum and substance of the criticism voiced by the opposition members centred around the independence of Audit and its linkage to the status, salary and other conditions of services of the CAG and his staff, as contemplated in Article 148(5) of the Constitution. The Finance Minister countered them by repeating the arguments already advanced by him in the Lok Sabha and emphasised the risk involved in taking independence to its logical extremity and as to why no legislation was contemplated regarding conditions of service of the staff in the IAAD, as ultimately the rules will have to be framed to implement them in consultation with the CAG, which was the prevailing situation also, and any attempt to fix them now would be oversimplification. The salary and service conditions of Government employees were matters of common concern to the Government as a whole and all services and the Government have appointed the Third Pay commission to look into them and CAG had expressed his views to them.

The Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act, 1971 (Act No. 56 of 1971) was passed and became effective from 15th December, 1971.

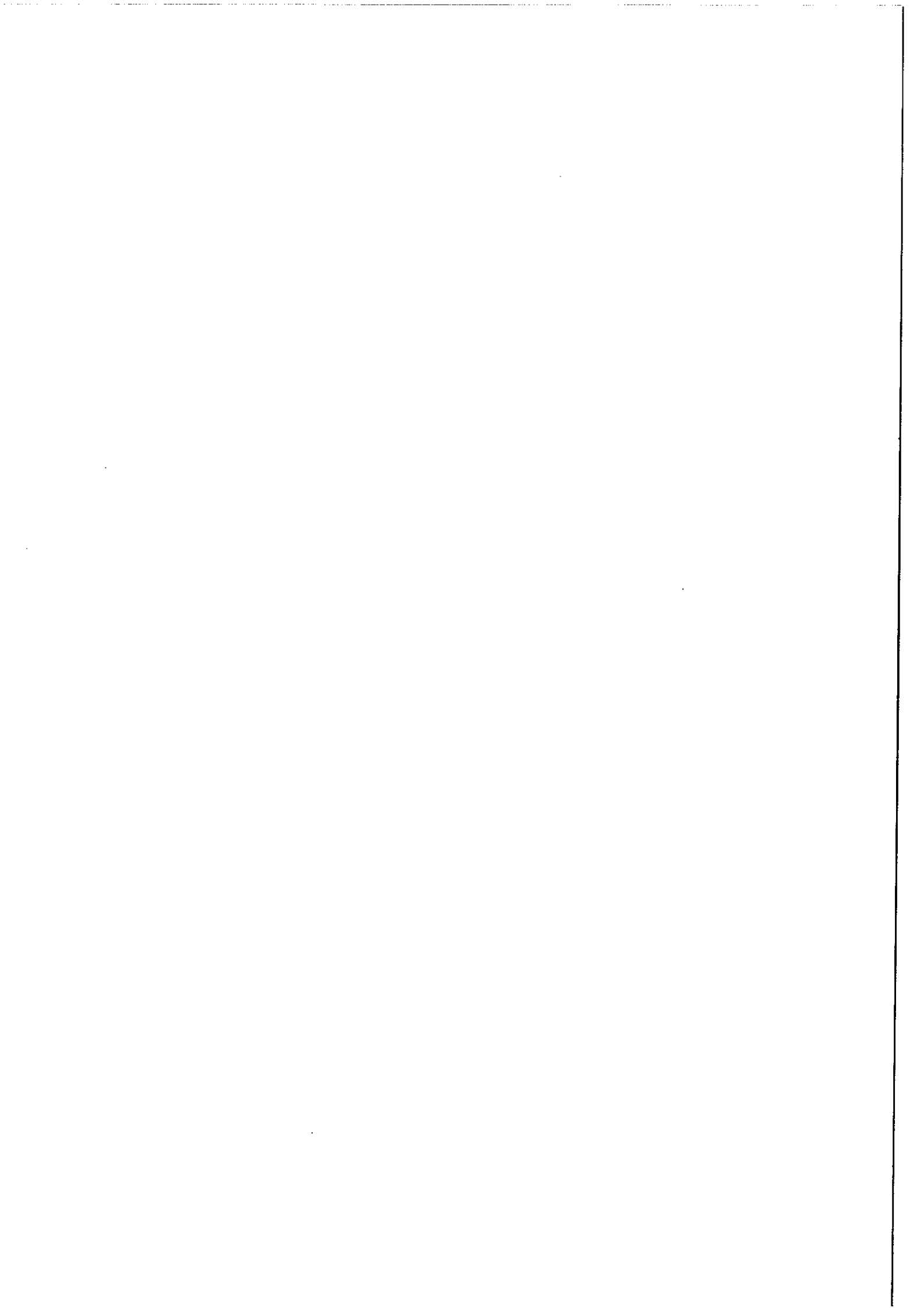
HEADQUARTERS ORGANISATION

During the last decade there was a perceptible change in the general conception of distribution of work among the supervisory officers in the

Headquarters office. All important work of Report section (including Appropriation Accounts, Finance Accounts and Audit Reports), cases affecting the administration of Indian Audit and Accounts Service and the Department and important cases connected with the technical administration of the Department, reorganisation of field offices, interpretation of Service Rules, Constitution, Statutes etc. revenue Audit, audit of statutory corporations and Government companies, were required to be submitted to the CAG as a matter of course.

The status and function of Deputy CAG as Chief of Staff continued and he was also in charge of general supervision and control of the office of CAG and the three ADAIs were in charge of the work relating to (i) Audit Reports on accounts of the Union, States, Union Territories, Autonomous Bodies, Statutory Corporations and Government companies (ii) Revenue Audit, Technical Administration (including O&M), Audit section and Inspection of Audit and Accounts offices (iii) Railway Audit Wing, including Audit Report (Railways), Commercial Audit (including Reports), Accounts and Compilation sections. The DAI and ADAIs deputised for the CAG in any matter except submission of Reports to the Parliament and the State Legislatures. The number of sections increased from 15 to 21 during 1954 to 1960 and the new additions were GE II, BR&S, Examination, NGE II and III, R&I, RA I and II, Revenue Audit, TA and A.C.&Ar.G. Budget, Personnel, Non-gazetted assisted him. ADAI (Railways) supervised the Railway Audit, Railway Audit Report, Commercial Audit and Commercial Audit Report, Accounts and Compilation sections. ADAI (R) continued to supervise Report work. ADAI(HQ) supervised the work relating to the Inspection of Audit and Accounts offices, Revenue Audit and Revenue Audit Report and Technical Administration (including OM) and Audit sections. The AC (P) held direct charge of GE sections and supervisory charge of OE & Admn., Records, Railway and R & I sections, AC(N) direct charge of Non-Ggazetted Establishment sections, AC (Budget) direct charge of CA and supervisory charge of BR & S and Examination sections, Deputy Director (Report) in charge of Central and State Reports and DD(R) direct charge of RA II sections and two units in Tech. Administration group. Director of Revenue Audit supervised the Revenue Audit section and Inspection of Revenue Audit branches of AG's offices and preparation of Audit Report on Revenue Receipts - Central and States, Technical Administration sections except 2 units in TA II. There were 19 branch officers in charge of different sections. The organisation of the headquarters in 1968 is given in Figure 4.1.

All matters relating to recruitment, transfers, deputations (including foreign service) and forwarding of applications of non-gazetted staff,



Central Civil Services (Temporary Services), (Conduct), (Classification, Control and Appeal) Rules, Safeguarding of National Security Rules and all disciplinary matters relating to non-gazetted staff, pay, allowances, honoraria, provident fund and pension entitlements of non-gazetted staff, service associations, Joint Consultative Machinery and Compulsory Arbitration Scheme, Canteens, Co-operative Societies, etc., Sports, athletic and other welfare activities, amenities to staff and Benevolent Fund and Office and residential accommodation were dealt with in Non-gazetted establishment section. OE & Admn. section dealt with all matters pertaining to administration and establishment of persons working in the headquarters office. The budget estimates of all the offices of the IAAD subordinate to the CAG (including estimates of loans and advances to Government servants and to departmental canteens) excepting those relating to the gazetted officers (Civil), control over expenditure and reappropriation of funds within the Audit Grant/Appropriation, proposals for supplementary grant/appropriation, scrutiny of appropriation accounts relating to Audit Grant, scrutiny of the staff proposals of the various offices of the IAAD relating to non-gazetted posts, creation of permanent and temporary non-gazetted posts in the various offices of the Department were dealt with in Budget and Research section. The statistics unit prepared various statistical statements/returns and charts/graphs for control purposes. The AC (Budget) dealt finally with routine references from field offices and from the Government, reappropriations within the Audit Grant and continuance of casual temporary posts.

Examination section was responsible for holding Departmental Confirmatory Examination, the SAS Examination and Revenue Audit Examination for the SAS accountants of the Department, which involved setting of question papers, printing and distribution, collection of answer books from different centres and stations, their valuation, publication of results and various other ancillary works connected with those processes. The Subordinate Accounts Service Examination conducted in two parts was held once a year in November, simultaneously in all the offices of principal heads of offices. The AC (Budget) was made responsible for the entire work in connection with the conduct of the SAS and Revenue Audit examinations.

Technical Administration section had two separate branches, TA I and TA II. TA I dealt with all questions of policy and references relating to various types of audit procedures in Audit offices, audit reports of embassies and other reports relating to audit of embassies, cases relating to efficiency-cum-performance audit and standard rates of

work and references from BR & S section regarding sanction of staff on *ad hoc* basis. Monthly bulletins received from Iron and Steel Controller were reviewed and directions issued. All matters relating to production of documents to investigation officers and in Courts of Law and photostating them, fixation of daily rates of audit fee, residual items of work of Codes section, consent audit, statutory and autonomous bodies, complaints against Audit and Accounts offices, and miscellaneous complaints and references regarding financial sanctions and miscellaneous documents were also dealt with in the section.

TA-II Section dealt with procedures relating to pension and PF payments, public works and projects run on public works lines and cases relating to forest departmental procedure, Defence Audit procedure, scrutiny of the Acts and Bills published in the Gazette of India having financial implications in order to examine their repercussions on Audit and Accounts Procedure, work relating to Commonwealth Auditors General's Conference and International Congress of Supreme Audit Institutions and memoranda on the state of work in Audit and Accounts offices drawn up by relieved Accountants General other than Chief Auditors, Railways. Matters pertaining to Treasury Rules and Procedure, Account Code Volume II, Securities Manual, maintenance of CAG's Codes and Manuals, maintenance and distribution of correction slips of MSO (Tech.), Volumes I and II and its forms, and Secret Memorandum of Instructions to Audit offices, etc., disposal of quarterly state of work reports from Audit offices, were attended to by the section. Preparation of programmes of Directors of Inspections, disposal of Director of Inspection's reports in so far as they related to Headquarters office, blacklisting of contractors were also carried out in the section. Cases relating to General Financial Rules, Delegation of Financial Powers Rules, distribution and weeding of records, disposal of cases relating to frauds, failure of audit, embezzlements, losses, etc., in Audit and Accounts offices were the other items of work dealt with in the section.

Accounts section considered all questions of accounts classification and changes in rules and procedure relating to accounts, administered the Account Code, Volumes I and IV (including Appendix 2 to the Account Code, Volume I-List of Major and Minor Heads of Accounts), dealt with the progress registers of Exchange Accounts and certified the pensionary liability of the Government of Burma to the Government of India. The Compilation section was entrusted with the work of compilation of the Combined Finance and Revenue Accounts of the Central and State Governments in India, computation and certification of the net proceeds of certain taxes and duties collected under various

Acts, scrutiny of balances under suspense and remittance heads and differences between ledger and broadsheet balances under debt, deposits and remittance heads furnished periodically by the Accountants General and disposal of Parliament questions requiring information based on the combined Finance and Revenue Accounts.

The Revenue Audit section functioned as a composite unit, comprising the administration, technical audit, reporting and inspection, in so far as audit of revenue receipts was concerned. Organisation of the Revenue Audit wings in each Civil Audit office, creation of the posts required for the audit of revenue receipts and matters connected with training of the personnel for conducting the revenue audit, prescribing the quantum of audit to be done in respect of the different revenue receipts and the nature of audit checks to be exercised in the performance thereof, audit and acceptance of notifications, rulings and instructions issued by the Government of India/Central Board of Direct Taxes/Excise and Customs on Revenue subjects and compilation, maintenance and distribution of the Revenue Audit Manuals on Income Tax, Central Excise and Customs, were the principal items of work. Direction, co-ordination and preparation of the Audit Report was carried out by the section under the overall supervision of DRA. The material received for the chapter on Revenue Receipts in the State Audit Reports was scrutinised by the section. Approval of draw-back rates proposed by the Ministry of Finance on export articles was conveyed. The work relating to collection of material for 'Audit Bulletin', editing, printing and issue of the same to the persons/offices on the mailing list was entrusted to the section. Pursuance of the Inspection Reports by the Director of Revenue Audit on the working of the Revenue Audit wings of the Accountant General's offices and preparation of summaries of Supreme Court Judgements on Revenue matters and communicating them to the Accountants General periodically were other items of work carried out by the section.

The Commercial Audit section dealt with examination and finalisation of Central Government Audit Report (Commercial) including the chapter on Departmental Undertakings, chapter on 'Commercial and Trading Activities' for inclusion in the State Audit Reports, Audit Reports of Central and State Government Commercial corporations, the audit of which was entrusted to the CAG. It administered the cadre of AOs (Commercial) and SAS (Commercial). It also rendered assistance to COPU in the examination of Audit Reports (Commercial) in various ways. Scrutiny of the comments and review of accounts under Section 619(4) of the Companies Act, 1956 on the accounts of the Central/ State Government companies, issue of

directions under Section 619(3)(a) of the Companies Act to the Statutory Auditors of all Central Government Companies and to those of State Government Companies, whose paid up capital exceeded Rs. one crore and examination of the Supplementary Reports received from the Auditors, rendering advice of the CAG to appropriate authorities regarding appointment of auditors of all the Central and State Government companies and statutory corporations, were the other major functions performed by the section. It also dealt with all cases which affected the accounts and audit of Commercial undertakings, prescription of quantum of audit checks to be exercised in respect of audit of Central/State Government commercial undertakings and scrutiny of Memorandum and Articles of Association of the Government companies.

Codes section dealt with all complaints, which involved their acknowledgements, calling for reports from field offices, pursuance till received, and final disposal. AG was required to send quarterly report of outstanding complaint cases. Procedure for securing expeditious disposal of complaint cases was laid down. It also dealt with the implementation of the provisions of the Official Languages Act, 1963 and the Official Languages (use for official purposes of the Union) Rules, 1976 and Orders issued thereunder by the Government of India, Ministry of Home Affairs, Raj Bhasha Vibhag as well as of the Annual Programmes for the progressive use of Hindi for the official purposes of the union framed and circulated by Raj Bhasha Vibhag. The section also translated the Reports of CAG on Revenue Receipts, Railways, Central Public Sector Undertakings and certain autonomous bodies from English to Hindi.

DELEGATION OF POWERS

Although Article 148(5) of the Constitution specifically provided that the administrative powers of the CAG shall be prescribed by rules made by the President after consultation with the CAG, the *status quo* regarding the delegation of administrative and financial powers to the Ar.Gl. of India under the relevant provisions of the rules, regulations, and orders issued by the Government of India continued to be in force, under Article 313 and 372 of the Constitution. The prevailing delegation of powers given to the Auditor General and other heads of department in the IAAD, when the Constitution came into force were incorporated, in the Manual of Standing Orders of the CAG. These were compiled into a separate volume, CAG's Manual of Standing Orders (Administrative) Volume II on 17th March, 1970. The extent and limit of the delegation of powers were broadly as under :

Sl. No.	Authority and nature of delegation	Quantum of delegation to the CAG (items of power)	Quantum of delegation to the As.G/ Heads of offices.
1.	Powers under Central Government Book of Financial Powers and Central Government Compilation of the General Financial Rules.	38	18
2.	Powers under Fundamental Rules.	47	36
3.	Powers under Supplementary Rules.	54	52
4.	Powers under Civil Service Regulations and Civil Pension (Commutation) Rules.	15	10
5.	Powers under Central Civil Services (Classification, Control and Appeal) Rules.	19	-
6.	Powers under Central Civil Services (Conduct) Rules.	5	-
7.	Powers under General Provident Fund (Central Services) Rules.	13	13
8.	Powers under Miscellaneous Rules and Orders.	7	7

Powers under Central Civil Services (Classification, Control and Appeal) Rules were delegated to the various appointing authorities in the IAAD. The extent of authority delegated and the appropriate appellate authority were also enumerated. 21 categories of sanctions issued by the CAG were subjected to audit by an officer nominated by him. Under the system, 9 categories of sanctions were not required to be audited.

As and when changes in the delegation of powers to the heads of departments and the Ministries were made by the Government of India, they were extended *mutatis mutandis* to the CAG and heads of offices in the IAAD. By and large, the financial and administrative powers delegated to the CAG conformed to the extent and quantum of delegation given to a Ministry of Government of India and, in some respects, he even enjoyed greater powers. In actual practice, application of the rules and regulations in administration of the delegated powers necessitated consultation with Administrative Ministries/Departments and the Ministry of Finance on variety of matters, which often created

bottlenecks in the smooth administration of the department with large number of personnel performing functions of multifarious nature both of the Government of India and the State Governments spread all over the country. This feature, though prevalent in other Central Government departments subordinate to the various Ministries of the Government of India functioning in the states, was more conspicuous and pronounced in the IAAD because of its proximity to State Government but independent status, and critical role in performance of audit functions caused irritation and friction in actual administration. No attempt was, however, made to codify the rules in the light of the experience gained in the post-independence period taking into account the delegation of authority and powers given by the Government of India to the various Ministries, heads of departments and other constitutional authorities in Indian polity. Piecemeal suggestions were made for additions or deletions, which took considerable time for being processed into orders by the Government of India. The last instalment of the enhancement of the delegation of powers was requested in January, 1988, which was approved in September, 1988 and August, 1989. They were hiring of office/residential accommodation, replacement/purchase of staff cars and other motor vehicles, condemnation of motor vehicles and motor cycles, local purchase of stationery, permission for air travel to non-entitled officers, powers to decide the shortest of two or more routes, power to decide whether a particular absence is absence on duty and power to declare that the pay of a particular Government servant has been so fixed as to compensate for all journeys by road within his sphere of duty. The Ministry of Personnel, P.G. and Pensions, Department of Personnel and Training agreed to let the CAG exercise power to pay additional remuneration upto six months in terms of FR 49(iii) but the suggestion for delegation of power to grant special pay was not agreed to. As explained earlier, two former CAGs, in their evidence before the Joint Parliamentary Committee, had explained as to how they were hampered due to the inadequacy of the delegation, but the then CAG in office had no such problems in dealing with the Finance Ministry. The fact remains that the authority and powers delegated to the CAG of India as a Constitutional Authority concerned with performance of the functions covering both the Government of India and the State Governments have not been drawn in a manner and form that the Institution needed to enable it to perform its functions and duties. A major constraint on the performance of the basic function of CAG, namely, presentation of the Reports and Accounts has been delay in printing them, since he is vested with only the authority delegated to other heads of the Departments of Government of India, who have no identical duties and responsibilities to

present such a large volume and mix of Reports to be presented to the Head of Union and State Governments under a time-bound schedule. The CAG has no authority over the presses either under the Government of India or State Governments.

CHANGES IN FIELD OFFICES

Organisation and management of the Civil Audit and Accounts offices was considered by successive Comptroller and Auditors General, consequent on expansion of the duties and functions of the Department, in the wake of the increase in the turnover of transactions of the Governments - both at the Centre and in the States, which directly contributed to large scale spurt in volume of work and connected work force.

Figures 4.2 and 4.3 show the trend of receipts and expenditure on Union and State Governments for selective years.

The total strength of the 17 Civil Audit and Accounts offices was 27,028 - 643 officers (Class I and II) and 26385 staff. The Conference of Accountants General held in 1961 and 1965 discussed the question of reorganisation of offices. The consensus was that the size of some of the offices was too large to have effective management and control and that large offices like those of the Accountants General, Uttar Pradesh and West Bengal, where it would not be possible for one Accountant General to supervise and control the functioning of the office in the different spheres effectively, could be divided into two offices. In regard to other offices of somewhat smaller size, the Conference felt that introduction of another tier at Senior Deputy Accountant General's level or Comptroller's level with specific delegation of functional responsibilities, technical and administrative powers without diminishing in any way the overall responsibility of the Accountant General would help in more effective management and better control, and give relief to the Accountants General and enable them to devote greater attention to more important matters.

A Scheme of "Controller of Accounts" was introduced in the offices of the Accountants General, Kerala and Bihar in 1966. The office of the Accountant General, West Bengal was reorganised into two offices, namely, Accountant General, West Bengal and Accountant General, Central, Calcutta from 1st April, 1968 - the former to deal with accounting and audit of transactions of the Government of West Bengal and the latter with audit and accounting of the transactions of the Central Government arising in West Bengal Circle other than those entrusted to the branch office of the Accountant General, Commerce, Works and Miscellaneous at Calcutta. In 1968, a scheme of 'Additional Accountant General', which was a slight variant of the 'Controller of

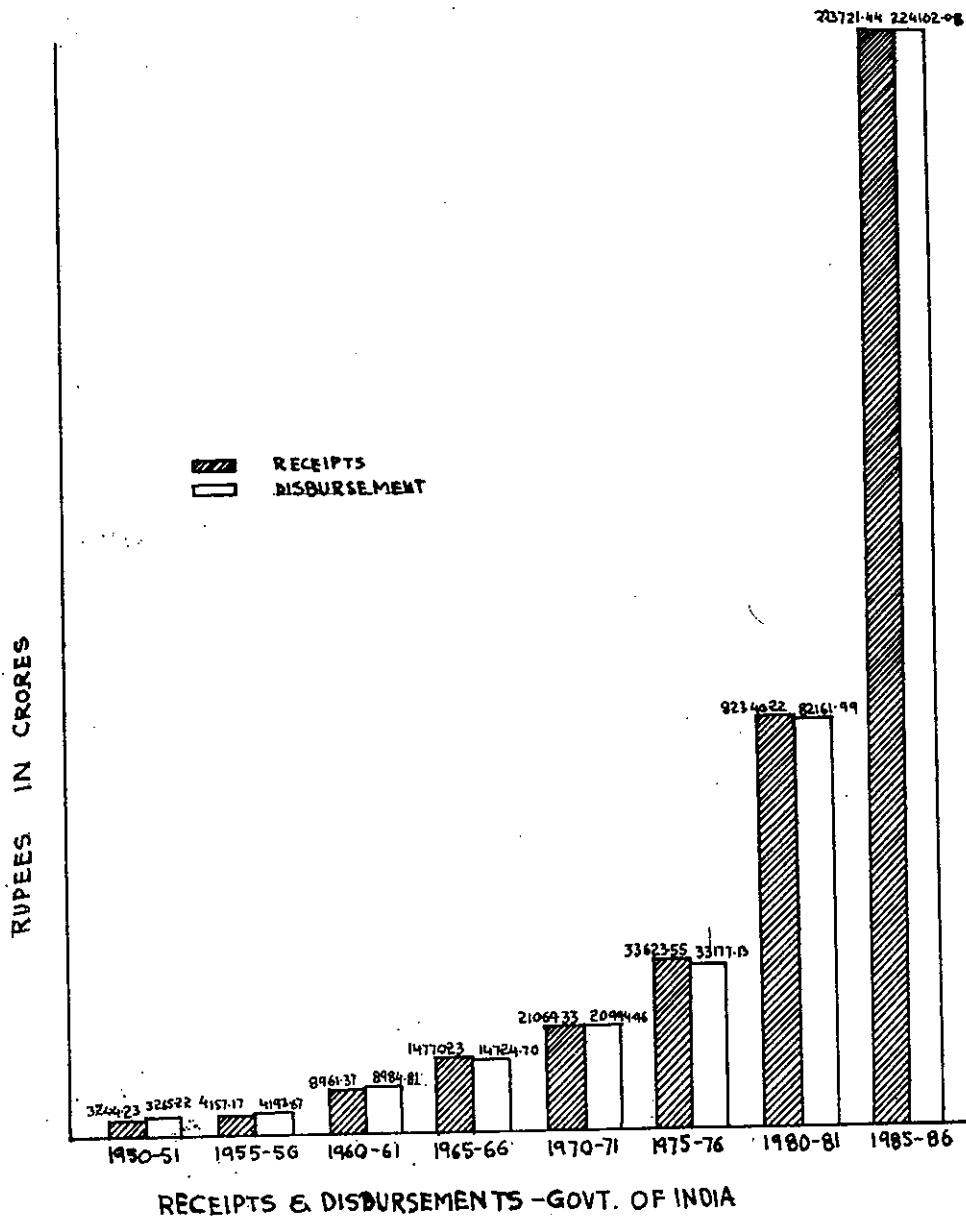


Fig. 4.2: Receipts & Disbursements—Government of India

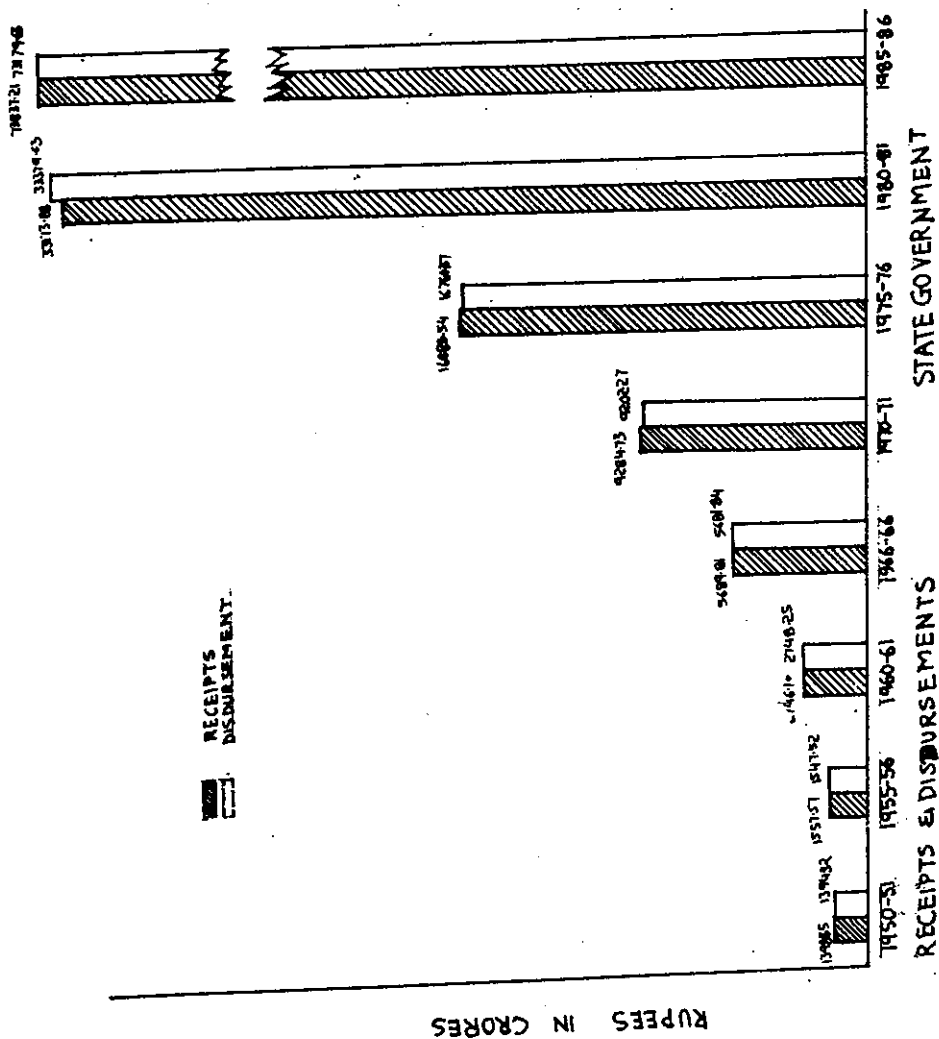


Fig. 4.3: Receipts & Disbursements of State Governments

Accounts' scheme, was introduced in the office of the Accountant General, Uttar Pradesh to secure more effective management and control. While under the 'Controller of Accounts' scheme, the Controller of Accounts was in the junior administrative grade, the Additional Accountant General was in the junior administrative grade with a special pay of Rs. 200 p.m. Under both the schemes, the Additional Accountant General or the Controller of Accounts were placed in charge of the accounts group comprising of departmental audit, compilation, account current, deposits, and loans sections and the entitlement group comprising of gazetted audit, provident fund and pension sections, with one or more Senior Deputy Accountant General and Deputy Accountants General in the time-scale to assist him. The Additional Accountants General (or Controllers of Accounts) were delegated the same powers as those of the Accountant General in technical matters in respect of the groups under their charge. The overall responsibility for the effective functioning of the office continued to vest with the Accountant General. The "Additional Accountant General" scheme was subsequently extended to the offices of the Accountants General, Andhra Pradesh, Madhya Pradesh, Assam, Meghalaya and Nagaland, and Central Revenues in 1969 and 1970 with some variations in the distribution of supervisory charges to suit local requirements. The supervisory charges in the various civil accounts and audit offices were also reviewed and reorganised in 1969 and 1970 with a view to toning up the quality of management and supervision of important functional groups like the accounts group, entitlement group, local inspections, works audit etc., by placing important and heavier functional groups under an officer in the junior administrative grade and less important and smaller groups under time-scale officers. The position was again reviewed in 1971. The office of the Accountant General, Maharashtra was reorganised into two independent offices on the lines of the scheme of reorganisation of the office of the Accountant General, West Bengal and the new office of the Accountant General, Central, Bombay was formed in September 1971 by transferring the audit and accounting work relating to transactions of the Central Government in Maharashtra Circle dealt with both in the main office at Bombay and the branch office at Nagpur. As part of this scheme, the branch office at Nagpur was placed under an Additional Accountant General. The offices of the Accountants General, Uttar Pradesh and Andhra Pradesh were reorganised into two independent offices, each under an Accountant General, division of work being on a functional-cum-departmental basis. The 'Additional Accountant General' scheme with some variations in the charges under the Additional Accountant General was extended to the

offices of the Accountants General, Tamil Nadu, Gujarat and Bihar. A variation of the 'Additional Accountant General' scheme, as extended to the offices of the Accountants General, Tamil Nadu and Bihar was that the Additional Accountant General was placed in charge of all the functional groups dealing with accounting and audit including local inspections and revenue audit of the transactions of the Union Government, besides some other functional groups relating to the transactions of the State Government so that one senior officer was made responsible for all matters connected with the transactions of the Union Government. This scheme also aimed at securing better co-ordination among the different functional groups (accounts, gazetted audit, pensions, provident fund, outside audit, revenue audit etc.) dealing with audit and accounting of the transactions of the Union Government, Departmental officers of the Central Government and the Administrative Ministries/Finance Ministry of the Government of India have the facility of dealing with one senior officer, in all matters whether relating to personal claims of officers and staff or other audit and accounting problems. In 1972, the 'Additional Accountant General' scheme was further extended to the offices of the Accountants General, Orissa, Mysore and Punjab. As a result of these measures, the supervisory strength increased by 1082 in six years, nearly 59%, while the aggregate staff strength was 30,997, an increase of 18%.

NEW OFFICES

A new autonomous State of Meghalaya within the State of Assam was created with effect from 2nd April, 1970 in accordance with the provisions contained in the Assam Re-organisation (Meghalaya) Act, 1969, which became a full fledged State on 21st January, 1972 after the passing of the North Eastern Area (Reorganisation) Act, 1971 and AG Assam was entrusted with the audit and accounting of the new state. A new State of Himachal Pradesh was established with effect from the 25th January, 1971 under the provisions of the State of Himachal Pradesh Act, 1970, which was under AG Punjab upto 31st March, 1969. A separate AG was appointed from 1st April, 1969. New States of Manipur and Tripura were established with effect from the 21st January, 1972 under the provisions of North-Eastern Area (Re-organisation) Act, 1971 and the AG Assam and Meghalaya and Nagaland was made responsible for audit and accounting work of the new states.

The most important events during the tenure of Shri S. Ranganathan were the consolidation of audit of revenue receipts, and removal of irritants in dealing with Revenue Department, reorganisation of Commercial Audit offices and formation of Audit Boards for carrying

out appraisals of PSUs and the passing of CAG's (DPC) Act, 1971. These are dealt with in detail in relevant chapters. His relations with Ministry of Finance were cordial and smooth, which he made no secret of while, giving evidence to the Parliamentary Committee on the Bill. What he stated was quite a departure from what his predecessors experienced, while in office and informed the parliamentary Committee. He initiated certain moves to improve the career prospects of all services and cadres in IAAD, most of which were deferred by Govt. of India either because of the CAG's (DPC) Bill, which was in the process of being enacted or the Third Pay Commission's Report, which was on the anvil.

Shri S. Ranganathan relinquished office on 26th March, 1972, 4 months and 19 days earlier than the scheduled date of termination of his tenure, since he felt that after the CAG's (DPC) Act, 1971 came into force, the new CAG should assume charge. The tradition of the CAG assuming charge on 15th August after termination of six years' tenure was broken and from 1972 onwards the new CAG assumed charge on 27th March, instead of 15th August of the year. After his retirement he became a member of Rajya Sabha. He was also Chairman, Indian Red Cross Society and President of TB Association of India.

CAG'S ACT, 1971

ACCOUNTS

CAG was responsible for compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the Audit and Accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts and for keeping such accounts in relation to them as may be necessary. The existing arrangements for compiling the accounts of any particular service or department of the Union or of a State, or for keeping the accounts of any particular class or character was continued. He was required to prepare the Accounts (including Appropriation Accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State and of each Union Territory having a Legislative Assembly, from the accounts compiled by him and submit to the President or the Governor of a State or Administrator of the Union Territory having a Legislative Assembly, as the case may be, on or before, such dates as he may, with the concurrence of the Government concerned, determine. In so far as the accounts compiled or kept by him, he was required to give to the Union Government, to the State Governments or to the Governments of Union

Territories having Legislative Assemblies, as the case may be, such information as they may, from time to time, require, and render such assistance in the preparation of the annual financial statements, as they may reasonably ask for. The accounting functions conferred by the Act were more or less identical to what were entrusted to him under AA Order 1936.

AUDIT

CAG's duty was to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conformed to the authority which governs it; (b) to audit all transactions of the Union and of the States relating to Contingency Funds and Public Accounts; (c) to audit all trading, manufacturing, profit and loss accounts and balance-sheets and other subsidiary accounts kept in any department of the Union or of a State; and in each case to report on the expenditure, transactions or accounts so audited by him. The scope of audit of all expenditure from the Consolidated Fund of India and the states, including Union Territories, all the transactions of the Union and of the States relating to contingency funds and Public Accounts and the Commercial accounts kept in any Department of the Union or of a State was Comprehensive and total as also the right to report to Parliament, or state legislatures on the expenditure, transactions or accounts so audited by him. Whatever inhibitions, prohibitions and constraints imposed by AA Order 1936 - not already dispensed with in conformity with Article 149 of the Constitution but practised by virtue of the earlier directions and instructions in the old Codes and Manuals, disappeared altogether.

Audit of all receipts and expenditure of a body or authority substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly was entrusted to him subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, along with the report on the receipts and expenditure so audited by him. Where the grant or loan was not less than Rs. 5 lakhs, which was not less than 75% of the total expenditure of that body or authority, such body or authority was deemed to be substantially financed by such grants or loans as the case may be. He was authorised to scrutinise the procedures by which the sanctioning authority satisfied itself as to the fulfilment of the conditions subject to which grants or loans for any

specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body were given and was given the right of access, after giving reasonable previous notice, to the books and accounts of that authority or body. It was open for the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, where he was of opinion that it was necessary so to do in the public interest, by order, relieve him after consultation with him, from making any such scrutiny in respect of any body or authority receiving such grant or loan. His right of access to the books and accounts of any corporation to which any such grant or loan was given was subject to specific authorisation, where the law under which such corporation was established provided for audit of the accounts of such corporation by another agency. Any such authorisation was made after proposal to give right of access to its books and accounts was made after consultation with CAG and after giving the concerned corporation a reasonable opportunity of making representations. This was a new function, though limited in scope and coverage; yet, a large chunk of moneys released from the Consolidated Fund of the Union or States kept outside the purview of CAG's audit was brought under his audit jurisdiction by these new provisions.

The CAG was vested with the duty of audit of all receipts payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly, to satisfy that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

The audit of revenue receipts taken up by the CAG since 1960 based on a broad interpretation of Article 151 of the Constitution but not supported by the AA Order 1936, as adapted by the Constitutional order issued later, gained necessary statutory backing by these provisions. What was done by consent or courtesy for nearly half a century in the country was provided for legally and comprehensively in the Act. The authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State was also vested on him. This was a new function, which was conspicuous by its absence under the earlier order.

In the performance of the duties entrusted to CAG under this Act, he was given authority (a) to inspect any office of accounts under the control of the Union or of a State, including treasuries as such offices responsible for the keeping of initial or subsidiary accounts as submit to

him, (b) to require that any accounts, books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection, (c) to put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare. It was incumbent on the part of the person in charge of any office or department, the accounts of which have to be inspected and audited by CAG, to afford all facilities for such inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. The right of access to offices, accounts, books, papers and connected documents was complete and unhindered. The inherent right vested with Government to certify expenditure as secret and deny files deemed secret was given up - although, *defacto*, the pernicious practise of the imperial Government had long been dispensed with. There was no implied or explicit provision to fetter his right or discretion in the matter of auditing and reporting.

The duties and powers vested in the CAG under the provisions of the Companies Act, 1956 (1 of 1956) with regard to the audit of the accounts of Government companies performed and exercised by him were incorporated in the Act. What was already obtaining since 1956, which had grown and developed into a major function of the CAG, was incorporated and audit of the accounts of the corporation under any law made by Parliament or State Legislature was reinforced by the Act.

The Act made provisions to entrust the audit of the accounts of a corporation established by law made by the Legislature of the State or of the Union Territory to the CAG in consultation with him by the Governor or Administrator of U.T. and assured the right of access to the books and accounts of such corporation. Also, provision for entrusting audit of accounts of certain authorities or bodies on request of President, or the Governor of a State or the Administrator of a Union Territory on such terms and conditions, as may be agreed upon between him and the concerned Government, with right to access to the books and accounts of that body or authority, after consultation with the CAG was made in the Act. Provision was also made for CAG to propose to the President or the Governor of a State or the Administrator of a Union Territory to authorise him to undertake the audit of accounts of any body or authority, which has not been entrusted to him by law, if he was of opinion that such audit was necessary because a substantial amount has been invested in, or advanced to, such body or authority by the Central

or State Government or by the Government of a Union Territory having a Legislative Assembly, and the President or the Governor or the Administrator may empower the CAG to undertake the audit of the accounts of such body or authority, if it was expedient to do so in the public interest and after giving a reasonable opportunity to the concerned body or authority to make representations with regard to the proposal for such audit.

DELEGATION OF POWER

The CAG was empowered to delegate any power exercisable by him under the provisions of the Act, or any other law to any officer of his department as may be authorised by him in his behalf by general or special order. However, except during the absence of the CAG on leave or otherwise, no officer shall be authorised to submit on behalf of the CAG any Report which he is required by the Constitution or the Government of Union Territories Act, 1963 (20 of 1963) to submit to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be. Necessary rules for carrying out the provisions of the Act in so far as they relate to the maintenance of accounts was to be made by the Central Government after consultation with the CAG, by notification in the Official Gazette. Those rules may provide for the manner in which initial and subsidiary accounts shall be kept by the treasuries, offices and departments rendering accounts to audit and accounts offices, the manner in which the accounts of the Union or of a State or of any particular service or department or of any particular class or character, in respect of which the CAG has been relieved from the responsibility of compiling or keeping the accounts, shall be compiled or kept, the manner in which the accounts of stores and stock shall be kept in any office or department of the Union or of a State, as the case may be, and any other matter which is required to be, or may be prescribed by rules.

Every such rule shall be laid, as soon as may be after it was made, before each House of Parliament, while in session, for a total period of thirty days, which may be comprised in one session or in two or more successive sessions and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rules should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

Power to make regulations: The CAG was authorised to make regulations for carrying into effect the provisions of the Act in so far as they related to the scope and extent of audit, including laying down for the guidance of the Government Departments the general principles of Government Accounting and the broad principles in regard to Audit of receipts and expenditure. Although such a provision existed even under AA Order 1936, considering the attempts of Finance Ministry officials to provide for such rules being made in consultation with the President or to be laid before Parliament, the provision assumed importance. Despite its inherent draw backs - mostly arising out of the non-acceptance of the suggestions made by the CAG and few members of Parliament - it was a great improvement on the provisions of AA Order 1936, more or by in tune with the letter and spirit of the Constitution.

Although the Act took 20 years to be inserted in the statute Books of the country, it took only four years to amend it to relieve CAG of one of his major functions relating to Govt. of India.



Fig. 4.4: Shri S. Ranganathan 15-8-1966 to 26-3-1972



Fig. 4.5: Shri A. Baksi 27-3-1972 to 26-3-1978

LIST OF ABBREVIATIONS

1. AA Order 1936	— Audit and Accounts Order 1936
2. AC(Budget)	— Assistant Comptroller and Auditor General (Budget)
3. AC(P)	— Assistant Comptroller and Auditor General (Personnel)
4. AP	— Andhra Pradesh
5. BR&S	— Budget Research and Statistics
6. CA	— Commercial Audit
7. CAG(DPC) Act	— Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act, 1971
8. COPU	— Committee on Public Undertakings.
9. DD(R)	— Deputy Director (Railways)
10. DRA	— Director of Revenue/Receipt Audit
11. GE	— Gazetted Establishment
12. ICS	— Indian Civil Service
13. LIC	— Life Insurance Corporation
14. NGE	— Non-Gazetted Establishment
15. OE&Admn.	— Office Establishment and Administration
16. O&M	— Organisation and Methods
17. PEPSU	— Patiala and East Punjab States Union.
18. RA	— Railway Audit
19. R&I	— Receipt and Issue
20. SAIs	— Supreme Audit Institutions
21. TA	— Technical Administration.
22. U.T.	— Union Territory
23. WB	— West Bengal

SOURCE AND REFERENCES

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5 Constitutional Changes

NEW CAG

Shri A. Baksi assumed charge as CAG of India on 27th March, 1972, and brought his varied, and rich experience both in Government and outside for over 34 years to the new office. He had joined the IAAS on 14th July, 1939 and worked as AAG/DAG/Examiner till 1945, when he was deputed to the Government of India as AFA/Under Secretary and was appointed to the Finance and Commerce Pool in 1946. He worked as AFA/DFA (Food), OSD Ministry of Commerce, Trade Commissioner for Australia and Newzealand, Financial Adviser to the High Commission, United Kingdom, Joint Secretary Ministry of Finance, Department of Economic Affairs, Chairman IFC, Dy. Governor Reserve Bank of India and was Secretary to the Government of India, Ministry of Finance, Department of Banking, in which capacity he was instrumental in processing the bill for nationalisation of banks. He was the last officer of the Finance and Commerce Pool to become the CAG and his rich and varied experience brought a new outlook to bear on the office.

He had five DAIs during his tenure - Shri P.K. Rau upto 15th June, 1973 Shri R.K. Khanna from 16th June 1973 to 22nd May 1974, Shri H.B. Bhar from 23rd May, 1974 to 31st December, 1976, Shri R.P. Ranga from 1st January, 1977 to 31st July, 1977, and Shri Y. Krishan from 1st August 1977 onwards.

Shri H.B. Bhar joined IAAS on 4th September, 1944 and worked as AAG Bengal, Uttar Pradesh, DAG, UP, Dy. Chief Auditor, Eastern Railway, Assam Railways, AC(P), DAG, Madras and DDADS, Puna. He was promoted to the Comptroller's grade on 17th February, 1955 and posted as CA, Central Railways. He worked as Dy. Secretary, Finance Commission from May 1956 to October 1957. He was Principal IAAS Training School from December 1957 to March 1958. He worked as AG, J & K, Gujarat, Andhra Pradesh, Posts and Telegraphs and UP till 1968, when he became ADAI (Report). He was ADAI (Railways) from June 1973 to May 1974, when he became DAI. He went on leave from 4th September, 1976 and retired on 31st January, 1978.

Shri Y. Krishan joined IRAS on 23rd September, 1944 and came on deputation to IAAD on 20th January, 1946. He worked as Sr. DAG, Rajasthan and became Comptroller Kerala in June 1957. After working as AG, Madras, Punjab, P&T, he proceeded on deputation in August 1966 to NCDC and returned in September 1968 as AG UP. He went again on deputation to Government of India in April 1969 as FA, Department of Supply, Industrial Development, Shipping and Transport and returned in

May 1972, when he became ADAI (Revenue Audit). He became DAI from April 1977 and retired in February 1980. He has written a number of articles in history, art, religion and philosophy.

DISPOSITION OF THE DEPARTMENT

In 1973, the total strength of the IAAD was 61,133 - 557 IAAS Officers, 1847 AOs, 7152 SOs, 22 DAs, 35208 Auditors/SG Auditors, 610 Stenos, 8578 Clerks and 7159 Group D. The disposition was—CAG's office 770 (42 IAAS, 58 AOs, 149 SOs, 202 Auditors/SG Auditors, 107 Clerks, 52 Stenos, 10 others and 150 Class IV), Civil Audit and Accounts offices 47,323 (384 IAAS, 1376 AOs, 5575 SOs, 22 DAs, 28,794 SGAuditors/Auditors, 413 Stenos, 83 others 5351 Clerks and 5325 Class IV), P&T Audit and Accounts offices 8606 (42 IAAS, 170 AOs, 678 SOs, 4172 SG Auditors/Auditors, 2112 Clerks, 48 Stenos, 505 others and 879 Class IV), Commercial Audit offices 1124 (29 IAAS, 101 AOs, 224 SOs, 379 SG Auditors/Auditors, 142 Clerks, 31 Stenos, 218 Class IV), Railway Audit offices, - 2474 (44 IAAS, 98 AOs, 381 SOs, 1277 SG Auditors/Auditors, 213 Clerks, 47 PAs, 1 other and 413 Class IV), Defence Audit offices, 836 (16 IAAS, 44 AOs, 145 SOs, 384 SG Auditors/Auditors, 54 clerks, 19 Stenos and 174 Class IV).

The expenditure incurred in 1973-74 was Rs. 3683.64 lakhs (Rs. 56.91 lakhs in CAG's office, Rs. 3583.40 lakhs in Civil Audit & Accounts offices and Commercial Audit offices, Rs. 607.05 lakhs in P&T Audit and Accounts offices, Rs. 163.10 lakhs in Railway Audit offices).

CHANGES IN FIELD OFFICES

The efficacy of the scheme of Additional AG was discussed in the AG's Conference held by Shri A. Baksi in April 1974, when the positioning of an Additional AG, along with the AG under the same roof was not favoured, as it presented various organisational, administrative, management and even personal problems between the senior members of IAAS, which seldom were susceptible of solution by a central control away from the arena of activity. The consensus was to augment supervisory charges by including more Sr. DAG/DAG and bifurcate large offices into two or three offices, depending on the size and strength, locational and functional jurisdiction. All along, the field offices dealing with the audit and accounting of the transactions of the State Government were centred around a single Accountant General, who was solely responsible for the management of the office. Creation of more than one AG, without impairing the whole image, overall duties and functions and above all unity and control was the new concept developed and improved during his tenure.

Sikkim, which was a protected state, became 22nd State of the Indian Union after the passing of Constitution (36th Amendment) Act, 1975 on 26th April, 1975 and came under the audit jurisdiction of AG Central, Calcutta.

The branch office of the Accountant General, Maharashtra at Nagpur was placed under an independent Accountant General, who functioned as a sub-accounting and sub-audit officer to the Accountant General, Maharashtra-I in respect of the transactions of the Government of Maharashtra, dealt with by him. Reorganisation of the offices of the Accountants General, Tamil Nadu, Madhya Pradesh and Bihar, into two independent offices, each under an Accountant General, by division of work between the two offices on a departmental basis, was implemented. This was different from the scheme adopted for the reorganisation of the offices of the Accountants General, Uttar Pradesh and Andhra Pradesh, which was on a functional-cum-departmental basis. Under this scheme, the second office under an independent Accountant General was formed by transferring all work connected with the audit and accounting of transactions of a few departments of the State Government. Each office had a strength of not less than 1000 and one office was smaller in size than the other by about 200 to 300 and the 'Additional Accountant General' scheme was continued in the bigger of the two offices. The supervisory charges were also reorganised on a departmental basis, thus breaking from the traditional distribution of supervisory charges on a functional basis. The Sr. DAG or DAG in charge was designated by the departments under the charge entrusted to each combination of allied functions, whether in the departmental audit/compilation group or gazetted audit group or provident fund or pension reporting group relating to the departments under the charge, except local inspections, which enabled the group supervisory officers to get to know all about the working of the departments under their charges. They were identified by the major departments of the Government under their charge, which facilitated contact with concerned departments to settle their problems whether concerning accounts, personal claims, provident fund, pensions or audit objections. In all these reorganisation schemes, the organisational set up of the sections continued to be on a functional basis, that is, the sections were organised into departmental audit sections, departmental compilation sections, gazetted audit sections, works audit sections, forest audit sections etc. The second Accountant General functioned as a sub-audit and sub-accounting officer to the first Accountant General in respect of the transactions of the State Government under his charge.

By March 1975, the number of offices increased to 32 and the total strength was 66,911 - 3095 officers and 63,816 staff. The disposition was

(i) Civil Audit and Accounts offices 52796 (517 IAAS, 1945 AOs, 7069 SOs, 24 DAs, 30,680 SGAuditors/Auditors, 5864 clerks, 543 PAs, 90 others and 6064 class IV), (ii) Railway Audit offices 2598 (41 IAAS, 119 AOs, 429 SOs, 1209 SGAuditors/Auditors, 202 clerks, 66 PAs, 1 other and 431 class IV), (iii) P&T Audit and Accounts offices 9224 (39 IAAS, 191 AOs, 787 SOs, 4510 SG Auditors/Auditors, 2216 clerks, 55 PAs, 555 others and 871 class IV), (iv) Defence Audit offices 952 (19 IAAS, 60 AOs, 174 SOs, 425 SGAuditors/Auditors, 58 clerks, 25 PAs and 191 class IV) and (v) Commercial Audit offices 1341 (40 IAAS, 124 AOs, 280 SOs, 435 SGAuditors/Auditors, 159 clerks, 42 PAs, and 261 class IV).

The expenditure in 1974-75 was Rs. 4742.33 lakhs - CAG's office, Rs. 76.16 lakhs; Civil Audit and Accounts Offices including offices abroad, Rs. 4430 lakhs; P&T Audit and Accounts offices, Rs. 742.52 lakhs; Railway Audit offices, Rs. 195.72 lakhs; Defence Audit offices, Rs. 79.17 lakhs; Commercial Audit offices, Rs. 122.35 lakhs; and other expenditure Rs. 5.43 lakhs and charges and fees recovered amounted to Rs. 909.68 lakhs.

PROPOSAL FOR SEPARATION OF ACCOUNTS

A group of Ministers on Administration set up by Government of India in January 1973 to recommend changes required to improve administrative performance, in relation to the requirements of the Fifth Plan had set up a Study Group* to assist and advice them in the area of financial administration, who submitted their report on 14th August, 1973. These were considered by the Cabinet, which accepted certain recommendations for implementation straightaway and identified certain others to be implemented after detailed discussion, for which an action programme was to be drawn-up in a phased manner for implementation. The introduction of a management accounting system in each department, which in effect meant separation of accounts from audit and its integration with the Ministries/Departments, to provide the required inputs and to form an accounting system for sound financial

* The Study Group was set up on 27th February, 1973 and its members were (1) Shri M.R. Yardi, Secretary, Ministry of Finance, (2) Dr.V.A. Pai Panandikar, Member, National Institute of Bank Management, Bombay, (3) Shri T.P. Singh, Secretary, Ministry of Agriculture, (4) Shri R.V Raman, Secretary, Ministry of Industrial Development, (5) Shri G.V.K. Rao, Development Commissioner and Special Secretary to Government, Planning and Agricultural Production, Government of Mysore, Bangalore, (6) Shri C.P. Srivastava, Chairman and Managing Director, Shipping Corporation of India (Ltd.), Bombay (7) Shri J.S. Baijal, Joint Secretary, Ministry of Finance (Department of Economic Affairs), and (8) Shri M. Gopal Menon, Additional Secretary, Department of Personnel and Administrative Reforms - Convenor.

management, at all levels, was the most important and far-reaching structural and procedural change to be processed after discussion with the authorities concerned in a phased manner. The Finance Secretary sought on 31st May, 1974, the considered views and suggestions of the CAG on the proposed reform - not only to meet the constitutional and other statutory requirements to consult him on such a far-reaching measure but also to obtain his assistance in implementing the recommendations.

The salient features of the proposed management accounting system were (i) to vest the Internal Financial Adviser (IFA) of a Ministry the responsibility for preparation of complete accounts to be discharged through Principal Accounts Officer (PAO), (ii) suitable upgradation of the status of IFA, sub-division of the attached and field formations of a Ministry into accounting circles corresponding to viable operational formations to be in charge of a Financial Officer of status appropriate to the nature and volume of activities, with one or more pay offices manned by qualified and trained accounts staff linked to the public sector banks, who would perform the functions of the existing accounts sections of field offices and treasuries including detailed classification and compilation of initial accounts, under the functional control of the PAO and the administrative control of the Chief Executive authority at each level, (the manner in which accounts were to be maintained, compiled and furnished to the CAG was to be decided in consultation with him), (iii) procedural reformations to facilitate linking of accounts with performance budgeting for financial control and performance appraisal by the Ministry and at all levels below to be prescribed by the Ministry, (iv) setting-up of internal audit under the Secretary of the Ministry to make it really effective and facilitate its operations in full dialogue with the Executives involved at various levels, (v) evolving systems and procedures for Pay and Accounts Officers who would centrally compile all the accounts and render them to the CAG and to the appropriate administrative authorities, and (vi) computerisation of operations, final aggregation and consolidation of accounts by the CAG in the new system and creation of new cadres for finance, accounts and internal audit.

The advantages of the proposed system claimed were that it was designed to implement the principle that accounting should be an aid in the real sense of the term to the Management, at all levels and formations subordinate to the Ministry, which would be provided with financial assistance and advice, eliminate the prevailing duplication of accounting work in the departments and audit offices, which would be substituted by a more cost effective arrangements to ensure speedy settlement of all claims of employees of all categories, facilitate speedy

rendition of accounts by the CAG under the system of centralised compilation of accounts, provide necessary inputs to the management information system for financial and performance appraisal and ensure independent, effective and efficient internal audit of transactions. Some increase in expenditure for creating separate formations was anticipated but the benefits expected to be derived from the accounting system were held to be substantial to compensate the additional expenditure. The design, though intended for the Central Government was capable of adoption without major modifications in the States eventually along with the staff from the CAG's organisation.

CAG'S RESPONSE

Shri A. Baksi informed Shri H.N. Ray, Finance Secretary on 7th April, 1975, that considering the varying opinions expressed in the past and the historical continuity of CAG as an instrument of the Constitution, he hesitated initially to give any official view in an emphatic manner but chose to give his comments as an individual in the light of his experience in the past three years. In view of the increasing compass and quantum of the accounting and entitlement functions, and consequent pace of proliferation of personnel, which often necessitated reduction of audit requirements to meet the pressing demands of the entrusted functions, and since in no large or important country with well organised Government the same authority performed both the accounting and audit work, he would feel relieved, if the accounting and personal claim settlement functions were taken away along with the personnel, but he doubted its feasibility in the current, social, political, economical and administrative situation of the country. Possibility of States emulating the Centre in taking over of accounts, practicability of transferring large number of personnel to the administrative agencies of the Central and the State Governments in the prevailing atmosphere of smouldering discontent and unrest among them, due to fall in their emoluments after the implementation of the recommendations of the Pay Commission, the risk of endangering his constitutional responsibility to audit and report promptly, both in the Centre and States, were few of the problems likely to be faced in implementing the proposed reform, although he had serious doubts on achieving speedy compilation and finalisation of correct accounts and the feasibility of the various agencies furnishing the detailed classification and compiled accounts to CAG to enable him to consolidate them finally. An objective assessment of the efficiency of the already separated accounts offices and based on the results of such a study, the gradual expansion of separation at the Centre with all necessary safeguards in advance to ensure that the work of audit and

reporting did not suffer or exploring the possibility of the administrative authorities themselves looking after the entitlement functions could be considered. Finally, if separation must be done, it must be preceded by a very detailed and careful planning of the necessary organisational set-up with utmost prudence, and requisite assistance was promised by him. These were discussed at a meeting with the Finance Secretary, when the CAG pressed hard to examine and consider the various alternatives to separation proposed by him and the Finance Secretary endeavoured to discuss the *modus operandi* for speedy implementation of Cabinet decision for departmentalisation of accounts.

FINANCE MINISTER'S INTERVENTION

The Finance Minister took a meeting two months later, which was attended by CAG and his senior officers, where it was decided to separate accounts in a phased manner with adequate co-operation and involvement of CAG, to develop initially a management accounting system in the organisation of the Chief Pay and Accounts Officer by the Finance Secretary in consultation with Secretary concerned and CAG for drawing up necessary action programme, to adopt the modalities for separation as suggested by CAG by constituting high powered committee for separation of accounts from audit in the Ministries concerned. In the Ministry of Communications (Posts and Telegraphs Board), the committee was to consist of Senior Member (Finance), Senior Member (Admn.) of the Post and Telegraphs Board, a Senior Officer of the Ministry of Finance and representatives of the Department of Personnel and Administrative Reforms and a CAG's representative. In the Ministry of Industry and Civil Supplies, the Secretary, Department of Industrial Development, CAG's representatives and a Senior Officer of the Ministry of Finance were to constitute the Committee. A similar committee was to be formed in the Ministry of Tourism and Civil Aviation. The form and structure of Government accounts recently revised after a very elaborate consideration by a Committee was to be examined for suggesting changes, if any, to use them for performance budgeting or management accounting. In the matter of initiating action for innovations in accounting and allied matters, CAG made it clear that it would not be possible for him to delegate *abinitio* to any officer of his organisation responsibility to take decisions on his behalf on vital issues, since he, as an individual, could be questioned and has to bear full responsibility for decisions on them and his suggestion that proposals for any major innovations should first be discussed with him by the Finance Secretary and Secretary (Expenditure), was agreed to. In order to clear the conceptual discrepancy between what was officially written to him by

the Expenditure Secretary and what was revealed during discussions with the Finance Secretary a year later, the CAG desired to see papers leading to the Cabinet decision. On going through them he informed the Finance Secretary that the Cabinet had only approved further processing of the recommendation of the sub-group regarding introduction of Departmentalised Accounting System and connected issues, which has to be examined in detail by the Expert-Group, on which he should be represented and the earlier impression given to him that the Cabinet had taken a definitive decision was not in accordance with facts contained in the papers. However, the Finance Secretary explained that there was no conceptual misunderstanding and the Cabinet approved broadly arrangements for an accounting system fully integrated with the Management Information System, which was to be further processed, in consultation with the CAG, which was a constitutional requirement, with the approval of the President and reference back to the Cabinet would be necessary only if substantial changes were considered necessary. He also disclosed for the first time that the Prime Minister had minuted, on 25th July, 1975 that the progress was not at all satisfactory and told the Finance Minister to speak to the CAG, who had not given his views even after 10 months, not to delay further. Not only the mist of conceptual discrepancy evaporated but the pace of implementation of the scheme for departmentalisation of accounts gathered new momentum. Time lost - nearly 14 months after initial communication of the decision on reform and subsequent correspondence, though belated, could have been used with advantage in drawing up the scheme of separation, which was hurriedly done in later months to catch up with an emergency schedule of implementation.

CABINET APPROVAL

The Cabinet Committee on Administration had approved the scheme for Departmentalised Accounting System in its meeting held on 28th June, 1975, and further processing of the recommendation for departmentalisation of accounting in consultation with the CAG, but suggested implementation to be phased over a period of time and appointment of an Officer on Special Duty, who is an *aufait* with accounts as well as administration to coordinate and supervise the work on a whole-time basis. Shri B. Maithreyan was appointed who pushed the phased programme with great zeal and drive. The Finance Minister took a second meeting on 19th December, 1975 where it was decided that departmentalisation of accounts in the Ministry of Communication (*i.e.* the Postal Department), Ministry of Industry and Civil supplies and Ministry of Tourism and Civil Aviation from 1st January, 1976 and all

other Ministries on 1st October, 1976 will be implemented. The Finance Minister decided that the rules for the transfer of personnel could be framed under Article 309 read with Article 148(5) of the Constitution, which could spell out the general principles/basis for transfer and provide for protection of existing scales of pay of posts held by an individual on regular basis and *inter se* seniority of transferred personnel. Rules should contain general principles for common applicability to all departments and thereafter it can be in two parts, the first one dealing with separation of Postal Accounts and the peculiar features resulting therefrom and second part dealing with other departments. An Inter-Departmental Group was to draft the rules in consultation with Shri K.K. Sundaram*. They could be placed on the Table of the House and sometime secured for discussion in Parliament. Subsequent events moved smoothly, especially after the meeting of the CAG with Prime Minister, of which no notes were left by him.

PRESIDENT'S ANNOUNCEMENT

The address of the President to Parliament on 5th January, 1976, referred to the decision taken by Government to introduce a comprehensive scheme of reform in Financial Administration and to instal a system of departmentalised accounting by separating accounts from audit during the current year. The Finance Minister wrote to all the Ministers of the Central Government on 19th January, 1976 regarding modalities evolved to implement the decision to take over accounting functions hitherto performed for the civil Ministries by Indian Audit and Accounts Department, alongwith some personnel on a permanent basis so as to ensure that there was no dislocation in compiling the accounts and also to avoid redundancy, development of management accounting system suited to the requirement of each Ministry/Department, the salient features of Departmentalised Management Accounting System and the expected advantages of the proposed reforms and the organisational arrangements proposed to be made, as also the personnel requirements to man the new scheme. While presenting the Budget for the year 1976-77, the Finance Minister announced the impending separation of accounts**.

"Government recognise that if the process of development is to be speeded up and plans and programmes are to be properly implemented, some basic changes are also necessary in the field of financial administration. The existing system under which accounts are maintained

* Secretary (Legislative Department), Ministry of Law.

** Speech of Shri C. Subramaniam in the Lok Sabha dated 15th March, 1976.

by an agency external to the Ministries and Departments is not conducive to effective financial management. Accounts and Finance should form an integral part of overall management and should play a more meaningful and effective role in selection of projects, allocation of funds, monitoring of expenditure in relation to physical progress, and evaluation of results. In order to integrate accounts with administrative Ministries and Departments, it is proposed to separate accounts from audit and instal a Departmentalised Accounting System. The process of this separation is scheduled to be completed by 1st October, 1976 for all Central Ministries. Under the new scheme, Administrative Ministries will take full responsibility for arranging payments, and timely compilation and rendering of accounts. This reform will facilitate the timely receipt of information on the progress of expenditure, and enable a proper analysis of expenditure trends to be effected. There can be little doubt that this flow of information will greatly facilitate the taking of correct decisions, and the adoption of remedial measures wherever called for. Since these changes are fundamental, and of a magnitude unprecedented in the annals of Indian Administration, care has to be taken to ensure that during the transitional phase, there is no dislocation either in payments or in accounting procedures. Hon'ble Members are doubtless aware that the President has promulgated two Ordinances to achieve these objectives, and to ensure that the necessary expert manpower is available to the Government for discharging the newly acquired responsibilities. In doing so, every care will be taken to see that minimum hardship is caused to the employees, and that the Comptroller and Auditor General is able to discharge his constitutional responsibilities effectively and without disruption. He is fully associated with the reforms and all measures have been taken in close consultation with him.

"Government also attach great importance to the rationalisation and modernisation of procedures relating to the personal claims of Government servants and transactions with members of the public. The existing procedures in regard to pension, gratuity and drawal of salaries of Government officers have been reviewed in depth and a number of steps have been taken to eliminate existing delays in the preparation of pension papers and sanctioning of pension and gratuity. Procedures for payment of salary and allowances of Gazetted Government servants have also been simplified. It is proposed to utilise nationalised banks for financial transactions between Government, its employees and private citizens. The new system will be a considerable improvement over the existing system where such transactions can today be made only at a limited number of treasuries or banks."

AMENDING ACT

The Minister of Finance introduced a Bill on 23rd March, 1976 to amend the CAG's (DPC) Act, 1971 and a Bill to provide for the transfer of officers serving in the IAAD to any Ministry/Department or Office of the Central Government to facilitate efficient discharge by such Ministry, Department or Office of the responsibility in connection with completing the accounts. A statutory resolution seeking disapproval of the CAG's (DPC) Act Amendment Ordinance 1976 and CAG's (DPC) Act Amendment Bill was moved by a member* by stating *inter alia* that it was absolutely unnecessary to have promulgated the ordinance on 1st March, when Parliament was scheduled to meet on 8th March and enquired whether under Section 19(1)(a) of the Act, CAG has been consulted, and if so, what was his reaction and asked for the results of the transfers made earlier, savings bank and telecommunication accounts in the P&T Department and pay and accounting work in the Rehabilitation and Supply Department before extending the scheme to other Ministries. The Deputy Minister§ in the Ministry of Finance, moved the bill to amend the CAG's (DPC) Act 1971 by stating that the separation of accounts from audit with a view to integrating the accounting set-up with the Administration/ Ministry/Department was visualised even in 1971, when the CAG's Act was passed and the proposed separation was a part of an overall scheme of reform in financial administration to be implemented in 1976-77 and the amendment of proviso to Section 10(1) of the Act was intended to replace the ordinance and the new amendment to clause 3 was to relieve the CAG of the responsibility for preparation of annual Finance Accounts and their submission. Separation of accounts from audit was a means to an end and would remedy the existing lacunae arising out of the externality of accounts and would aid cost effective management at all levels and eliminate duplication in accounting work. Shri H.N. Mukherjee, the then Chairman of the PAC, sensed a certain danger to the democratic working of the Parliament in bringing out in hasty manner an important legislation with far-reaching implications, which has been hanging fire for more than 50 years and on which more than three Auditors General had expressed strongly against and also the Administrative Reforms Commission, which had recommended *status quo*. He felt that the centralised authority like CAG will be handicapped in the performance of his functions and the Bill compartmentalised the existing expertise without strengthening audit. The Parliament should know the CAG's specific views on the

* Shri Dinen Bhattacharya.

§ Smt. Sushila Rohatgi.

proposed measure. The PAC was not consulted and the bill should go to a Select Committee with direction to report expeditiously so that the pros and cons will be looked into in detail and in depth before the proposed Legislation was enacted. The Minister of Works, Housing and Parliamentary Affairs clarified the need to enact the Bill by the Parliament within six weeks. Shri O.V. Alagesan felt that it was sought to be done without any cogitation and supported Shri Mukherjee's views and suggested introduction of the experiment in three Ministries rather than whole-sale separation during the year. Shri Somnath Chatterjee said that the measure was being rushed through in an atmosphere shrouded in mystery in a hush-hush manner. Shri S.R. Dhamani, countered by stating that Government was not rushing through the Bill and the intention was to bring about more efficiency in Administration. Shri G. Vishwanathan, wanted the bill to be referred to a Select Committee. Shri B.V. Naik wanted the Bill to be viewed in a proper perspective on a matter which has been engaging the attention of the politicians, experts, accountants and civil servants for over 45 years and cannot be expected to come most correct, precise and exact but was a measure to modernise the system. Replying to the debate, the Finance Minister stated that the Bill involved a basic principle affecting the whole Government machinery and the CAG will be involved in accounting matters as provided for in Article 150 of the Constitution and was intended to improve the accounting, information system and budget making processes and financial management. Earlier, the JPC had already gone into the question of separation and has accepted the principle and the only change made was to provide for the President's consent before the separation in the States to retain the control of the Government of India. Not much extra expenditure was expected to be incurred by the proposed reform. The motion to disallow was negatived. In the Rajya Sabha Shri S. Ranganathan, the former CAG, felt that the conditions under which the proposed reforms were to be carried out were not appropriate and was bound to increase the cost of the Administration considerably. It could be confined to one or two departments and then extended to other Departments, instead of whole-sale transfer of personnel and suggested a joint cadre of personnel to be administered by the CAG, as mobility of personnel between the two cadres would be found useful and beneficial. The compilation, preparation and submission of accounts proposed to be entrusted to the new functionary, Controller General of Accounts, should be mandatory to be placed before the Parliament. Shri Kalyan Roy, held that the Bill was a sinister piece of legislation, couched in innocent and simple language, which was not logical, rational or fair. It was most arbitrary and both the initiative and presentation smacked of

arrogance and was definitely derogatory to the democratic convention developed in the last 25 years and suggested that it may be referred to Joint Select Committee. Shri Jagannath Bhardwaj saw more efficiency in the new system, which should facilitate more intelligent audit in future. Shri G. Lakshmanan suggested that the bill should be referred to the Select Committee. Dr. K. Mathew Kuriyan opposed the Bill as a retrograde and sinister measure and the break-up of the nexus between the Audit and Accounts was meant to cut at the very roots of the powers of the PAC and Parliament. The Dy. Minister denied either *mala fide* or hurry or any motivation to whittle down PACs or erode the power of Parliament. Separation was based on the recommendations made by the PAC and Estimates Committee earlier. Such a system has worked well in developed countries and she saw no reason why it should not work in this country. Committees had already been appointed for allocation of officers and staff to be transferred to the Departments. Pressed by Shri Bhupesh Gupta, Dr. K. Mathew Kuriyan and Shri Lok Nath Mishra, as to whether the CAG had agreed or disagreed with the proposed measure, she said that he has been fully associated with the reforms and he was consulted in three cases of separation and he was not opposed to being relieved of the responsibility to keep accounts. The motion seeking disapproval of the Ordinance and the Bill was negatived and the Bill was adopted. Her summing up was the last piece of the act of the drama, which relieved the CAG of the accounting responsibility at the centre. As against total number of 13,362 posts sanctioned for accounts and entitlement work in the IAAD, 12,508 persons were recommended for transfer from the IAAD by the Advisory Committees set up under the departmentalisation of Union Accounts (Transfer of Personnel) Act 1976, although the requirements were worked out as 17,047 posts by Government for the proposed Pay and Accounts offices to be set up. Officers and staff were transferred to the various departments of Government within few months. The CAG of India, both as the Constitutional authority for performing the accounting functions till then, and the head of the Organisation, which transferred such large number of personnel to the various departments, did not choose to explain his own role either for the information of the curious MPs, who had repeatedly questioned the Treasury Benches as to whether he was consulted and actually involved or the puzzled officers and staff of his own Department, despite all the provocations, insinuations and temptations in the air involving of the largest migration of officers and staff to other Departments of Government of India. Shri Baksi's role and views on such a vital matter that concerned the IAAD remained shrouded in mystery and mute silence.

Whether it was in the true tradition of a seasoned officer of the Government of India or reflected the temper of the times of emergency, when most of the civil servants talked of committed bureaucracy, is difficult to conjecture.

THE CONTROLLER GENERAL OF ACCOUNTS

Consequent upon the departmentalisation of Accounts of the Ministries and Departments of the Central Government, an Organisation of Controller General of Accounts was created in the Department of Expenditure of the Ministry of Finance who was entrusted with the responsibility for establishing and maintaining a technically sound accounting system in the Departmentalised Accounts Offices, liaising with the Budget Division and the Comptroller and Auditor General of India in accounting matters, and providing necessary directions in accounting matters to the Ministries/Departments and issuing general instructions about the system and form of accounts and procedures for accounting of receipts and payments. The CGA controlled the Cadre of Group 'A' and Group 'B' officers of the Offices under his jurisdiction. A coordinating and innovating role in the introduction of Management Accounting system in the various Ministries/Departments was assigned to him and to facilitate the discharge of that function he was made the Convenor of the Committee under the Chairmanship of the Finance Minister constituted to make recommendations regarding Management Accounting. Coordination with the Ministries in the administration and interpretation of Rules regarding Group 'C' and Group 'D' staff of the Central Civil Accounts Service, holding of departmental examinations to maintain the requisite standard of technical expertise for accounting work in the Ministries and Departments, revising the Treasury Rules, Account Codes and General Financial Rules etc., were his other functions. He was responsible for compilation of monthly Civil Accounts and annual Accounts of the Union Government within the stipulated dates.

NEW ARRANGEMENT

In the Pay and Account set-up, a system of post check by the Accounts Organisation, similar to the post audit conducted in IAAD earlier in respect of transactions of Engineering Divisions and payments made by Drawing and Disbursing Officers vested with cheque drawing powers, was introduced. It was different from the system already operating in the Railways, where all payments including those by the Engineering Divisions and stores offices except those made on muster rolls were subjected to pre-check, which was more effective, which cannot be as

effective as the pre-audit system. Prior to departmentalisation of accounts, the District Treasuries under the State Governments were the primary focal points for payment of all kinds of bills and only the Public Works Divisions had cheque-drawing powers for making payments, which were also drawn on the treasuries and the treasuries exercised certain limited checks on payments made through drawal of bills by the drawing and disbursing officers and the IAAD carried out only the post audit, which was more effective. It was held to be uneconomical and unnecessary on the Civil side. The independence enjoyed by the Divisional Accountants who were earlier under the administrative control of the IAAD was sought to be ensured by placing them under the Integrated Financial Adviser of the Ministry. Even after the departmentalisation of accounts, the *status-quo* regarding the stores accounts and stock verification was maintained and the Executive Officers continued to be responsible for both departments, where large stores transactions took place, like CPWD, Civil Aviation Department, Medical Stores Depots. Under the scheme for departmentalisation of accounts, payments in respect of short term advances were made by the Pay and Accounts offices but the heads of offices were made responsible for watching recovery thereof and maintaining necessary registers and not the separated Pay and Accounts set up. In the National Highways, procedure for local inspection of the accounts of the expenditure incurred was not finalised by the Accounts Organisation nor was any inspection conducted up to January, 1978 and there were no effective post-checks of the accounts and vouchers received from the divisions. A common unit existed for conducting both internal checks and internal audit - both Central check of vouchers, schedules and accounts and local check of initial records, which were complementary to each other, whose functions covered check over the efficiency of the internal check organisation to ensure that the internal checks conducted were according to the rules, to the extent prescribed and were not perfunctory or fictitious. Government decided, in July, 1976 that expenditure on the accounts organisation should be classified under the same minor heads under which expenditure relating to the Ministry/Department to which it was attached was classified and the desirability of booking such expenditure distinctly in the accounts with a view to facilitating management of accounting was pointed out to Government, but was not accepted. The CAG was also not consulted in the matter of classification of expenditure, though the 42nd Amendment to the Constitution, in so far as it related to Article 150, was made effective from 1st April, 1977. Meddling with even the system of processing classification rendered it difficult to work out the cost of

maintaining and compiling the accounts of the Ministries/Departments or for preparing the accounts of the Union Government.

CONSTITUTIONAL AMENDMENTS

The Cabinet Secretariat, Department of Personnel and Administrative Reforms, proposed in January 1976, amendment of Article 150 of the Constitution so as to provide for the form of accounts of the Union and the States to be prescribed by the President, rather than, the CAG, and redesignation of the "CAG of India" as "Auditor General of India", as a follow-up measure of the financial reforms initiated in May 1974, which was sent by the Ministry of Finance to the CAG for his comments on 2nd March, 1976. A reply was sent on 3rd June, 1976 enclosing a factual note and calling for the views of the Ministry of Finance after consulting the Planning Commission to enable CAG to give his comment at the proposal. The note explained as to how the old form of Article 150 did not affect the initiative of the Government to seek necessary changes in the form of accounts. According to Article 150 in its old form and in the form in which it was proposed to be amended, Government as well as CAG would be involved in any decision regarding form of accounts and since there had not been any practical difficulty in the process of consultation between Government and the CAG in the past, there was no necessity for any change. Financial accounting and management information system were two different concepts. The old form of Article 150 could not have stood in the way of any Ministry introducing a management accounting or management information system. By virtue of a convention in vogue since 1938, the CAG could presume approval of the President in prescribing minor heads and detailed heads of account, which he had delegated to the Accountants General for the convenience of the State Governments. If Article 150 was amended as proposed, such a delegation would not be available and the State Governments will have to approach the Government even for making minute change in the form of accounts relating to the States and the Government of India would have to consult the CAG, who in turn would have to obtain the views of the AG, who alone was familiar with the local conditions and local needs, which would render the procedure cumbersome and time consuming. As the States looked to Centre for financial assistance in many areas, it was absolutely essential to maintain uniformity in the form and structure of accounts, and Article 150 of the Constitution, as it stood, facilitated it and if that arrangement was disturbed, the Planning Commission might be consulted for its views. The Finance Minister had, in a statement in Parliament on 25th March, 1976, stated that the form in which the accounts should be compiled was not just left to the will and pleasure of

the Ministry concerned and the CAG was the authority to prescribe the form in which the accounts were to be kept. The parliamentary control over withdrawals from the Consolidated Fund or Contingency Fund, envisaged in Articles 114, 115, 116 and 267(1) was stricter than what it was before commencement of the Constitution and the CAG's (DPC) Act, 1971 made under Article 149 of the Constitution left no scope for any confusion in the minds of Executive as well Audit authorities. It was not correct to state that the designation of Comptroller was rooted in the performance of accounting functions. Retention of accounting functions with the CAG, or their taking over by the Executive has nothing to do with the exchequer control. It was in the context of independent exchequer control that the designation "Auditor General" in the draft Constitution was amended in the final Article to "CAG". The *raison d'être* for the present designation would have, therefore, to be sought in the intention of the Constitution makers in regard to the functions and responsibilities that they had visualised for CAG of India, irrespective of the fact, whether he performed any accounting functions or not. However, the amendment was introduced in the Lok Sabha before the Ministry of Finance received the CAG's reply and the 42nd Amendment Bill of the Constitution containing an amendment of Article 150 of the Constitution came into effect from 1st April, 1977.

In August 1977, the Additional Secretary wrote to the DAI that the Finance Minister has directed that the CAG may be consulted on the question whether the Article 150 as amended should continue or the original provision, whereby the form of accounts should be prescribed by CAG with the approval of the President should be restored to enable him to take a decision in the matter. While reiterating the factual position explained earlier, he was informed that it would be in the national interest for the CAG as an authority independent of the officialdom at the Centre and the States to be vested with the power and responsibility for ensuring uniformity in the accounts by prescribing the form in which they should be kept by the Centre and the States and CAG was of the definite view that Article 150 of the Constitution, amended by the Constitution (42nd Amendment) Act, did not possess any virtue which was not possessed by the Article in its old form. On the other hand, the old form of Article possessed certain conceptual and practical advantages which were valuable and should not have been given up. CAG unhesitatingly favoured restoration of Article 150 of the Constitution in its old form. Meanwhile, there was a change in Government and Shri Morarji Desai became the Prime Minister and a new CAG, Shri Gyan Prakash was sworn in. The new CAG, wrote to the Finance Minister, Shri H.M. Patel, on 8th May, 1978 that it would be

better if Article 150 was restored, as it stood before 42nd Amendment. If Government did not want to restore the original Article, then it was for them to so amend the same as to provide for the decision making at the level of the AG and the Government should retain only in respect of decisions involving policy matters. The suggestion was accepted by the Finance Minister, and the Law Minister, Shri Shanti Bhusan, was requested to process the case further in consultation with the Leaders of Opposition Groups. The 48th Amendment Bill proposed amendment to the Article 150 of the Constitution to substitute the words "with the Concurrence of" by "on the advice of" at the instance of Shri Narendra P. Atwani, which was accepted by the Law Minister. Whether the amendment was due to the change of Government, the erosion of the zeal and enthusiasm in reforms initiated by some political and bureaucratic elements in Government, who were keen to add salt to the wounds already inflicted on the institution of CAG, particularly the incumbent in office or the change of CAG or dawn of reason and sanity to preserve the letter and spirit of the original Article 150 of the Constitution will remain in the realm of conjecture only.

RESTRICTIONS ON ACCESSIBILITY TO FILES

The Ministry of Finance issued revised instructions regarding production of documents to Audit on 25th September 1976,* without even consulting the CAG, that the confidential files containing the views of Government officers at different levels, the Cabinet notes and decisions etc., in the course of formulation of Governmental policies were not covered by the earlier instructions issued in January, 1955 and need not, therefore, be shown to Audit. The OM was endorsed to all Ministries, Departments of Government of India, the Chief Secretaries of State Governments and Union Territories and the Dy. CAG of India. At one stroke, the convention of free access to the Government files, documents etc., allowed to the CAG and the Department was quite closed, despite specific provisions in Section 18 of the CAG's (DPC) Act, 1971, by a strange interpretation of the Constitution and the provisions of the Act by the then Attorney General of India, on which the Minister of State for Law differed but the Minister of Law, Justice and Company Affairs did not express his opinion. That the Finance Minister, Shri C. Subramaniam, who had a long innings as Finance Minister of the Government of Tamil

* MOF (Department of Economic Affairs), New Delhi O.M. No. F. 1/44/B/75 dated 25th September, 1976 addressed to all Ministries, Departments and State Governments and copy endorsed to Dy.CAG and Department of Cabinet Affairs.

Nadu and as a senior Minister in the Government of India had sought the cooperation and assistance of the CAG in the matter of transfer of accounts to the Department did not feel it necessary to consult the CAG on such an important matter concerning the performance of the latter's duties and functions. It was an unfortunate aberration of a sound and fine constitutional system enshrined in the Constitution and practised over two decades. These instructions were applied with alacrity by the State Governments, including those Governments ruled by parties different from the one in power at the Centre, like the Government of Tamil Nadu whose Chief Minister was Shri M. Karunanidhi and Government of Kerala, whose Chief Minister was Shri C. Achutha Menon, was rather strange, which only proved the point, that given an opportunity, subversion of the system to suit the Administration was certain and the innate animus against Audit would find certain committed members of bureaucracy to lend support. Shri A. Baksi became aware of the decision only when his DAI showed him the circular in the normal manner. The new procedure was followed with such alacrity down the line to such a ridiculous extent that when a subordinate formation asked for papers relating to exemption of duties given especially to an aeroplane imported from abroad, the relevant files were refused, which subsequently appeared in one of the evidences given before the Shah Commission. One of the State Governments had even issued orders that files asked for by Audit could be made available only with the approval of Chief Minister himself. Shri A. Baksi was constrained to observe that at this rate refusal of even tender documents relating to contracts was within the realm of possibility.

LIFTING OF RESTRICTIONS

The CAG discussed the matter with the new Finance Minister, Shri H.M. Patel on 30th June, 1977, when the Finance Ministry officials including the Finance Secretary, who had issued the order were present, but the new Finance Minister emphasized that Audit should not be weakened and desired his Ministry to re-examine the matter. The CAG brought to the notice of Finance Minister the observations made by Shri Morarji Desai, the then Deputy Prime Minister, in Parliament on 22nd June, 1967 in reply to a question regarding the CAG's role, reference to which is made in Chapter 17 in volume II. The PAC had observed* "The Committee understand that a healthy convention has been built up in our country for making available to the Comptroller and Auditor General all documents and records relating to any financial transaction of the

* Fourth Report, Third Lok Sabha.

Government. This enables him to properly discharge his constitutional functions. Effective and useful audit may not always be possible by a mere examination of the accounts and subsidiary documents such as vouchers submitted to audit. It is only as a result of the examination of all relevant documents leading to a particular transaction including the sanction that it is possible to arrive at a final audit view in the matter....". In December 1977, the Ministry of Law forwarded a draft statement of the case to be put up to the Attorney General along with the comments of the Cabinet Secretariat and the Ministry of Finance seeking CAG's comments before finalisation of the statement. Shri Baksi was rather taken by surprise since he knew very little of the full facts of the case, since they were only known to the Ministry of Finance. In fact, no precise meanings of the words - 'confidential', 'policy' and 'files' used in the circular have ever been defined and left to the sweet will of the Administration and enquired as to why the new Government had chosen to do nothing at all in substance to remove the obstacles the previous Government suddenly and, entirely of its own, had set up to prevent the CAG from functioning according to the Constitution and the laws. He pointed out to the Finance Minister on 20th March, 1978, just before laying down office that a ban of the type did not operate in democratic countries with written or unwritten Constitutions with which our Constitution has affinities, and requested to consider which should come first, whether a rational reassessment at the appropriate level of the attitude, which the previous Government took up with Audit suddenly without any discussion of the *raison d'être* with the CAG or an elaborate search in blinkers at the departmental level for the possible or impossible nuances of the Executive Government's powers and privileges. The Ministry of Finance issued revised instructions on 23rd September, 1978** restoring the *status quo ante* prior to issue of instruction of 25th September, 1976 and as embodied in the O.M. dated 6th January, 1955.

DEPARTMENT IN 1978

Transfer of accounting functions of the Government of India reduced the strength to 41,297 in 1977-2386 officers and 38,911 staff but the number of offices increased to 36 due to formation of separate offices for certain States, which had hitherto been performed in common offices. Consequent on transfer of accounting functions of the Government of India to the various Departments/Ministries of the Union Government, the offices of AGCR/AGCW&M/AG Central - Bombay and Calcutta were reorganised, which are dealt at length in the chapter on these

** O.M. dated 23rd September, 1978.

offices. A major reorganisation of the Commercial Audit Department was effected in 1978, which increased the offices of MAB & DCAs to eleven. The total strength of the Department in March 1978 was 56707 - 629 IAAS Officers, 2533 AOs, 8819 SAS, 20 DAs, 30570 Auditors/SG Auditors, 6231 Clerks, 704 PAs/Stenos, 111 Other Group 'C' and 7090 Group 'D' distributed over 44 offices.

LIST OF ABBREVIATIONS

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|----|-------|---|---|
| 1. | CGA | — | Controller General of Accounts |
| 2. | CPWD | — | Central Public Works Department |
| 3. | DDADS | — | Deputy Director of Audit, Defence Services. |
| 4. | IFC | — | Industrial Finance Corporation |
| 5. | IFA | — | Internal Financial Adviser |
| 6. | OM | — | Office Memorandum |
| 7. | PAO | - | Pay and Accounts Officer |

SOURCES AND REFERENCES

1. History of Services of Finance, Audit and Commerce & Industry Departments.
2. Budget Documents relating to the year 1976-77.
3. Lok Sabha Debates/Rajya Sabha Debates on CAG's (DPC) Act, 1971 Amendment Bill of 1976.

6 Accounts

PRE-INDEPENDENCE SET-UP

The accounting system prevailing in the country was over hundred years and owed its origin to a number of far-reaching reforms introduced by the Government of India in the system of financial management in early 1860. The procedure for preparing an annual budget of "Imperial Income and Expenditure" to be sanctioned by the "Supreme Government of India" was first prescribed during 1860-61. An expert Committee set-up in May went into the problems connected with the practical implications of the new system of estimates, budget, accounts and audit and based on its recommendations, the Accountant General to the Government of India, who was also designated as the Auditor General of India, was "charged with the important duty of bringing the accounts of the Empire together". Monthly consolidation of accounts of receipts and charges of India was introduced for the first time, based on the recommendations of the British Commissioners of Enquiry in 1865, and the Auditor General of India, who was by then designated as Comptroller-General of Accounts, was given charge of the duties of the "Central Office of Accounts" and was authorised to deal, on his own authority, with all ordinary questions relating to Indian Accounts, such as the classification of receipts and payments, the process of recording them, the mode of closing subsidiary heads of account and the like. The orders of the Comptroller General on questions relating to Indian accounts were embodied in circulars issued from time to time and consolidated in 1878 in "Civil Account Code, 1st Edition" which had five parts dealing with various audit and accounting procedures. Part VI of the code was contemplated to be compiled as soon as the form of accounts had passed through its transition stage. In 1881, the Civil Account Code was split into two volumes, Vol. I including Parts I & II of the First Edition and Volume II incorporating Parts III to V and the "List of Major & Minor Heads of Account" was added for the first time, as an Appendix to the second volume. The Account Code contained 30 major heads for revenue receipts and 38 major heads for expenditure and no distinction was made between capital expenditure outside the Revenue account and the Revenue expenditure. The system of accounting of expenditure on revenue and capital accounts distinctly was introduced in 1920's in the Railways. The Government of India Act 1919, which gave the Provinces a certain amount of autonomy from 1st April, 1921, envisaged a clear demarcation between the Imperial and Provincial finances. The system of recording in separate columns, the receipts and expenditure of the

Central and Provincial Governments under the same heads, known as the principle of "divided heads", was abolished and subjects were classified as Central or Provincial with reference to the functions of the respective Governments under the Government of India Act 1919. The changes in the functions and objectives of the Government, sources of revenue and avenues of expenditure received recognition in the rearrangements and refinements of classification pattern introduced after the implementation of the Act. All the balances in the Treasuries and in the Bank on Government Account were treated as a single balance of the Central government. The Governor General-in-Council was the custodian of the "Public Account" which was a single account for the whole of India. The account of each Provincial Government was a proforma balance in the books of the respective Governments. The accounts and estimates of the Government of India embraced the transactions of the Provincial Governments, which appeared as a net addition to or withdrawal from their banking account with the Central Government. The system of exhibition of working expenses as deduction from the gross receipts mainly to avoid inflation of budget and accounts, already in vogue in the Railways, was extended to other commercial departments, like Irrigation and Works and the Posts and Telegraphs after the Reforms of 1919. The major heads of account were grouped under several sections and the sections were distinguished by letters of alphabet, single letter denoting the section in Revenue account, and double letters of the same alphabet denoting the corresponding section in Capital account. The major heads were serially numbered and Roman numerals were employed for receipt heads and Arabic numerals for expenditure heads. The debt, deposit, and remittance heads were grouped into sections, but the major heads in these sections were not numbered. The Civil Account Code was replaced by several codes and manuals and the instructions in regard to the accounts to be kept in Audit and Accounts Offices were embodied in the Account Code. The "List of Major and Minor Heads of Classification" formed an appendix to the Account Code and was published as a separate volume. The total number of receipt major heads increased to 42 and the expenditure major heads, including capital expenditure not charged to revenue, to 60.

1935 ACT

The Federal set up which emerged under the Government of India Act 1935, involved allocation of revenue between Centre and Provinces. The provinces acquired separate cash balances and were placed in account with the Reserve Bank of India. The accounting of transactions taking place in England through Home Accounts ceased and all revenue and

capital transactions in England of the Central and Provincial Governments were transferred to India for incorporation in the Indian accounts. No major changes, however, were made in the classification pattern, except increase in the number of major heads, both in receipts and expenditure to 53 and 63 respectively. Appendix 2 to the Account Code Vol. I was issued by the Auditor General of India, Sir Ernest Burden with the approval of the Governor General under Section 168 of the Government of India Act 1935 on 1st April, 1938.

INTERIM ARRANGEMENTS

After the Constitution came into force, the prevailing system of accounting and classification structure was continued, more or less in the same form. The accounts from 1950-51 were kept in three parts *viz.*, the Consolidated Fund, Contingency Fund and Public Account, as envisaged in Article 267 of the constitution of India. In Part I, the consolidated Fund, there were three main divisions, namely, Revenue, Capital and Debt comprising of Public Debt and Loans and advances. The first division dealt with the proceeds of taxation and other receipts classed as "Revenue" and the expenditure therefrom. The second division incorporated expenditure met usually from borrowed funds with the object either of increasing concrete assets of material and permanent character or of reducing recurring liabilities. It also included receipts of capital nature intended to be applied as a set-off to the capital expenditure. The third division comprised loans raised by Government and loans and advances made by Government together with repayments of the former and recoveries of the latter. In the Contingency Fund, the transactions were accounted for in the same manner as in the Consolidated Fund. The Public Account had two main divisions-Debt, other than those included in the Consolidated Fund, and Deposits and Remittances. Each of the divisions of the Consolidated Fund and the Public Account was made up of sections, which were further sub-divided into major heads of account and each major head divided into a number of minor heads and sometimes into sub-major heads, each of which had a number of minor heads. While sub-major heads were numbered by alphabets, minor heads were not numbered. Each minor head was broken into group sub-heads, which were further broken into sub-heads or detailed heads.

NEW CONSTITUTION

Under Art. 150 of the Constitution the Comptroller and Auditor General was responsible to prescribe with the approval of the President, the form of accounts of the Union and State Governments. Accordingly, the principles of accounting and classification, the classification structure,

and the heads of account upto minor head level, for classification of the various types of transactions of the Governments, the form in which the treasuries and departmental accounts offices like Public Works Divisions, Forest Divisions etc., should keep the initial and subsidiary accounts, and the form in which the accounts should be rendered by them to the Accountants General were prescribed by him in Account Codes Vol. I to III and the List of Major and Minor Heads published by him. One note-worthy and important characteristic of the accounting structure in India was the uniformity in classification of transactions of the Union and State Governments upto minor head level, which enabled a comprehension and comparison of the enormous size and variety of financial transactions of the Union Government and the State Governments. Certain changes in the heads of classifications were made to accommodate transactions related to new social and developmental activities launched by the Central and State Governments under the Five Year Plans. No attempt was made to carry out comprehensive review of the classification structure with a view to rationalising it to reflect the socio-economic changes proposed in the Indian administrative system till 1960-61.

CHANGES IN 1960s

In the succeeding two years, a review of the major heads of account was conducted and several changes were introduced mostly at the major head level leaving the minor heads more or less intact. There were no changes in the concept of accounting of the receipts and expenditure with reference to the organisation incurring the expenditure, rather than the purpose of receipt and expenditure. As a result of the review, the grouping of the major heads into sections was modified to indicate the social and developmental services undertaken by Government separately and nomenclature of some of the sections was changed. A few new major heads were introduced and a semi-functional classification structure was evolved. The most important changes brought about were changing the nomenclature "Principal Heads of Revenue", dividing the section "Civil Administration" into "Administrative Services" and "Social and Developmental Services", broad-basing the section "Irrigation, Navigation, Embankment and Drainage Works" as 'Multipurpose River Schemes, Irrigation and Electricity Schemes' and introduction of a new section "Transport and communication." The exhibition of working expenses of commercial departments, which were shown in accounts as reduction of receipts under the relevant receipt major head was modified from 1961-62 onwards and were shown under expenditure major heads. A second edition of the Appendix was brought out in July 1963

incorporating all the changes in the structure of accounts with effect from April 1962. The question of revising the form and content of the Demands for Grants presented to Parliament, which rendered them unwieldy and somewhat difficult to follow, was considered by the Government of India and the CAG in 1962. Elimination of Parts III and IV of the Demands from the Demands for Grants and addition of some information in the form of schedules, giving the plan provision by sub-heads in Part II of the Demand, was suggested to the Estimates Committee in October 1962. The Committee in their 11th Report (Third Lok Sabha) observed that while the distribution of budget provision by account circles contained in Part III to the Demands was primarily meant for departmental rather than Parliamentary use, the other information contained therein was of interest and use to the Members of Parliament.

ARC ON ACCOUNTING

The Administrative Reforms Commission constituted by the Government of India in January 1966 went into the question of Finance and Accounts and made several recommendations, to reform the budgeting, accounting, and reporting system. Two study Teams and Plan working groups under Shri V. Shankar, Member of the Commission, examined the problems and procedures relating to budgetary reforms, expenditure control, Centre-State financial relations, accounts and audit. The Chairman observed, while forwarding the Report to the Prime Minister, that the present budgetary system served well the twin purposes of parliamentary accountability and control of expenditure but was deficient as an instrument of management and evaluation of performance.

According to the Study Team* on Accounts and Audit, the outstanding features of the General system were "a combination of audit and accounting functions with an independent Comptroller and Auditor General, a decentralised system of payments and receipts through numerous and widely dispersed treasuries and a uniform pattern of classification and accounting procedures applicable alike to the Governments at the Centre and in the States." While conceding that "the system has acquired over the years some commendable features such as simplicity and uniformity, it has also displayed a certain weakness in adjusting itself to the needs and pressures of enormous changes in the nature and objectives of Government activities". The commission agreed

* The Study Team comprised of S/Shri S. Ratnam, M.A. Chidambaram, G. Basu, A.K. Mukherji, N.S. Pandey and Shri J.C. Luther who was Secretary.

with the objectives proposed by that Team of a sound system of accounts and audit; "First, the system must ensure that Parliament receives a full and reliable account of the Executive's stewardship of the funds provided to it. Thus, the form of the accounts must be such as to facilitate audit and a comparison of actual results with the appropriations approved by Parliament. Secondly, the accounting system should be so organised as to produce readily all information necessary to enable the Executive to fulfil its accounting responsibility to the Parliament. Thirdly, the administrative Ministries and other operative agencies should have internal accounting and reporting systems suited to their individual needs and equipped to produce timely information to aid them in taking sound managerial decisions." 'Main recommendation was that the Budget Estimates included in the Demands for Grants and the corresponding central accounts compiled in the various accounts offices should be made more compact and comprehensible. The details containing break-down of primary units of appropriation into detailed heads may be eliminated from the central accounts compiled in the various accounts offices and to the extent considered necessary for administrative purposes be recorded only in the departmental accounts. The entire structure of primary units of appropriation may be reviewed by the Ministry of Finance in the light of the wider powers of reappropriation now available to the administrative Ministries and consistent with the objective of simplifying the accounting structure. The structure for the Demands for Grants may be simplified by a grouping of individual schemes within a homogeneous programme to the extent feasible and the detailed break-down for smaller schemes involving an expenditure of, say, less than Rs. 5 lakhs may not be provided in the budget papers. As a matter of general policy, the responsibility for the compilation of central accounts may continue to vest with the CAG, except in the case of the Departments for which separate Accounts Offices have already been established. The Internal Financial Adviser with proper assistance at subordinate levels should be charged with the responsibility for establishing and maintaining an efficient accounting set-up to ensure the timely submission of accounting data and analysis to the executive authorities to assist their managerial performance and should include an efficient organisation for internal audit as well as the employment of modern techniques, such as, cost accounting and management accounting. Adequate arrangements should be made for imparting suitable training to the accounting personnel at various levels. The accounts organisations set up in the various Departments should compile inventories of immovable property belonging to Government and administered by those Departments. A central inventory of the fixed assets of the Government as a whole should

then be made out in the Finance Ministry on the basis of the departmental compilation. As a general rule, every Accountant General should be made responsible for the final accounting of the transactions, which originate in his Account Circle. The operation of Exchange and Settlement Accounts should be minimised with a view to avoiding delays in the final adjustment of accounts and the device of settling accounts between different Circles through cash, cheques or bank drafts should be utilised to the maximum extent. The feasibility of introducing modern data processing techniques within the accounting system may be entrusted to an expert committee for detailed examination. The initiative and responsibility for a review and reorganisation of the accounting system in its various aspects may be located in the Ministry of Finance and a well equipped organisation may be set up there for this purpose. The CAG may be closely associated with the Ministry of Finance in undertaking a joint programme for improvement in the accounting system.

ENDORSEMENT OF EXISTING AGENCY

On the agency for compilation of central accounts, the team observed* that the CAG performed a somewhat limited function of compiling the central accounts of Government on the basis of information and data provided by the treasuries and, in certain cases, by the Departments themselves. The ARC agreed with the analysis of the Study Team and concluded that "the transfer of responsibilities for the compilation of accounts from the Audit Department to the Administrative Ministries and Departments was not feasible as a matter of general policy and there was no inherent conflict or disadvantage in the combination of the function of compilation of accounts with that of audit". Having regard to the institutional framework, particularly the decentralised system of payments and receipts through numerous treasuries dispersed throughout the country, the present arrangements as a general pattern were considered satisfactory. The present system was flexible enough to permit of variations, where the advantages of a change can be demonstrated to outweigh the disadvantages of higher cost, as in the case of the Departments of Supply, Food and Rehabilitation, the Lok Sabha and the Rajya Sabha, etc. where separate offices have been established. The Commission, therefore, recommended that as a matter of general policy the responsibility for the compilation of central accounts may continue to vest with the CAG, except in the case of the Departments for which separate Accounts Offices have already been established.

* Chapter III on Reform in Organisation and Scope - A.R.C's Report on Finance Accounts and Audit and Chapter IV (P. 36-37).

PRESENTATION OF ACCOUNTS

The ARC went into the question of submission of Appropriation Accounts, Finance Accounts and Audit Reports by the CAG every year and noticed considerable delay in several states, though not at the Centre, in the presentation of the Appropriation Accounts and Audit Report to their Legislatures and found the submission of Finance Accounts very unsatisfactory both at the Centre and in the States. There were several months' gap between the presentation of the Appropriation Accounts and the Finance Accounts of each year. The Commission considered it of utmost importance that all avoidable delays in the preparation and transmission of the Annual Accounts and the Audit Reports to Parliament and the State Legislatures should be eliminated and suggested adoption of a convention and strict adherence to it for submitting these documents before a fixed date. Its specific recommendations* were that definite dates should be set for the submission of the Appropriation Accounts, the Finance Accounts and the Audit Reports by the CAG, through mutual discussion between the CAG and the Union and State Governments, as the case may be, the Finance Accounts may be submitted simultaneously with the Appropriation Accounts and the Audit Report and the Central and the State Governments may issue executive orders for placing of the Annual Appropriation Accounts and Audit Reports on the table of the House within a prescribed period - a week if the Parliament/State Legislature was in session - after their receipt from the CAG.

MUKHERJEE TEAM

The Government of India constituted a Team with Shri A.K. Mukherji**, DAI as Convener to conduct a comprehensive review of the Heads of Development adopted for Plan purposes on the lines recommended by the ARC keeping in view the requirements of performance budgeting and the economic classification of the budget, to make recommendations for establishing a direct correlation between the Plan Heads of Development and the Heads of Accounts and also activities of departments and organisations, where performance budgeting was to be introduced and minor heads or sub-heads of accounts, measures for streamlining the primary units of appropriation and for making the

* Para 90 of ARC's Report on Finance, Accounts and Audit pages 48-49.

** Shri A.R. Shirali, J.S. (Budget), Shri V.M. Bhide (subsequently replaced by Shri B. Maithreyan and Shri S.K. Gangopadhyaya) and an officer of the Administrative Ministry concerned to be co-opted as and when matters related to their Ministry were concerned, were the other members.

Demands for Grants and the corresponding Central accounts more compact and comprehensible, in so far as it related to the need for making distinct provision in the budget for each wing of a Ministry. The Team was required to review the working of the scheme of separation of Accounts from Audit, as introduced in certain Departments in recent years, to recommend measures in the direction of maintenance of appropriate accounts and within the various Departments of Government as an aid to management, to study the practical aspects of the Commission's recommendation contained in its report and to make specific recommendations regarding the detailed accounts, which should be maintained by the various departments of Government and the extent to which the details could be eliminated from the accounts maintained in the offices of the Accountants General and Other Accounts Offices, to review the heads of accounts in the Public Accounts of the Union and to make recommendations in this regard, and to consider any other specific matter that may be referred to the Team by Government.

REPORT

The team submitted in September 1971 its first Report on restructuring the Demands for Grants so as to make them more compact and comprehensible and other related matters, which was accepted by the Government and cleared by the Estimates Committee and were introduced in the Demands for Grants for the Government of India in the year 1973-74. Second Report regarding rationalisation of accounts classification keeping in view the requirements of performance budgeting and economic classification of the budget and the need to establish a direct co-relation between the plan heads of development and the heads of accounts and other related matters were presented in two volumes on 2nd November, 1972, which was hailed, "a commendable piece of work" by the then CAG, Shri A. Baksi.

The first report of the Team on reforms in the structure of budget and accounts presented on 16th October, 1971 contained several recommendations on the number, scope, structure of Demands for Grants and structure of units of appropriation. A Ministry/Department in charge of a number of distinct services may present a separate Demand for each of the major services. The provision relating to other miscellaneous functions/services administered by the Ministry/Department as well as those relating to the Secretariat to the Ministry/Department may be included in another Demand. Ministries/Departments, which were in charge of only one major function or service may present only one composite demand covering all the requirements including provisions for the Secretariat. As a general rule, the Demand

for Grant for each service should incorporate that budget provisions on revenue account as well as on capital account relating to that service and the schedule to the Appropriation Act should show separately amounts authorised for expenditure on revenue account and on capital account, but if the capital outlay, its nature and magnitude warranted, separate demands on capital account may be presented. Provisions for grants-in-aid to States and loans and advances may be included in the composite Demands of the Ministries/Departments administratively concerned with the grants or loans. Where a separate capital demand was presented on behalf of a Ministry/Department, the provision for loans may also be included in that demand. A separate Area Demand each for expenditure in Union Territories without legislatures may continue to be presented to Parliament. But provisions relating to a Union Territory controlled by the Administrator, may be included in the same Demand. In regard to structure of Demand, the Part II of the Demands may show the details of expenditure upto the level of major and minor heads of account. The provision of funds for each minor head may give a further break-up by each activity or scheme or organisation for which provision of funds in a year was Rs. 10 lakhs or more. Further break-up of the provisions relating to minor head or the activities/schemes/organisations under minor head need not be given in Part II of the Demands. The Plan and non-Plan components of the provisions relating to minor head or activities/schemes/organisations in a minor head may be shown distinctly in Part II of the Demands. They may be accompanied by a short note on the Demands explaining their scope and reasons for major variation in the estimates under different heads. All other statements may be transferred to Part III of the Demands. Part III of the Demands may show further details of the provisions made in Part II of the Demands in respect of minor Heads and activities/schemes/organisations under minor head with sufficient details. The Plan and non-Plan components of the provisions of each sub-head should also be shown distinctly. Exhibition of the provisions and the recoveries by circles of account may be omitted from the Demands. Certain statements and schedules may be transferred from Part II to Part III of the Demands. The formal presentation of Part III and IV of the Demands in the Parliament, as modified by the Team's recommendation, may be resumed and Ministry of Finance should ensure that these were presented well before the dates of discussion by the Lok Sabha. In due course, notes on important objections and schemes and performance budgets should be indicated in Part III of the Demands, which should be gradually got transferred to the Ministries/Departments. The expenditure on programmed activities schemes and organisations may be

broken down and shown under the standard objects of expenditure or primary units of appropriation suggested by them which may be adopted uniformly by all Ministries and Departments.

The recommendation contained in the Second Report of the Team on Reforms and Structure of Budget and Accounts was accepted by the CAG and the Government of India, Ministry of Finance conveyed the approval of the President under Article 156 of the Constitution for adoption of the revised accounting classification from the accounts for 1974-75. Accordingly, chapter 3 of Account Code Volume-I containing general principles and methods of accounts was revised, 31 out of the 54 articles underwent revision and the third edition of the appendix was published by CAG incorporating the changes in the structure of accounts.

Codification in the new structure of accounts was that each sector had an alphabetical series for identification and a code number for all the major heads in the Consolidated Fund, contingency Fund and the Public Account, with a three digit Arabic number code. The first digit indicated the major head in the receipt section or expenditure on revenue account, or expenditure on capital account or public debt or loans and advances or Public Account sections. The last two digits were for major heads, the same number representing the same major head, whether it was in the revenue receipt section, revenue expenditure section, capital expenditure section or loans and advances section. The receipt major heads were assigned the block 020 to 199, expenditure major heads on revenue account from 211 to 399, expenditure major heads on capital account from 411 to 599, major heads under public debt from 601 to 610, those under loans and advances, inter-state settlement and transfer to Contingency Fund from 611 to 799 and the major heads in the Public Account from 801 to 899.

The circumstances under which the constitutional amendment empowering the President, rather than the CAG, to prescribe the form of accounts of the union and states have already been discussed in chapter 5.

INTER DEPARTMENTAL GROUP

With the change in emphasis and grouping of developmental activities over the years, the plan heads differed and divergencies between accounts heads of classification and plan heads of allocation surfaced over the years. In fact, the Mukherjee Team had anticipated them and suggested a review of the accounting structure in the light of developments in governmental activities from time to time. An inter-departmental group was constituted by the Ministry of Finance with the representatives of the

CAG, CGA Planning Commission and Budget Division of the Ministry of Finance to establish a direct correlation between the heads of development adopted for the plan purposes and general accounting heads and budget heads and to remove the divergencies in these sets of classifications. The group and the sub-groups constituted to help the inter departmental group presented different proposals at different stages for restructuring of the existing "List of Major and Minor Heads of Account" of Central and State Receipts and Disbursements without sacrificing the fundamental objectives set earlier by Mukherjee Team and based on them the Budget Division of Ministry of Finance prepared a revised list of classification in Accounts, Plan and Budget, which was concurred by the CAG subject to certain observations. These came into effect from the 1st April, 1987. An attempt was also made to modify all the Heads of Accounts upto the level of Minor Heads so that a uniform pattern of codification may be achieved to facilitate a computer based financial information system using Accounts figures. Shadow accounts were required to be prepared by the AsG with reference to the data available in their classified/consolidated abstracts. A list of Major and Minor Heads of Accounts of Union and States was issued by CGA under the Ministry of Finance, Department of Expenditure. The salient features of the Revised Structure of Heads of Accounts were adoption of 4 digit Major Head Code classification (in lieu of 3 digit Major Head Code), uniformity in the placement of the digits between existing code and the revised codes, introduction of a few new sectors/sub-sectors and a few new Major Heads in conformity with the broad activities and plan programmes of different sections of the Government and splitting up of few existing composite Major Heads so as to convert them into functional Major Heads, upgradation of few major heads as sub-sectors and few sub-major heads as major heads. Although the revision did not contemplate any major departure from the prevailing classifications, pilot training courses were organised in the Accountant General's offices. The Budget for 1987-88 was framed according to the revised structure of accounts, while the actual transactions upto 1986-87 continued to be accounted for under the existing heads of accounts for exhibition purposes in the next year's budget (Demands Grants etc.). The Ministries/Departments were required to recast budget estimates for 1986-87 under the new Heads of classification and also frame Revised Estimates accordingly.

RESIDUE

The work of preparation of Combined Finance and Revenue Account was however retained with the CAG even after separation of accounts in

Government of India. By March 1986, the CF & RA upto the year 1982-83 had been published. The accounts for the year 1983-84 sent in December 1985 and 1984-85 sent in August 1986 were published in 1988-89. The accounts for the year 1985-86 sent in June 1989 were pending in the Government press. The Accounts for 1985-86 were under compilation.

ACCOUNTING FUNCTIONS IN THE STATE

After transfer of accounting functions to the Departments of Government of India, the accounting functions of state government were continued to be performed by the IAAD. Although the Finance Minister of Government of India had informed the Finance Minister of each State Government about the merit of taking over accounting functions by Administration, there were no takers from the State Governments. The 42nd constitutional amendment vested in the President of India the power to decide on the form of accounts etc. in consultation with CAG, which reduced the latter's role to merely advisory. Of course, CAG was consulted on all accounting matters by the Ministry of Finance and the CGA. In the State Sector, the AsG were given certain powers in advising the State Governments. The reorganisation of the Civil Audit and Accounts Offices in March 1984 and formation of separate offices for accounting and entitlement functions virtually bifurcated the arrangements for audit and accounting and separate As.G. were made responsible for the performance of these functions. In all, 22 offices of A&E came into existence with a total strength of 25222 (591 AOs and 24631 staff). Abrupt bifurcation and consequent dislocation affected the smooth functioning of the newly formed offices. During 1984-85, there were arrears in compilation of accounts in 15 offices, ranging from 11 months in J&K to 2 months in Maharashtra. Even the offices which were current in accounting work till 1984 fell into arrears for varying periods. The CAG wrote to the Chief Ministers for taking necessary steps to improve the maintenance of initial accounts and their prompt rendition to the AG. His specific suggestions were to set up a machinery at staff level to speed up the process of strengthening of treasuries so as to strengthen the accounting system at the grass root level and using it to assist the drawing and disbursing offices in the discharge of their duties in maintaining properly their initial accounting records especially those relating to regulation and settlement of entitlement of Government servants and maintenance of current record of monetary sanctions in respect of provident fund etc. In March 1986, except in seven offices compilation of monthly accounts were in arrears ranging from 1 to 12 months. In March, 1987, 7 offices were current in compilation of monthly

accounts and 17 offices were in arrears for periods ranging from 21 months (Nagaland) to 1 month (West Bengal, Sikkim, Kerala, Karnataka and Bihar). On 31st March, 1988, compilation of monthly accounts were in arrears in 14 offices, ranging from 22 months in Nagaland to 1 month in West Bengal, Karnataka and Bihar. The accounts were current in 10 offices. CF & RA for 1982-83 was published during the year.

The booklet "Budget Estimates and Actuals of the Union, Union Territories and State Governments for the year 1983-84 was published and 1984-85 was under print.

The performance of entitlement functions, namely, special gazetted entitlement procedures, maintenance of provident fund accounts and pension authorisations, by the IAAD is neither uniform nor consistent in all the offices of A & E offices. In 12 states, the special gazetted entitlement procedures have been abolished totally from various dates, the latest being in Tripura from 1st November, 1987. These have been partially abolished in 5 states. The work of maintenance of provident fund accounts of all government employees except group D cadres were taken over by 5 States. 14 states have taken over the work relating to group D employees, 8 states have taken over the work of pension authorisation, partially or wholly.

The compilation of accounts was reported to be current in 10 offices of AG (A & E) and in other offices arrears ranged from 1 month (4 states) to 22 months (1 state) and the average arrears was around 5 months. The finalisation of Appropriation Accounts and Finance Accounts was also delayed. 1986-87 Accounts of 2 State Governments had not been finalised even by December 1988.

LIST OF ABBREVIATIONS

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|----|-------|---|-------------------------------------|
| 1. | AsG | — | Accountants General |
| 2. | ARC | — | Administrative Reforms Commission |
| 3. | CGA | — | Controller General of Accounts |
| 4. | CF&RA | — | Combined Finance & Revenue Accounts |

SOURCES AND REFERENCES

1. Civil Account Code-All Editions
2. Report of the Administrative Reforms Commission on Finance, Accounts and Audit.
3. Report of the Study Team of ARC on Finance, Accounts and Audit.
4. Mukherji Team's Reports on Reforms in the Structure of Budget and Accounts (First and Second).
5. Combined Finance and Revenue Accounts
6. Activity Reports of IAAD.
7. Eleventh Report of Estimates Committee (Third Lok Sabha)

7 Audit

PRECEPTS

The principles, directions, and guidelines for audit of expenditure, and later receipts, and the systems and procedures for conducting audit and processing results upto finality were laid down in the Codes and Manuals issued by CAG from time to time, as explained earlier. Each head of the office also issued specific manuals for each type of auditing carried out by the various Departments in his office. The entire design of audit conducted by the Indian Audit and Accounts Department was a harmonious blend of test check of accounts and audit of vouchers received in the central office, supplemented by local test audit of the initial accounts kept in departmental offices in accordance with the extent and quantum of audit prescribed by the Auditor General. As early as 1921 - after the first world war and the Montford Reforms, it was decided to curtail audit in order to cope with the increased work load in the combined Civil Audit and Accounts Offices by prescribing percentages of audit to be carried out for each class of transactions and for every category of transactions, both in central and local audit, which had an element of random sampling technique inherent in it. The extent of curtailment was kept secret and its enhancement was done in special circumstances under the orders of Ar.GI/AG. After the federal financial integration of former Part B states, initially cent per cent audit was conducted in the integrated offices for limited period, until they newly were organised and started functioning normally, when the procedure of limited quantum and extent in vogue in Part A States offices was extended to them also. The system and procedures followed for conducting audit were as old as the IAAD and changes were made to suit the constitutional and administrative changes in Government at the Centre and the States. At the time of independence, Audit was mostly confined to regularity and accountancy audit, with emphasis on regularity, based on the laws, rules, and regulations of the Government, which was more or less continued, even after the new Constitution came into force. ~~Even when the codes were modified or updated,~~ the substance of the audit work as also the basic systems and procedures were retained *in toto* and only peripheral changes were made during the first decade after independence. While the growth and development of Audit in respect of specific functions are discussed in the concerned chapters, the changes in the general design and scheme of audit in the combined civil Audit and Accounts Offices are dealt with in this chapter.

CENTRAL AUDIT

The audit work done centrally in the various sections of the combined Audit and Accounts Offices was to facilitate audit of different classes of vouchers and accounts of two categories, namely, common nature, like, check of classification of transactions, audit of sanctions, rules and regulations, and appropriation audit and particular items of work, like audit of gazetted government servants claims, establishment audit, audit of contingencies including audit of contracts and payments thereagainst, audit of grants-in-aid, audit of scholarship, audit of borrowings, loans and advances, investments and guarantees, audit of provident fund transactions, audit of public works transactions, - including contract works etc., audit of transactions of Forest Department, including contract works and revenue receipts, audit of pension, audit of miscellaneous transactions like interest payments, refund of revenue, discount on sale of stamps etc. and audit of transactions relating to deposits, advances, suspense and remittances. The vouchers received with first list of treasury accounts were first audited and then passed on for compilation and those received with second list were first passed on to compilation sections after check of classification and subsequently audited.

As the nature, mix, and volume of Governmental expenditure changed, the extent and quantum of audit of different classes of transactions and review of results were modified, so as to make the sample test check more representative and sound to ensure that the security check was just enough to make it effective without unnecessarily adding to the staff and expenditure as decided by CAG from time to time. Also, the compulsion of demands on accounting and entitlement work, which came in the wake of every major decision of each Government in the country, that seldom could wait for completion of the formalities for obtaining new staff worked out on the applicable norms and receipt of formal sanction of competent authority and clearance of Ministry of Finance, GOI, often necessitated inevitable diversion of staff meant for audit work or adjustment of audit to availability of personnel, with or without the approval of CAG, depending on the initiative of the AG on the spot, to be made good later. In 1962, the Accountants General were authorised to reduce temporarily at their discretion the percentage of audit of various bills in central audit.

CHANGES IN WORKS AUDIT

A major reform introduced during 1962-63 was simplification of the procedure of central audit of P.W. transactions and reduction in the

number of returns to be sent with monthly accounts or periodically to the AG's Office, consequent transfer of certain items of work hitherto carried out centrally to local audit/inspection parties. Submission of extracts from contractor's ledger, half yearly register of stock or priced stores ledger, accounts of receipts and issues of tools and plant and the annual register of tools and plant to AG's office was discontinued and check of contractor's ledger, stock account, half yearly register of stock or priced stores ledger and the accounts of tools and plant was entrusted to local inspection parties. The practice of sending the schedule of purchases, schedule of deposits and miscellaneous public works advances containing all the outstanding items was stopped, and instead particulars of credits and debits to the suspense head "purchases" during the month, an abstract account of credits, debits and balances of the purchases accounts, schedules of deposits and miscellaneous public works advances restricted to the items affected during the month were to be furnished along with the monthly accounts. In addition, a list of items outstanding for more than six months under miscellaneous public works advances and purchases was furnished to the audit office every half year with the monthly accounts for September and March. Registers of purchases, deposits, and miscellaneous public works advances maintained by divisions were required to be checked during local inspections. The form of the schedule of works expenditure was amplified to indicate the excesses over allotment and the excesses over sanctioned estimates and the action taken to regularise them. The revised schedule included only works, which were affected by transactions during the month, but the schedule sent with the monthly account for September and March was to include all works in progress in the division, a copy of which was to be sent to the Superintending Engineer in order to apprise him of the excesses over the estimates/allotments. Consequently, the Works Audit Register was modified to include only major works with large financial outlay. While the works Audit register in respect of Government of India was maintained for works/projects costing Rs. 25 lakhs or more or non-project works costing Rs. 10 lakhs or more, in the case of State Government works, the financial limits of works to be maintained were left to be prescribed in consultation with the State Governments. The portion relating to fixed charges and miscellaneous sanctions in Works Audit Registers was left out. But the divisional registers of fixed charges and miscellaneous sanctions were required to be checked during local inspection. Consequently sanctions to contracts received in WAD and orders of special recoveries were maintained as Parts II and III of the works Audit register. At the same time, the scope of local inspection was enlarged to provide for a more meaningful scrutiny of the register of

works, and analysis of selected works, contractor's ledgers, stock accounts, tools and plant accounts, works abstracts, schedules of purchases, schedules of deposits and schedules of miscellaneous public works advances so as to ensure that what was developed centrally in the scheme of central audit was more than compensated by the expanded scope of local inspection. Not only the quantum of central audit of vouchers but also the procedures were streamlined. The maintenance of objection books and procedures for communicating objections to departmental officers was streamlined. Preparation and issue of Part one of the statement of items under objection for want of and excess over technical estimates, allotment, and administrative approval was discontinued and maintenance of objection books was confined to objections having money value included in the Audit Note book and those included in Part two of the statement of items under objection for want of vouchers and other miscellaneous objections. The composition of Public Works Inspection parties was modified to include two SAS Accountants and one upper division clerk and gazetted supervision was provided to the extent of sixty to seventy five per cent for intensifying local inspections. Based on the suggestions received from the Accountants General on the working of the simplified procedure, some minor changes in the system of half yearly inspection were made during 1963-64. Periodicity of inspection of investigation divisions, where the expenditure was small, wholly maintenance divisions, where the actual expenditure was not more than Rs. 12 to Rs. 15 lakhs and divisions situated in inaccessible localities was modified to annual. Certain registers and other records were identified for annual audit instead of half yearly, to be conducted during the first inspections after the close of the financial year, so that it might cover all the transactions of the year, including those pertaining to the month of March. Detailed guidelines regarding the checks to be exercised during half yearly inspection were also issued. About one-third reduction in Central audit staff was expected to result in implementation of these reforms with slight increase in total audit upto 80 to 100% and 50% in gazetted supervision but no visible reduction materialised due to increase in outlay on works in successive plans of State Governments.

INNOVATIONS

The IRLA system for regulating the pay and allowances of officers was introduced in AGCR, for IAAD from 1962-63 and subsequently extended to the officers of the Ministry of Information and Broadcasting, PM's Secretariat, BSF/CRPF etc. which resulted in reduction of work as also quick facility of payment to the officers. It was also adopted by certain

state Governments. The nature, scope and object of higher audit section was drastically changed in 1963-64 after the introduction of Efficiency-cum-Performance Audit, for conducting studies and investigations of schemes selected for Efficiency-cum-Performance Audit in close liaison with OAD parties, as already explained; and the residuary functions performed by the HAD section were transferred to other control sections like TM, WM, GM etc.

A new system of cash settlement of inter-divisional transactions was introduced in 1965 in lieu of the prevailing system of settlement of inter-divisional transactions through book adjustment by operating the remittance head "Transfers between Public Works Offices".

REORGANISATION OF DAD

The departmental audit sections were reorganised into two separate groups, one for compilation of accounts and the other for audit from 1965-66. The system of audit and check of classification, before passing on the vouchers for compilation was given up, since transmission of vouchers from one section to another caused dislocation of the process of work and delay in compilation of accounts. Mistakes, if any, in classification noticed during audit were intimated by the audit sections in the functional groups for necessary rectification in accounts later. The posting of pay bills of establishments, which were not selected for audit, in the establishment audit register maintained in the DA sections was dispensed with in 1965-66 and the form of establishment audit register was modified. The graded quantum of audit of establishments based on monetary ceiling was modified and made uniform for all establishments, both for number and nominal audit during central audit. A simplified procedure for audit of revenue, civil and criminal court deposits as also certain other deposits was introduced from October 1965. The system of pre audit of refund of lapsed deposits was dispensed with in the AG's offices from 1968.

REVISION OF NORMS

The norms for fixing the strength of sections in the departmental groups were modified. The strength of GAD and Pension Report sections was reduced to five UDCs per section, WAD, FAD, Commercial Audit, OAD Headquarters and DAD section in the audit group to seven UDCs per section and PF and other accounting sections including pension audit, TAD section in the compilation group, account current, deposits, remittances, etc. to nine UDCs per section with a view to improve the quantum and quality of audit and also to intensify the supervision at the superintendent level. The inspection and local audit party was

strengthened in view of the increased coverage and additional items for intensification of local inspection. In December 1967, audit of scholarships was conducted by name in respect of scholarships/stipends sanctioned by Government, scholarships/stipends involving a monthly recurring payments of Rs. 75 or above in each case sanctioned by heads of departments or other subordinate authorities under the powers delegated to them, scholarships/stipends of less than Rs. 75 per month in each case sanctioned by the heads of departments and other subordinate authorities under the delegated powers, which involved fulfilment of certain conditions, having a bearing on the continuance of the scholarships, overseas scholarships and any other category of scholarships/stipends in respect of which nominal audit was considered necessary by the AG for any special considerations. In all other cases, audit by number was continued. The quantum of audit was reduced and posting of vouchers not selected for audit was dispensed with. The system of receipt of Annual Establishment Returns for the permanent and temporary establishment as on first March, their check, and comparison with the book of establishment of the previous year and recording of alteration etc. was discontinued from March 1969.

AUDIT OF CONTINGENT BILLS

The classification of contingent bills into two broad categories, viz. countersigned and non-countersigned contingencies for the purpose of test check during audit was given up from 1974. The monetary limits prescribed for selection of contingent vouchers was raised from Rs. 5000 to Rs. 10,000. Maintenance of special charges register to facilitate audit of contingent expenditure for sanctions accorded by authorities subordinate to Government was limited to Government sanctions only. Posting in the establishment audit register of bills in respect of tuition fees drawn by non-gazetted government servants and test check of pay noted in the travelling allowance bills with reference to the amounts noted in the fly leaves of the establishment audit register were also dispensed with.

Based on the decision taken in the Conference of Accountants General in April 1974, the periodicity of inspection of PW Divisions was made annual from 1975-76, though discretion was given to Accountant General to carry out half yearly inspection in individual cases for special reasons.

CHANGES IN CENTRAL AUDIT

More central audit functions were given up from 1979, like, discontinuance of maintenance of objection books to watch recovery of advances

of pay, travelling allowance on tour, travelling allowance on transfer etc., discontinuance of maintenance of TA registers to record the TA claims of gazetted government servants, where the Accountant General watched the work, dispensing with general examination of TA bills not selected for audit and contingent bills not selected for audit, which did not require noting in any audit register and dispensing with the requirement of 100% check of classification of vouchers not selected for audit. The responsibility for watching recovery of leave salary/pension contributions in the case of government servants deputed to foreign service was given up, wherever the State Governments agreed to evolve their own system for this purpose. Nominal audit of establishment pay bills was given up from 1980-81 and detailed guidelines and procedure were laid down for conducting such audit during local audit. The preaudit of arrear claims in the AG's offices was dispensed with from 1981-82 and the Accountants General were advised to suggest to the respective State Governments for amending the provisions in the treasury rules or financial rules, wherever they existed. Audit of overtime allowance bills, detailed audit of old age pension, audit of vouchers for scholarship payments, were transferred from central audit to local audit during 1982-83. The quantum of audit of pay bills was reduced by 50%. Maintenance of fixed charges register and periodical charges register in central audit was dispensed with and the control system obtaining in the drawing and disbursing offices to prevent double payment of fixed/periodical charges was checked during local audit. A new system of making an analytical study of contingent expenditure, as such, of all departments/offices was introduced from April 1982, based on the recommendations made by the Committee of the Accountants General. On completion of central audit for each month, each auditor prepared a note on the results of audit conducted by him. Taking into account the points contained in such notes given by each auditor, the section officer prepared an appreciation note on the results of audit reported by all auditors in his section, and his own findings during review of the audited vouchers indicating the volume/extent of audit review and original work done by him, significant points noticed in audit, results of audit of contracts/purchases and payments made thereagainst etc. The appreciation notes of the section officers were given to the branch officer, who gave a monthly evaluation note on the performance of the department audited by the sections under his charge as a whole, which was submitted to the group officer every month. Material contained in these appraisals and appreciation notes was made use of in selecting units for local audit, in feeding local audit for intensification of audit of special areas or aspects and for carrying out performance reviews.

SYSTEM AUDIT

A system based audit was introduced with a view to see whether the financial systems in Government were adequate and proper and whether they worked efficiently. Detailed survey of system, testing it through small samples to find out whether it was really in force, recording the system/information through flow charts, analysing flow charts to determine apparent weaknesses or inefficiencies, investigating them in detail and suggesting improvements were the various facets of the work. Broad guidelines and general directions for conducting systems audit were laid down in August 1982 and studies on few selected systems were initiated like systems of purchases and inventory management, systems for conducting surveys, site selection, 'determination of quantities of estimating feasibility reports, etc., control reporting and evaluation systems in the implementation of projects and budgetary and expenditure control systems, systems of control of contingent expenditure and manpower control systems. Besides the systems common to all the departments, the systems operating within individual departments were also suggested for study.

ABOLITION THE RESIDUE

From 1984-85, the only item of work in establishment audit carried out centrally, namely, number audit, was also given up and a system based manpower audit to be conducted mainly in the offices of the cadre controlling authorities of the departments of Government was introduced to study the adequacy of the methods and principles adopted for assessment of staff requirements and their allocation, the norms and standards adopted for the purpose, the control system available for ensuring that sanctions conformed to those determinations and norms and that the actual deployment of personnel conformed to sanctions. The study was supplemented by test check in subordinate offices to evaluate the efficiency and effectiveness of the actual working of the system.

From 1985-86 central audit of transactions relating to various categories of deposits was done away with and transferred to local audit. The audit of contracts and agreements was strengthened by making it SO oriented and introducing critical review by the branch officer for issuing guidelines for effective further scrutiny. The details of contracts so reviewed and the results of intensified audit of these payments were required to be reported in the monthly appraisal reports rendered by SO/BO. The results of contract review were communicated to civil inspection wing on a regular basis. A review of the contracts/agreements and the operation of the system periodically on a departmental basis for

the Government was to be carried out. Maintenance of Scale Audit Register in GAD was discontinued from October, 1986 subject to the controlling authorities ensuring that appointments in any group or class of Govt. servants were not made in excess of the sanctioned scale.

AUDIT OF PAOS/DDOS

Under the departmentalised system of accounts, all payments were made by the PAOs, after pre-check, except in the case of bills paid by the DDOs. with cheque drawing powers, who rendered accounts duly supported by vouchers to the PAOs, who exercised post payment checks. The scope and extent of audit, as was applied by the DACW & M in regard to the PAOs of the Department of Food, Rehabilitation and Supply was adopted as an interim arrangement, pending finalisation of the scope of audit of PAOs/DDOs of the Ministries and Departments of Government of India, which were issued in August, 1981.

The Central audit was limited to audit of sanctions and the remaining audit checks were to be carried out in local audit. During local audit, checks were to be exercised on the transactions covered by the month(s) selected, in respect of cases and records covering the period since last inspection and to examine the efficiency of the working of the internal audit units, which was to be looked into during the local audit of PAOs, and review of control records, which was carried out by an horizontal inspection for a critical review of all the control records in the Pay and Accounts Offices under each Ministry. Voucher-wise details of the grants paid during a year were to be obtained from PAOs for conducting audit of grants-in-aid in the office of the sanctioning authority. A list of important and heavy transactions was to be prepared from the records of the PAOs during the local audit of those offices for conducting an intelligent scrutiny of the transactions falling under contingent expenditure with the purchase files and other related documents available in the offices of the DDOs. Sequential local audit of the PAOs and DDOs was to be arranged to take care of the dispersal of the records in the PAOs and DDOs for the same type of transactions.

During local audit of the offices of DDOs checks to be exercised were limited - verification of the correctness of the net amount drawn and shown in the pay bill register or the office copies of the paid vouchers for the selected months with the amount noted in the counterfoils of the cheques, verification of the entries in the Cash Book and the other relevant records with reference to the amounts noted in the office copies of the vouchers and verification of the entries relating to paid cheques in the copies of bank scrolls received by the DDOs from the bankers with the amount noted in the counterfoils and checks of

other accounts/records maintained by the DDOs with cheque drawing powers.

The duration of audit of Pay and Accounts Offices was fixed at 12 to 15 days and that of Drawing and Disbursing Offices with cheque drawing powers at 3 to 5 days. Periodicity of audit of Pay and Accounts Offices continued to be annual, while the DDOs were audited biennially or triennially or lesser frequency depending upon the nature of work and volume of transactions. The audit parties were two SOs for audit of PAOs and one SO for audit of DDOs and the Gazetted supervision in both the cases was 50%, as was in vogue earlier.

The Resident Audit Parties for BSF. and CRPF. organisations set up before the departmentalisation were discontinued, while those in the Lok Sabha and Rajya Sabha continued. Percentage of check for pension verification cases in the PAOs was revised in view of the non-availability of service records and service books and detailed guidelines for conducting audit of pension cases and vouchers in the offices of DDOs/in the offices of the PAOs prescribed.

1984 REFORM

After the re-organisation of the offices into Accounting and Audit Offices, arrangements for conducting audit were laid down in the Manual of Instructions for Central Audit (MICA) issued by CAG. The pattern and percentages of audit for audit of PAOs/DDOs under the departmentalised system of accounts were to be followed by AG(Au) but the percentages of audit laid down in Secret Memorandum of Instructions (SMI) were allowed to continue purely as a transitional measure except to the extent specifically mentioned in MICA. Also, the systems and procedures prescribed in the M.S.O. (Tech.) were to be followed *mutatis mutandis* by the AG(Audit) in conducting Central Audit. The pattern and percentages of audit followed in local audit, Resident Audit, project audit, audit of State P.A.Os and similar field audit work were continued.

The central audit work was entrusted to two sets of units, viz. Central Audit Parties (CAPs) and Central Audit Support Sections (CASS). The CAPs carried out every month audit of vouchers received from treasuries/departmental officers and test checked the accounting and entitlement work of the accounts offices and the Central Audit Support Sections (CASS) co-ordinated and pursued the work of the Central Audit Parties. The test check of accounts covered compilation, account current, loan, book and deposit sections. While the audit of Compilation Section was done by the Central Audit Parties, audit of other sections was carried out by the Central Audit Support Section assigned for the purpose. The Finance Accounts and Appropriation

Accounts were to be checked by a Central Audit Party in accordance with the instructions prescribed by Headquarters office. Audit of entitlements was conducted by the Central Audit Party and covered gazetted entitlements, pension and authorisation of G.P.F. In respect of objections taken in the course of test check of records pertaining to accounts and entitlements, the procedure applicable to objections taken in local audit/inspection was followed. Duty list for each member of the party was prescribed; every member of the Central Audit Party was made individually responsible for the duties entrusted to him. The auditors finalised audit memos of their own but on important or doubtful questions, the guidance of the Asstt. Audit Officer was sought. The AAO of the Central Audit Party ensured that all members of the party performed their duties promptly, regularly and efficiently. The selection of vouchers and records to be audited and reviewed was made available by the AAO in charge of the Party in the same manner and form as they were required to be done before bifurcation. The selection Register was sent to the relevant Central Audit Support Section along with completion certificates and the Audit Memos/notes. Audit notes/Memos were prepared in triplicate and the same alongwith two copies thereof were sent to the concerned Central Audit Support Section who pursued them upto finality. The duties and responsibilities of personnel in Central Audit Parties were re-defined consistent with their increased responsibilities after grant of higher pay scales. The Central Audit Support Section in the audit office, besides co-ordinating and pursuing the work of Central Audit Parties, carried out supporting functions like drawing up audit programmes of CAPs and auditing sanctions and follow-up work like maintaining objection books, selecting potential material for audit reports and co-ordination work generally. Each CASS normally comprised of 1 Audit Officer, 2 Asstt. Audit Officers/Section Officers, 8 Senior Auditors/Auditors and 2 clerks. The duties of the central audit support sections were also broadly indicated.

Copies of sanctions issued by the Central/State Government and subordinate authorities were received by the concerned CASS and were examined in accordance with the relevant instructions in Manual of Standing Orders (Technical) before admission in audit. Arrangements for receipt, scrutiny and processing of sanction and maintenance of files/folders in a regular and systematic manner was left to be evolved by the Accountant General (Audit). Objections arising out of audit of sanctions were communicated by CASS to the concerned department with a copy to the AG(A & E) and their settlement closely watched. There was close co-ordination between each CASS and the concerned CAPs. The results of scrutiny of all sanctions were made readily available

to the latter before actual central audit of the transactions concerned took place.

The test check of accounting and entitlement functions of the As. G. (A & E) by the As. G. (Audit) was dispensed with from November, 1986. The As.G. (A & E) was given discretion to carry out surprise sample check of entitlement work through the ITA units periodically. Central Audit of pension vouchers was also given up. As a result of shedding of these items of works, the staff rendered surplus was utilised for strengthening of local audit particularly in regard to scrutiny of records and files of Secretariat and Heads of Departments relevant to audit of sanctions, contracts, schemes, projects and systems, besides strengthening the local audit of other offices. The draft Finance and Appropriation Accounts which were compiled by the As.G. (A & E) were required to be checked by the respective audit office and was to be cleared finally for printing by the As.G.(Au) with effect from the accounts for the year 1985-86. As a sequel to this decision, chapters one and two of the Civil Audit Reports which were based on the Finance and Appropriation Accounts were prepared by the As.G.(Audit) after reconciling it with the relevant statements of the Finance and Appropriation Accounts, and three copies of the finalised chapters alongwith one copy each of the finally checked draft Finance Accounts and Appropriation Accounts and Detailed Appropriation Accounts were sent to HQrs. office for approval and clearance before the printing of the Audit Report. Specific para, if any, for inclusion in these chapters continued to be included as hitherto. One copy of the Finance and Appropriation Accounts duly checked by the A.G. (Au) was sent to HQrs. by the AG (A & E) for preparation of Combined Finance and Revenue Accounts. The time schedule for finalisation of material for inclusion in the Finance and Appropriation Accounts by the As.G. (A & E) and completion of their checks by the respective As.G. was modified so as to commence the checking of AG (Au) of the Finance Accounts compiled by the AG (A & E) by 5th October each year and its completion and return by 16th November each year.

GRANTS-IN-AID AUDIT

The principles governing audit of the grants-in-aid made by Government to a body, fund or concern, which was financially independent of Government and processing of audit results under the Audit and Accounts Order 1936, as amended by the Provisional Constitution orders were explained in earlier chapter. Article 149 of the Constitution of India specifically provided that the CAG shall perform such duties and exercise such powers in relation to the accounts of any authority or body

as may be prescribed by or under any law made by Parliament, which was held to be exhaustive of the means whereby duties other than those specified in other provisions of the Constitution itself can be imposed upon the CAG. This did not preclude the CAG from undertaking any additional duties in respect of any authority or body other than that in relation to the accounts of which specified duties have been entrusted to him by or under any law made by Parliament/by consent and on such terms and conditions as may be settled between him and the Government concerned. Audit of local authorities *e.g.*, the municipal funds etc., came under this category. The existing provisions contained in any state legislation imposing duties on the CAG (or any of his officer) continued to remain in force on such consent basis. The words 'body' and 'authority' were not defined in the Constitution. The Attorney General of India interpreted 'Authority' to mean a person or body exercising power or command vested in it by virtue of provisions in the Constitution or Acts passed by the Parliament or the State Legislatures and 'Body' to mean an aggregate of persons, whether incorporated or unincorporated. Important audit findings were included in Audit Report (Civil) of Government of India and States.

ARC RECOMMENDATION

The Administrative Reforms Commission, in its fourth report, on Finance, Accounts and Audit, observed, *inter alia*, the compulsion of circumstances in the case of local bodies, which led to the cumbersome and improvised device of audit by consent of the concerned bodies and recognised the understanding between the Government and the CAG, which entitled the latter to carry out in his discretion a test check of all grants-in-aid in excess of certain monetary limits. The Commission recommended that the proposed enactment to be made under Article 149 of the Constitution may specifically provide for "the audit in his discretion by the CAG, if the accounts of bodies receiving Government assistance in the shape of substantial investment or grants-in-aid with a view to ascertaining that funds provided have been used only for the purposes intended".

Section 14 and 15 of the draft bill was proposed on this basis but the recommendations of the Administrative Reforms Commission and the Estimates Committee that the CAG should be authorised to audit the accounts of (a) any body or authority, where substantial sums (not less than Rs. 1 crore and 25% of the share capital) have been invested by Government, and (b) the bodies or authorities receiving subsidies from Government, were not accepted by Government. Although, the then CAG in his Memorandum to the Joint Parliamentary Committee and

oral evidence pressed for incorporating suitable provisions in the Bill, the Joint Committee proposed early an amendment to clause 14 to extend CAG's audit not only to those bodies or authorities financed entirely but also to bodies or authorities which have been the recipients of substantial amounts by way of grants or loans. The Committee felt that such audit should also extend to receipts of such bodies or authorities and the right to audit should specifically include the right to report the results of audit and suggested suitable amendments. The philosophy or the reasoning behind the accounts of private and semi-government institutions being subjected to a statutory audit by the CAG under these sections was that though the expenditure of Government departments from the Consolidated Fund was audited by the CAG under Section 13, from the legality, regularity and propriety points of view, a large chunk of it, representing grants and loans disbursed to other institutions for financing schemes approved by Government would escape such detailed scrutiny and Parliament/Legislature would receive no statutory reports on how the monies voted by them for the purpose were actually utilised by the recipients, unless these institutions were subjected to an audit by the CAG.

CAG'S (DPC) ACT, 1971

The duties and powers of the CAG in relation to the audit of autonomous bodies were laid down in Sections 14, 15, 19 and 20 of the CAG's (DPC) Act, 1971 explained earlier. In addition, several other enactments of Parliament empowered him to audit accounts of autonomous bodies created by specific legislation. Similar duties and functions in regard to audit of accounts were laid down in several state enactments. Autonomous bodies fell under two categories for the purpose of their audit and accounts - those required to be watched for utilisation of assistance rendered by Government and another for certification of annual accounts, as representing true and fair picture of affairs of the autonomous body - both in public interest. The scope, extent and coverage of audit of these bodies developed in the next few years.

The qualifications for any institution to attract audit under Section 14 was that the grant or loan must be to a body or authority, must have been paid out of the Consolidated Fund of India or of the States and the autonomous body must be "substantially financed" by grant or loan. Such an audit covered both receipts and expenditure of the autonomous body and was subject to the provisions of any law, for the time being in force, applicable to the autonomous body and the results of audit were reported by the CAG. Neither grant or loan financed on funds outside

the Consolidated Fund nor transfer of revenue assignment *ab initio*, were considered as grant to autonomous bodies for the application of these provisions. The quantum of grant or loan was computed with reference to certain principles. If the amount of the grant or loan or both (in any financial year) together with the unutilised grant or loan or both carried over from the preceding financial year from either the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly were in any financial year collectively not less than Rs. 5 lakhs in a year, the autonomous body came under Section 14, provided the other provision regarding percentage of expenditure was also fulfilled. The term "total expenditure" was interpreted to mean both revenue and capital expenditure. In respect of organisations, which performed several activities but did not compile a consolidated account in respect all such activities, the feasibility of combination was examined with reference to the accounts of the respective activities to decide application of this Section. Audit under the Section took into account all provisions in the law governing the autonomous body and did not replace any audit arrangement envisaged in the relevant law governing the autonomous body but was in addition to existing audit by any other agency. The crucial question on each case, as clarified by the Ministry of Law and Justice, was whether audit by the CAG was excluded expressly or by necessary implication and that provisions in the relevant State Acts and rules thereunder would not exclude audit by the CAG. In effect, because of Art. 149 of the Constitution no State Act can preclude audit by CAG under this Section. The term 'report' used in this Section was read in the context of report under Article 151 of the Constitution of India. Normally, audit included certification of annual accounts and audit under this Section did not preclude certification of accounts by CAG. The main objective of audit under this Section was to include in such reports, the findings of audit of the substantially financed bodies and the CAG cannot be compelled to certify the annual accounts for placing it before the management of the autonomous body. Certification of accounts was not, therefore, obligatory and such certification was decided by CAG to be undertaken only where he acted as sole auditor under other provisions of the Act.

Section 15 imposed a statutory responsibility on the CAG to scrutinise the procedures by which the authority sanctioning a grant or loan for a specific purpose to an autonomous body from the Consolidated Fund, satisfied itself as to the fulfilment of the conditions subject to which such grants or loans were given and also gave the right of access to the books and the accounts of the autonomous body, subject to certain restrictions. While it was obligatory for the CAG to examine

the records of the sanctioning authorities relating to procedure adopted for ascertaining utilisation of grants or loans for specific purposes, it was not obligatory to scrutinise the books and accounts of all autonomous bodies, whose records were open to inspection under this Section and the discretion to limit the scrutiny to the extent was left to him. The examination related to grants or loans given for specific purposes but did not cover grants for general purpose without any condition or purpose being specified. In case of any doubt, as to whether a grant or loan was for specific purpose, the relevant file leading to the issue of sanction was consulted. Specific orders of Government under public interest was required to give CAG accessibility to records where other auditors operated under relevant statute, after consulting the CAG and the body concerned. Section 20 covered other bodies and authorities. Section 20(2) conferred a right on the CAG to propose for audit of bodies and authorities by him under certain circumstances and sub-section 20(3) prescribed the procedural aspect of entrustment of audit to the CAG under sub-sections 20(1) and 20(2). Section 20(1) dealt with the entrustment in public interest, of audit of accounts of autonomous bodies and authorities. Audit can be entrusted to the CAG only in public interest under Section 19(3) and 20(1). The satisfaction in both the cases was of the Government concerned, and it was not necessary for Audit to scrutinise or examine the correctness of the said satisfaction, or to hold a contrary view in the matter. Audit can be entrusted to the CAG, only after giving a reasonable opportunity to the autonomous body to make representations with regard to the proposal for such audit. Normally, the request of the Government was made only after consultation with the CAG and audit was entrusted on such terms and conditions as agreed upon between the Government and the CAG. Having complied with the requirements, a formal request was sent by the Government in the name of the President/ Governor/Administrator for entrusting the audit to the CAG. Section 20(2) empowered the CAG to propose to the President/ Governor/Administrator of a Union Territory having a Legislative Assembly for conducting audit of accounts of any autonomous body, which has not been entrusted to him, under certain circumstances, if he was satisfied that such audit was necessary, because a substantial amount has been invested in or advanced to such autonomous body by Government.

SYSTEMS AND PROCEDURE

While it was not obligatory to certify the annual accounts under Section 14, audit undertaken under Section 19 or 20 by and large involved certification of annual accounts. Transactions audit and accounts audit

were done at one stretch in cases, where CAG was the sole auditor. The form of annual accounts for the bodies decided by the Government of India comprised of three sets of accounts, Receipts and Payments Account, Income and Expenditure Account, and Balance Sheet. During audit of accounts, critical review of the system of book-keeping, accounting and internal control, requisite tests and inquiries to form an opinion as to the reliability of the records as a basis for preparation of accounts, comparison of the income and expenditure account, and the balance sheet with the underlying records, and a critical review of the income and expenditure account of balance sheet were carried out to certify that they were not only true but also fair. Audit of transactions and accounts was intermingled in such a manner as to reach the same destination of certification of accounts. The broad checks to be carried out on accounts were spelt out. Internal control system was checked to satisfy their adequacy, effectiveness and reliability. The audit of transactions was conducted more or less in the same manner in which they were conducted in departments of Government subject to such changes required to suit the body audited. Bodies and authorities established for educational, cultural, scientific or social welfare development, authorities and corporation constituted for development of urban and rural areas, consumer and producer cooperatives, which received substantial assistance from Governments, were subjected to audit, both financial and operational audit. For organisations for which CAG acted as a sole auditor, the function was essentially performed under Sections 19 and 20 of the Act. Where he was not the sole auditor, the task of financial auditing was done by the auditor, who certified the accounts but the efficacy of such audit was subjected to check during audit under Section 14. The scope of operational auditing was in the nature of a second audit for an objective entirely different from the one for which the organisation/government had appointed auditors for annual certification of accounts. Review of programmes and their implementations was carried periodically. The ECPA techniques already evolved for reviewing programmes/projects/ activities etc., in the civil and commercial departments were adopted *mutatis mutandis* for review of autonomous bodies and institutions. The results of audit were summed up in a report in the proforma prescribed to the organisation and Government concerned their replies and comments obtained and thereafter the final conclusions were examined to see whether they merited reporting to the Parliament/Legislature, and if so, the draft paras were floated in another case in the Department.

Audit under Section 15 which involved check of systems and procedure, watch over receipt of returns, check of representative samples.

etc., formed part of the work in the first phase. Scrutiny of accounts of autonomous bodies was carried out in the second phase. Various points to be looked into during audit were spelt out for the guidance of practitioners. Performance reviews were carried out once in two years. Important irregularities noticed in the scrutiny of systems and procedures were commented upon suitably in a report for eventual processing as paras in the Conventional Audit Report.

ORGANISATION

Audit cells were set up in the office of Accountants General for implementing the provisions of the new sections of the Act, initially as a part of OAD, under the supervision of AG. Their main job was to identify the autonomous bodies, that attracted audit under Section 14 with reference to the copies of sanctions of grants or loans received in their offices and connected records and accounts available, both in their own offices and the offices of sanctioning authorities, at the commencement of each financial year. Bodies, which were in receipt of grants or loans or both not less than 5 lakhs were listed and the sanctioning authorities of grants and loans were approached to make available the accounts of the bodies for the concerned year for applying Section 14 of the Act and working arrangement was evolved in consultation with the Finance Department, Ministry of Government for quick identification and early completion of formalities for taking up audit. The list of autonomous bodies to be audited in a year was drawn up and suitable programmes chalked out and necessary advance intimations were sent to the autonomous bodies concerned to make available accounts books and connected records for audit. The audit under Section 14 was normally undertaken if the annual accounts were audited and certified by the auditors appointed for the purpose by the autonomous body/Government in accordance with the legal provisions relating to the body except where no such auditors were appointed and certification was called for, where it was open to the AG to certify.

Similar procedure was also followed for identification of bodies/authorities for audit under Section 15 and a list of sanctioning authorities as well as the particulars of grants and loans released by them annually to programme suitable local audit each year - both for scrutiny of procedure of the sanctioning authorities for sanctioning and utilisation of grants or loans and examination of books of accounts of the body.

Audit under Section 19(2), (3) and 20(1) was taken up essentially for purposes of certification of annual accounts, although audit for certain special purposes can be entrusted after prior consultation with

the CAG. Prior concurrence of the Ministry of Finance, Government of India was required before any enactment to provide for duties and powers of CAG is to be initiated by the Government. Each case was considered by the Finance Ministry before the proposal was sent to the CAG and the departments of Government were required to obtain approval of the Minister concerned on matter of public interest involved for entrusting audit to the CAG. To ensure uniformity and common procedure proposals for entrusting audit to the CAG was required to be examined by the respective Finance Departments of the State Governments before proposing them.

MODUS OPERANDI

The proposals for taking up audit under these sections were received in the case of Central autonomous bodies directly in the office of the CAG and in the case of State autonomous bodies by the respective State Accountant General. These were examined to see, whether Government have satisfied of the necessity for entrusting the audit in public interest to the CAG, audit office was adequately equipped to take up the work, whether the duties cast on the audit according to Acts, rules, regulations were capable of being discharged, and did not include any item of work not normally undertaken by audit, whether audit will be conducted by the IA & AD alone or whether there will be a second auditor and, if so, the relative duties of the two auditors and the acceptability of such arrangements, whether Parliament/Legislature has shown interest in its activities by providing for submission of annual returns and reports of auditors before it, duration of audits and reasons therefor, whether the standard terms and conditions for taking up audit are capable of being enforced, whether the autonomous body was consulted and its views and whether the autonomous body has branch units and arrangements for accounting and need for any audit of branch units. After examination, they were sent to Headquarters Office with the recommendation of the AG and the decision of the CAG was implemented. The audit arrangement is complete only on receipt of formal request in the name of the President/Governor/Administrator addressed to the CAG in suitable standard format evolved. On receipt of requests arrangements were made to contact the autonomous bodies and to bring about a working arrangement for conduct of audit and issue of audit certificate with audit report thereon.

LOCAL AUDIT

As audit under Sections 14, 15, 19 and 20 involved mostly local audit of the records of the sanctioning authorities and autonomous bodies,

programme for local audit and the composition of local audit party was determined with reference to the nature, scope and extent of work, as well as the time schedule within which accounts were to be verified. The local audit procedure already in vogue in all the offices was observed, *mutatis mutandis* for the audit and reporting to autonomous bodies as well. The audit report and inspection reports were drafted by the supervising officer and important points, which merit mention in the Conventional Audit Report on the accounts of the Government concerned were brought out separately, and separate draft paras were proposed later. The audit reports prepared on autonomous bodies, which were required to be placed before the Parliament or State Legislatures were called "Separate Audit Reports". Where the relevant Acts, rules and/or regulations governing the autonomous bodies provide for submission of audit reports to the Parliament or the State Legislature either of its own volition or on the directive of any Parliamentary/Legislative Committee, they were cleared by the CAG's Office before sending to the Government concerned for being placed on the table of the Parliament or State Legislature. In all other cases, the audit reports was finalised by the Director of Audit/Accountant General concerned and issued under his signature on his own authority. The content of the Separate Audit Reports were examined by the Accountant General/Director of Audit, in view of their importance and the possibility of the PAC examining them. Reports of the bodies on the annual accounts were normally sent to the autonomous bodies concerned and the replies obtained, except in cases where replies of Government were required in which case they were sent to the Government. The paras for inclusion in the Conventional Audit report were processed in the same manner as the paras for the normal audit reports and the facts and their correctness were got checked by the authorities concerned.

REPORTS

Normally the Separate Audit Reports contained points which vitiate the certification of accounts as representing a true and fair picture of the working of the state of affairs of the organisation, observations on utilisation of assistance given by Government, non-fulfilment of the objectives of the scheme of assistance, cases of avoidable or infructuous expenditure, losses, delays in execution of works and schemes, irregularities etc., omission to take remedial action on persistent irregularities, absence of internal control and checks which reduce the degree of reliability of the accounts, non-maintenance of basic records, delay in recovery or adjustment of advances, inaccuracies in accounts and

in classification and observations on overall financial position and necessity for continued dependence on Government assistance. A separate certificate to be incorporated in the audit report by the Principal Audit Officer was prescribed. While forwarding the audit report to the Government and the autonomous bodies, special points contained in the report, reasons for delay, if any, in certification and intimation regarding the date on which they were placed before Parliament/State Legislature etc., were required to be given. CAG was also kept informed of the presentation of the reports to ensure their promptness and accuracy.

Inspection reports incorporated minor points of objection not considered fit enough for mentioning in the separate Audit Reports. Important points on irregularities committed with the knowledge of the sanctioning authority or utilisation of assistance, or where the responsibility to answer the points of objection for audit findings vested with Government offices, were processed as paras to be included in the Conventional Audit Report rather than Separate Audit Reports and the *modus operandi* for processing of paras was identical to what was obtaining for processing paras in Audit Reports (Commercial). Performance review on autonomous body vis-a-vis its objectives and programmes was required to be conducted in a phased manner so as to cover all important bodies over a time.

In March 1983, there were 162 autonomous bodies which were subjected to audit under different Sections of the Act by 21 Principal Audit Officers, the audited accounts and Audit Reports of 140 autonomous bodies were placed before Parliament, in the case of 22 bodies, the audited accounts and reports were not placed before the Parliament, and audit of 90 state bodies were subjected to audit by 24 Accountants General/Directors of Audit, of which the audited accounts and reports of 65 autonomous bodies were placed before the State Legislature.

EXAMINATION BY COMMITTEES

The *modus operandi* for scrutiny, examination and disposal of these reports were governed by the rules and procedure prescribed by the Parliament and State Legislature. The Committee on Papers laid on the Table of the House, 1975-76, 5th Lok Sabha, chaired by Shri Era Sezhiyan in its first Report presented on 8th March, 1976* recommended as under :

* First Report (Fifth Lok Sabha) presented on 8th March, 1976 - Paras 1.16 and 1.17.

"With a view to avoid delays in the laying of reports and accounts of autonomous organisations and in order to achieve some uniformity in this regard, the Committee recommend that after the close of the accounting year every autonomous organisation should complete its accounts within a period of three months and make them available for auditing. Auditing of the accounts and furnishing replies to audit objections, if any, and also translation and printing of reports should be completed within the next six months, so that the reports and audited accounts are laid before Parliament within nine months after the close of the accounting year unless otherwise stipulated in the relevant Act etc., under which the body has been set up. If for any reasons, the report and audited accounts cannot be laid within the stipulated period of nine months, the concerned Ministry should lay within 30 days of the expiry of the prescribed period or as soon as the House meets, whichever is later, a statement explaining the reasons why the report and accounts could not be laid within the stipulated period".

The Committee further recommended that autonomous organisations, which lay only their Annual Reports, should not take unduly long time in laying them after the close of the accounting year. In such cases, the administrative Ministries should ensure that the Annual Reports are invariably laid before Parliament within six months after the close of the accounting year.

The 2nd Report of the committee on papers laid on the Table 1977-78, 6th Lok Sabha, recommended that "all Statutory/Autonomous Organisations, Public Undertakings, Corporations, Joint ventures, Societies etc., which are financed out of funds drawn from the Consolidated Fund of India, after being voted by the Parliament, in the form of shares, subsidies, grants-in-aid etc., either wholly or partly should lay their Annual Reports/Audit Report (both English and Hindi version) before both Houses of Parliament irrespective of the fact whether the Statutes, Rules or Regulations of such organisations provide therefor or not and whether they are registered under the Companies Act, 1956 or not."

OPERATIONAL PROBLEMS

Actual working of Section 14 in respect of bodies and authorities receiving aid from Government gave rise to certain difficulties within a few years. The meaning of the words "subject to the provisions of any law for the time being in force applicable to the body or authority" appearing in the section became a matter of controversy between the Audit Department and some of the State Governments. The interpretation of these words by Audit, adopted on the basis of advice of the Law

Ministry, was that when the law governing the body or authority did not in specific terms exclude or prohibit audit by the CAG, he had a right to take up the audit of the institutions under this section. This was based on the ruling given by the Supreme Court* that the words 'subject to' meant 'conditional' upon. Some of the State Governments like Haryana, Tamil Nadu, Gujarat, Maharashtra, Rajasthan and Madhya Pradesh took the stand, that, if in respect of the bodies or authorities in their States the audit had been entrusted by the respective legislation to any other authority, such as the Examiner of Local Funds, audit by the CAG was deemed to be excluded by implication. The States argued that the term 'subject to the provisions of any law' meant that a State Law could automatically exclude audit of an institution by the CAG by providing for its audit by different authorities, which was supported by another Supreme Court decision[§] in which, while interpreting the words 'subject to' in Entry 11 of the List II of the VII Schedule it was held that to the extent of the restriction imposed the power was taken away. As both the views were supported by judicial interpretation, and since the Law Ministry's advice was not binding on State Government, who had their own legal advisers, there was no way to overcome the different interpretations, except by suitable amendment of the Section to make the intention clear. It was common knowledge that Examiner of Local Funds and other such State authorities, was not independent, and their audit was not construed as completely independent and unbiased. Moreover, audit against propriety of transactions, which was a special feature of CAG's audit, cannot be expected to be carried out by them with the required level of objectivity. The commonly held view was, that audit by the CAG can be more fruitful and efficient, particularly, in areas where Government aid was apt to be misused or misapplied, as in the case of panchayats, co-operative societies etc. In fact, requests for audit of various co-operative societies and other such institutions, under Section 20(1) poured in both from the government of India and some of the State Governments. Unless the words 'subject to the provisions of any law for the time being in force applicable to the body/authority, as the case may be, was omitted audit by the CAG cannot be automatic.

The qualifying ceiling of Rs. 5 lakhs or 75 per cent of the total expenditure of the body or authority left out several important Institutions like Industrial Finance Corporation and certain big co-operative societies from the purview of the CAG's audit, despite Government's substantial interest in them, and the sizeable grants and

* *K.R.C.S. Balakrishna Chetty Vs. State of Madras* (1961 S.C. 1152).

§ *Gujarat University Vs. Mudholkar* (1963 S.C. 703).

loans advanced to them, which did not constitute 75% of the total expenditure of the recipient bodies and which had larger financial interest from other sources. On the other hand, comparatively minor and small institutions like primary schools, where the expenditure was mostly on salaries of teachers were subjected to audit by the CAG, since Government aid received by them was Rs. 5 lakhs or more. The audit in these cases though not fruitful involved considerable expenditure as many of these institutions were located in far away places. Data collected by 30 offices brought out the large variance between institutions, which received grants of Rs. 5 lakhs or more and those which attracted Section 14, as under :

Year	Number of institutions receiving grants of Rs. 5 lakhs or more.	Institutions attracted by Section 14	Percentage of variance
1972-73	2323	1795	77.27
1973-74	2496	1915	76.72
1974-75	2734	2049	74.94
1975-76	3045	2332	76.58
1976-77	2795	1842	65.9
1977-78	2621	1424	54.33

The increasing trend of variance in coverage exposed the loopholes in the Section. Several institutions in many states received grants/loans exceeding Rs. 5 lakhs - ranging from Rs. 8 lakhs to Rs. 365 lakhs, over 22 institutions in half a dozen states received over Rs. 100 lakhs, which did not attract section 14. The Industrial Finance Corporation of India, which received Government aid amounting to Rs. 1.01 crores during 1976-77 and Rs. 2.83 crores during 1977-78 escaped audit by CAG since what they received from Government formed only 4.7 per cent and 13.5 per cent of the total expenditure of the institution. The National Dairy Development Board received Government grant of Rs. 201 lakhs in 1977-78 but its total expenditure was Rs. 15.80 crores, and hence did not attract audit under Section 14. In the States large amounts of governmental aid were pumped into panchayats, co-operative societies and other such bodies but the utilisation of these amounts could not be satisfactorily checked and reported by Audit. *Prima facie* there was a case for increasing the limit of Rs. 5 lakhs to Rs. 100 lakhs for taking up

audit under Section 14 and also to enable audit of institutions receiving very large subsidies/grants/loans. In the case of very large institutions, where satisfactory arrangements for audit existed under the Law audit by the CAG can be supplementary to the normal audit, more or less on the lines obtaining in government companies. The scope and desirability of expanding the term grant used in Sections 14 and 15 to include to and also to bring in bodies or authorities provided with Government guarantees for CAG's audit was also felt. Suggestions for amending the Section was made by the CAG on 22nd April, 1980.

AMENDMENTS

The CAG's (DPC) amendment Act 1984 substituted Rs. 5 lakhs by Rs. 25 lakhs in the explanation to Sub-section I and added Sub-section (2) to raise the financial limit of the receipts and expenditure of the body or authority receiving grants or loans qualified for CAG's audit to Rs. one crore and sub-section 3 provided for continuance of audit of such a body for a further period of two years under section 14. A new Section 19A was added to make it obligatory for submission of the reports in relation to the accounts of a Government Company or a corporation to the Government or the Government's concerned, who shall cause them to be laid before each House of Parliament or Legislature of the State. The amendments took effect from the accounts for the year 1983-84.

The terms 'body and authority' referred to in the amending Act had a wider connotation. A company or corporation not covered by Sections 19(1), 19(2) and 19(3) of the Act, can be brought under Sections 14(1) and 20(2) for purpose of CAG's audit. Section 15(1) provided for right of access to the books and accounts of any authority or body including a Company receiving grant or loans from the Government for any specific purpose. In respect of Corporations, such right of access can be given by the President or the Governor under Section 15(2). No law of a State Legislature can cast any duties or confer any powers on the CAG or his representatives nor can the duties and powers of the CAG prescribed by Parliament be superseded or abridged by or under any law made by any State Legislature. The implication of the clause 'subject to any law for the time being in force' occurring in Section 14(1) was interpreted to mean that CAG's audit will co-exist with and complement the audit arrangements, that may be specified in such law. The immediate result of raising of the monetary limit was the disappearance of several institutions from CAG's audit. It facilitated audit under Sections 14, 19 and 20 to be conducted on an annual basis in offices with adequate manpower, while accounts were audited annually, transaction audit of

routine units was done once in three years. As the Government or CAG can suggest appointment of Chartered Accountant as the primary auditor of any authority or body a new procedure, identical to the one already obtaining in the case of Government Companies in regard to the appointment of auditors, was evolved and CAG's audit results were presented in the form of comments on the accounts audited by the Chartered Accountant. While no distinction was drawn between audit of receipts and expenditure under the Act, it was left to the CAG to decide the detailed audit of any accounts or a class of transactions with reference to the circumstances of each case. The earlier hesitation for taking up of audit under Section 14(2) or Section 20(2) or in asking for right of access to the books of the recipient body under Section 15(2) disappeared with the amended Act. While the unique role of the CAG in audit of accounts, where public moneys were involved was recognised, the constraints and practicability of auditing of each and every individual transactions of an institution or body was appreciated. The adequacy of the arrangements for audit of transactions and of accounts, of every body or authority receiving or spending public money was satisfied with reference to the regularity of audit conducted, qualifications, expertise and independence of the auditors at the operating levels, the promptitude in reporting the audit findings, and its quality and effectiveness. When the judgement was, that it fell short of requisite yardsticks, audit was taken up, if otherwise permissible. To facilitate audit at any stage the Government was to be advised to include in the conditions of sanctioning grants, loans or investments and enabling clause to the effect that the books and accounts of the recipients institutions shall be made available to the CAG. The periodicity of audit for departments and agencies under Section 15 was to be determined with reference to the aggregate sums disbursed by them as grant or loans and the accessibility to the books and accounts of the institutions receiving specific purpose grants or loans was to be assured. The procedure for taking up audit under Section 20(1) was slightly modified to provide for the appointment of a primary auditor to conduct audit on his behalf, and on the basis of directions and guidelines issued by him subject to test check by the CAG of the accounts certified by him. Change in planning audit programme, procedure for selection of units for audit, conducting audit in a phased manner and processing report was made.

The systems approach to regularity audit to examine whether the accounting systems and procedures provide *inter alia* for proper accountal of receipts, expenditure and assets, recording of unrealised revenues and undischarged liabilities, general control over the

expenditure, sanctioning and incurring of expenditure, forgoing of revenues or transfer/disposal of assets, safe custody of cash, stores and other assets, purchasing and contracting procedures was followed. While regularity audit was to be conducted annually the efficiency-cum-performance audit was to be taken up only once in 3 or 4 years. In view of the new sub-section 19A, much care in drafting reports by the principal Audit Officer for submission under Article 151 of the Constitution was stressed. The chapter on financial assistance included in the Audit Report (Civil) was enlarged to give a panoramic view of the funds in whatever forms placed at the disposal of the bodies, the delays in preparation of accounts by them, the audit arrangement for each class of institutions, their adequacy or otherwise and significant audit findings to which attention of the Legislature deserved to be drawn.

THE COVERAGE

The status of audit of autonomous bodies/institutions under Sections 14(1), (2), 15(1)(2) of the Act as on 31st March of each year for the five years' period ended 1989 are shown below.

	1985	1986	1987	1988	1989
1. No. of offices involved in audit	24	60	64	58	49
2. No. of audits due to be completed	1398	2106	2598	3816	2612
3. No. of audits actually completed	897	1053	1718	2379	1523
4. Extent of arrears	501	1053	1580	1437	1089

The arrears in audit were reported to be predominantly due to shortage of staff and non-completion of accounts.

Comments on grants-in-aid audit were included in the relevant chapters of Audit Reports of both Government of India and the States. In AR (Central) paras were included ministry-wise until 1959, when separate chapter in the AR to incorporate the findings on grants-in-aid audit was introduced. ARs 1952 to 1971 featured 215 paras and 2 reviews - the maximum being 36 in AR 1964 and the average was around 13 paras. The chapter heading was changed to 'Autonomous Bodies', and later 'financial assistance given by Government' after the Act came into force, when reviews became a regular feature in each year's Report. A separate Report on Autonomous Bodies was issued from 1985-86 onwards. 29

paras and 62 reviews were included in AR 1971-72 to 1985-86. 6 Reports were issued during 1986-87 and 1987-88, which included 52 paras and 18 reviews. Selected paras and reviews of both ARs on Union Government and State Governments are discussed in the relevant chapters.

AUDIT REPORTS

In state reports, comments on grants-in-aid started featuring from AR 1962 onwards and in 12 years' Reports upto 1971-72 on 24 state governments, 1082 paras were included. After the Act came into force, a separate chapter on Financial Assistance to Local bodies' was included in 15 years' Reports upto 1986-87. The chapter contained both paras and reviews and the aggregate number of paras was 2318 and reviews 295. Separate Audit Report on autonomous bodies were issued from 1985-86 in three states, namely UP, WB, and AP. The audit findings in this comparatively new sphere of audit have fully justified the trust and expectations of the Parliament and the Government, who got the specific provisions for CAG's audit incorporated in the Act. In view of the constitutional and statutory changes on the anvil for strengthening the Mandal Panchayats, Zilla Parishad, the Municipalities and corporations, the prospects of such work gaining greater importance loom large before the Department, which is better equipped to deal with the emerging third tier system of democracy in the Indian polity. Since the CAG has proved by his performance the advantage of auditing grants-in-aid, loans and advances granted by Government, the earlier misgivings, which caused exclusion of certain types of assistance from the purview of CAG's audit, discussed in respective chapters, should be dispelled and the existing constraints on the coverage of audit should be lifted for the benefit of the grantor, grantee and the tax payers.

DEVELOPMENTS IN EPA

The technique of efficiency-cum-performance audit was developed and applied to the transactions connected with major development programmes and projects in the country. Comprehensive appraisal of the public sector undertakings and evolution of the mechanism of Audit Boards with built-in external expertise was yet another extension of technique of efficiency-cum-performance audit to a major area of massive investment by the Central Government. Reviews of the public sector units in the States saw the extension of this technique on a modest scale to an area of major capital investment in the States, despite the absence of institutional arrangements for co-ordination and control of industrial units in the State Governments, like the Bureau of Public Enterprises in the Government of India. In the field of audit of revenue

receipts of the Government of India and the State Governments, different types of reviews designed to augment resources, plug loopholes in leakage of revenues, and help strengthen policies, programmes and administration of revenue receipts, were developed. This major shift in emphasis in audit and projection of audit findings transformed the nature, outlook and objectives of government audit and the results produced during the last two decades reflected in the volume and content of the Audit Reports. In the Central Report, the number of individual paras - which epitomised the findings of audit of individual transactions declined substantially and the number of reviews increased considerably.

The main facets of efficiency-cum-performance audit, as developed during the last two and a half decades were Efficiency audit, Economy audit and Effectiveness or performance audit. In efficiency audit it was seen as to whether the various schemes/projects were executed and their operations conducted economically and were yielding the results expected of them. In economy audit it was seen whether the broad principles of orthodox finance were borne in mind not only by the disbursing officers but also by the sanctioning authorities. Not mere conformity to rules or orders of competent authority but beyond the formality of expenditure to its wisdom, faithfulness and economy were seen. In effectiveness audit, appraisal of the performance of programmes, schemes and projects with reference to the overall objectives arrived at as well as efficiency of the means adopted to attain the objectives were looked into. The entire gamut of the programme, scheme or project, right from conception to execution, commissioning, ultimate operation and functioning/performance was covered in such appraisals.

Consequent on the emergence of performance budgeting which came in the wake of implementation of the recommendations of the Administrative Reforms Commission, evaluation of performance took more precise form. Performance budget and performance audit were the two faces of the same coin and introduction of the former facilitated implementation of the latter. The performance budget contained the purposes and objectives for which funds are requested, the costs of programmes proposed for achieving these objectives and quantitative data measuring the accomplishments and work performance under each programme. In some cases it was output budgeting to mean what a department aimed to achieve, its objectives in the area of policy for which it is responsible, what activities contribute to these objectives, what resources or inputs are being devoted to these activities, what is actually being achieved or what the outputs are. The key elements of performance

budget were programme budgeting and system analysis. Programming and planning ahead gave the decision-maker more purposeful information as to which decision to take and the goals to be pursued and those to be deferred. System analysis provided the decision-makers with costs of alternative approaches to achieve the goals by applying techniques of operational research, cost benefit, etc. Both quantitative and qualitative information and data become available under performance budgeting. Certain conformity between account heads/budget heads and programme/category heads was also obtained under the system. In the process of preparation of the budget, decisions are reached with regard to the scope, objectives, extent and level of government activities, planning, determining the alternatives available, projecting the results expected, postulating the factors in a decision-making situation that affect the anticipated results, selecting the best course of action for giving effect to the decision, evaluation of the effects of the decisions and throwing up deviations from anticipated targets, so as to enable the management to take corrective action wherever necessary and possible etc. The entire spectrum of decision-making process and its execution is examined by audit from the point of their effectiveness. It pre-supposes the existence of a suitable system not only to find out what was intended to be achieved and at what cost but also what has actually been achieved and at what cost.

The appraisal of the investment decision at the macro level was a difficult part of performance audit, which was increased by the multiplicity of objectives, some of which being socio-economic in nature, defied precise quantification and accurate comparison of output with input. The techniques adopted in arriving at management decision, like operational research, present value profits, sensitivity analysis, break even analysis, contributions approach, discounted cash flow, etc. were adopted *mutatis mutandis* in performance audit. The method, technique and procedure to be adopted varied with the nature and content of each programme/project. Information required for conducting effectiveness audit were available in the performance budget/programme budget/scheme budget. But the mass of data behind the figures and approved programme were collected from the departmental records and analysed in audit to reach scientific conclusions. While the flow of such information to audit is a *sine qua non* to effective performance audit, their interruptions or even non-availability did not become an alibi for poor performance audit. The basic principles of decision-making and executive action in Government are well known to Government auditors and all that was required was correct appraisal of events and judgement at the cutting edges. The result brought out a dispassionate portrayal of

the outcome of independent evaluation of performance and of efficiency with reference to the objectives and targets set out in the budget. Even under imperfect performance budgeting, evaluation became possible, after the objectives, programmes, costs, targets, systems, details of execution, quantification of results (physical, financial, etc.) were ascertained and intelligently applied.

SYSTEMS AUDIT

A critical evaluation of the accounting system to test the reliability of a financial statement produced by the systems without detailed examination of individual transactions is attempted in Systems Audit. The mechanics of the system was analysed intensively and the detailed survey shows it to be designed with appropriate controls, checks and balances to forestal errors, as it was a good indication that the results produced by the system would be accurate. The emphasis under this approach was on analysis of the effectiveness and reliability of systems and controls. The main stages of a systems based audit were:

- (a) detailed survey of the system,
- (b) testing the system through small samples on which procedural tests are applied in depth to find out whether the system is really in force,
- (c) recording the system/information through flow charts,
- (d) analysing flow charts to determine apparent weaknesses or inefficiencies,
- (e) investigating in detail the apparent weakness or inefficiencies, and
- (f) suggesting possible improvements.

Application of the systems based audit approach for effective 'value for money' auditing involved scrutiny of the systems and procedure of the sanctioning authorities for expenditure grants and loans to bodies and authorities for specific purposes under specific delegation of powers and the mechanism to ensure utilisation of money released. Scrutiny of control points, brought out evaluation of performance of construction or operation or socio-economic activities. The reporting system threw up results at appropriate levels. The study of the system of reporting facilitates, evaluation of reliability and truthfulness of figures of performance reported by the various reporting authorities, gave clues in regard to the genuineness or otherwise of the schemes of performance claimed to have been adhered to at various levels. Even in transaction audit of purchases and sales, system approach gave dependable results for evaluation purposes which turned out to be better than isolated

comments, which are often disjointed, disconnected and ineffective. Familiarisation with the system and understanding its functioning in an office or department a pre-requisite to conduct the audit of the system. Conformity to a prescribed system was not the main objective of such an audit but whether the system itself was adequate and scientific to deliver the goods intended to be given at a given time.

PROFILE OF REVIEW WORK

The execution of review developed over the years and the process involved is shown in figure 7.1.

Regular and systematic work by the review team guided by the group officer and/or Accountant General at every important stage of work was the key stone for examination of review work. The selection of the scheme or topic for review, preliminary studies, preparation of guidelines, identification of areas of study, issue of questionnaire, programme of audit, conducting test check and collection of evidence, involvement of the heads of offices inspected while conducting the review, obtaining confirmation/acceptance at appropriate level during the course of review, completion of collection of field data for preparation of review, etc. facilitated quick and efficient turnover of review in short time span of allotted time.

The Accountant General and/or the Senior Deputy Accountant General kept the major management control points of the review work in their hands, to avoid being presented with a *fait accompli* by the reviewing group and influenced the review during the execution. The major management control points kept at appropriate level is shown in figure 7.2.

The audit teams were usually multi-disciplinary - within available specialisation in the department - works, civil, receipts, commercial, etc., — and the team leader, the best and most experienced Audit officer in the office, has the basic responsibility to complete the review. He determined the follow-up or other audit work required, ensured that the work was carried out and appropriately reported and maintained subisable contacts with the management at different levels of the audited organisation. Supervision of selected field units by Accountant General/Senior Deputies and contacts with the controlling levels strengthened the team work and their own contribution to the work.

The planning phase of the review work was more or less systematised, as shown in Figure 7.3.

The whole exercise was a team work but the Accountant General decided its flow and contents and the party leaders followed them.

The execution phase is summarised in Figure 7.4.

Fig. 7.1: The Review Process : Overview

Understanding the topic to be reviewed	
Planning and conducting the preliminary survey	
Identifying important points for investigation	
Preparing the background note, the guidelines and questionnaires for review	
Clearance from headquarters along with suggestions for conducting review	
Preparing detailed audit plan and audit programmes	
Conducting tests and obtaining audit evidence and issue of audit notes to heads of offices inspected	Execution
Preparing point form report	
Finalising draft report	
Reporting—first draft to AG	Reporting
—AGs' draft para to Government	
—AGs' draft para to headquarters	
Revision of report by HQs/AG	
Finally approved report for inclusion in the audit report	

Fig. 7.2: Major Review Management Control Points

Step in Review Process	Control Exercised
Overview stage	A review of the survey plan should establish that it reflects a good understanding of the topic to be reviewed and based on that understanding, an adequate scope for the survey has been developed, suitable staff identified and efficient time budgets prepared.
Preparing preliminary report	The preliminary report and outline audit plan (specifying the audit scope, the proposed audit criteria and the resources needed to conduct the execution phase) and its clearance for commencement of work.
Preparing detailed review plan and programme	These serve as the basis for the review party/group leader to assign and carry out work in specific areas.
Conducting test and obtaining evidence	A periodical review of the local audit findings will permit the supervisory levels to assess its sufficiency.
Finalising reports	A review of detailed and summary reports will establish the fairness of findings and the reasonableness of improvements recommended.

Fig. 7.3: Review Process : Planning

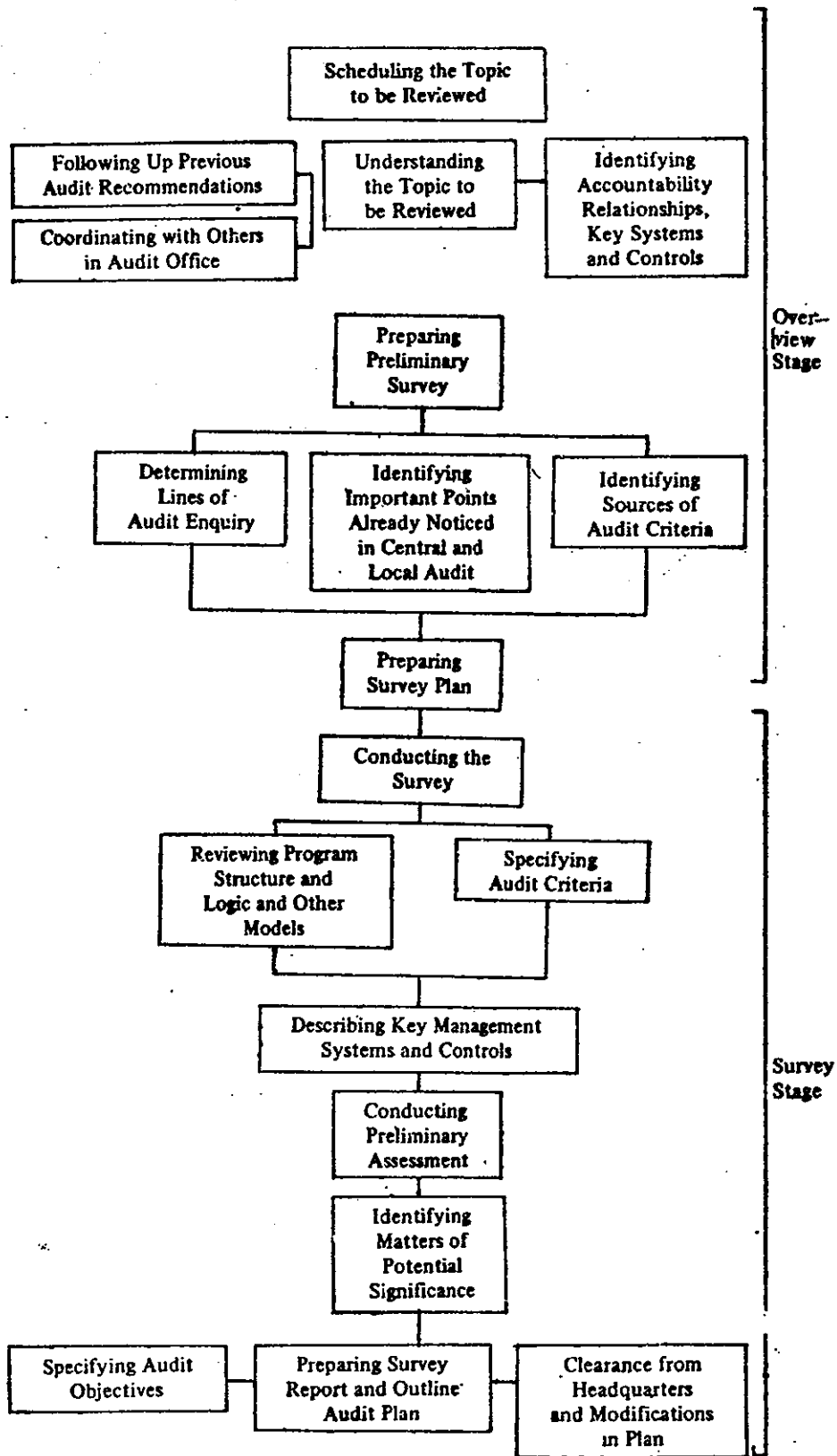
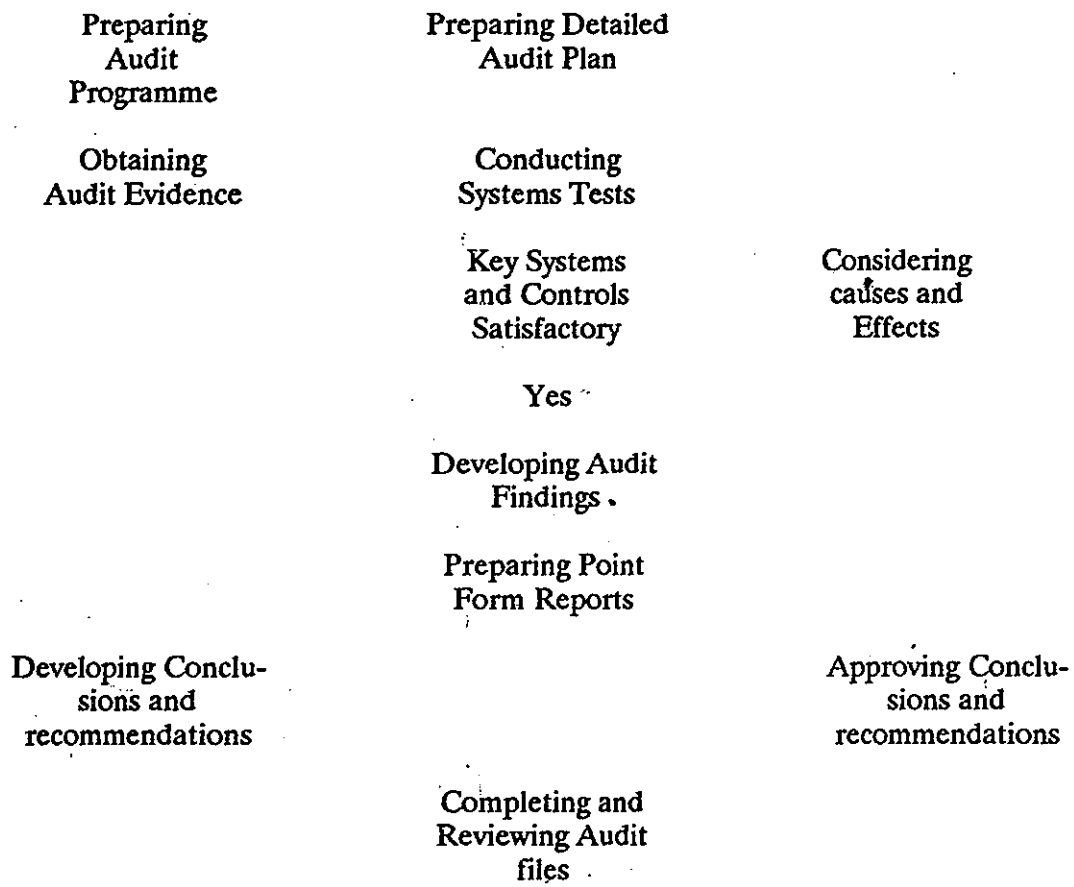


Fig. 7.4: Review Process Execution



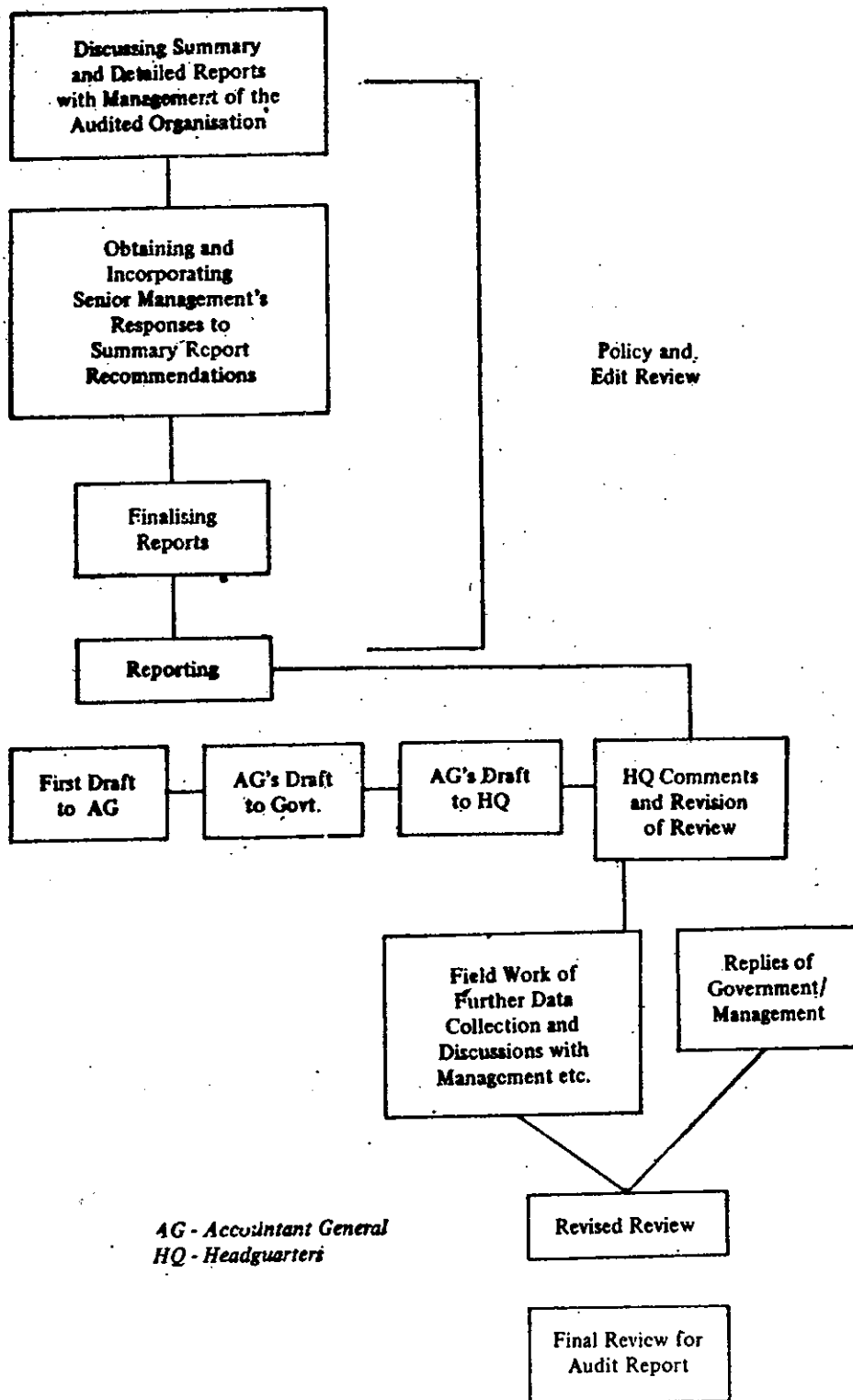
Though the execution of the plan was left to the group leader, it was controlled by the Accountant General for its successful implementation. At the micro points all questions were anticipated and answered in audit findings, which served as a model for other test check points, developing test check results in a complete and fulsome manner. It also removed the road blocks, man-made impediments and irritating hindrances caused at the executing levels of administration. Above all it built bridges for a constructive relationship.

The involvement of the executive both in conducting the performance audit and summation of audit finding became integral part of review of avoid any dilution of the quality, acceptability and utility of the review. To obtain such involvement, the principles of appropriateness and judiciousness were strictly adhered to avoid embarrassment to the departmental authorities and to ensure fruitful discussions. While the party leader discussed with executing officers at lower or even middle levels, the group officer discussed with controlling officers and heads of departments and the AG discussed with the Secretary to Government or even the Chief Secretary. Establishment of comparative relationships with the management of the audited organisation has been found a necessary pre-requisite for audit management and control of review work and every effort was made to further positive relationships. This involved both attitudinal and practical considerations. Notwithstanding independence of audit, an open minded, constructive and professional attitude in dealing with Management was found essential. This was accomplished by establishment of a good initial relationship (e.g., being knowledgeable about the programme/scheme to be reviewed and be prepared to listen to Management's concern; conducting audit activities (e.g., the principal should know the progress of work and clear the lines on which work proceeds. He should oversee the mechanism for obtaining data, etc.; maintaining contacts with management (e.g., by reviewing with them the general audit process being followed, the areas selected for audit, the proposed criteria and, subsequently, the audit findings; and understanding and respecting the Management's point of view (e.g., by both acknowledging their experience and their efforts etc. The approach has contributed to the acceptability of the auditee was wanting.

REPORTING

The last phase of review work was preparation of draft reports, as summarised in figure 7.5.

Fig. 7.5: Review Process Reporting



While the party leader's draft was fully factual and complete - consistent with and in conformity with the guidelines of the review - the group leader provided the missing links and filled obvious gaps, which might have escaped the draft of the executing officer. He also brought about the involvement of the management upto the head of the development level. The Accountant General finally examined the draft before submission to Government and Headquarters office. The Accountant General's contribution to the review report made it fit for inclusion in the Audit Report - in form, style, contents and effectiveness. The draft scrutinised in the Headquarters was returned to the field offices with queries, suggestions and revisions for improving it.

A post review evaluation by the Accountant General after inclusion of the review in the draft report brought out what went wrong in executing it, which helped in conducting subsequent reviews. The comprehensive approach to review work did not cause 100% audit or review. A wall to wall thinking and selective audit brought out the desired result. The test check points were representative enough to produce adequate samples for a general evaluation of the entity reviewed.

EVALUATION AND AUDIT

Consequent on the advent of the Project Evaluation officer during the Second Plan period, the system of evaluation of projects/schemes/plans had entered the stream of Indian Administration.* 'Evaluation' is a process of systematic appraisal by which we determine the worth, value of meaning of some activity and of collecting information as a basis for making decisions, forming judgements and drawing conclusions. It meant measurement, assessment of appraisal of progress in any undertaking with a view to improving the operational efficiency of any given programme. The analysis threw light on the relative merits of deficiencies of persons, groups, programmes, situations and processes. It was a method to determine how far an activity has progressed and how much further and in what way it should be carried to accomplish the objectives. Evaluation of a development programme implied the application of the fact finding process of the problems and methods connected with the implementation of these programmes. In the words of Dr. Carl C. Taylor :

*Evaluation at one pole of its function is mere census recording, after the fact. At the other pole it is fundamental research. The findings

* Darcie Syrn, Cladys Gallup and others, Evaluation in Extension, United States Department of Agriculture, 1959, p. 2.

* Carl C. Taylor, A Critical Analysis of India's Community Development Programme, 1956, pp. 47-48.

of even census takings, of course, have considerable programme guidance value. They show where progress, as measured by the facts reported, is or is not being made. But the blind spots can be lighted only by deeper research; not research for the sake of research but research to discover what can and should be done to improve the programme operation.'

The purpose of evaluation were (i) to determine objects, (ii) to determine the 'distance' travelled in a given time towards the ultimate good in relation to the total set for its achievement, (iii) to determine the shortfalls and the reasons therefor, *i.e.*, to judge efficacy of method, (iv) to provide guidance in the execution of programmes, (v) to provide an aid to policy by providing fresh approaches to practical problems and new lines of action, (vi) to provide satisfaction to those who have worked well in connection with the implementation of the programme and (vii) to provide a sense of satisfaction to the general public, by creating an informed and responsible public opinion. The purpose of evaluation, in general, was the assessment of programme performance in terms of its total objectives. The scope of evaluation was much wider and deeper than the analysis of progress reports and data. Data analysis was an important step in the evaluation process.

In the ultimate analysis evaluation is an aid to policy by providing a fresh approach to problems and new guidelines for policy formulation. It also provided new baselines in programme implementation and indicates methods of improvement in the sphere of programming, organisation and execution. Evaluation was concerned mainly with impact and accomplishment of programmes. The contents of evaluation normally covered (i) objectives in a programme, (ii) organisation, (iii) personnel for implementation, (iv) operating methods and procedures, (v) time factor and (vi) cost. The cost and contents of evaluation covered a very wide field. The techniques and methods adopted in evaluation were surveys, collection of data through mailed questionnaires, distributed check lists, personal interviews, group interviews, case studies, systematic observation procedures, adoption and application of suitable statistical concepts and techniques, cost benefit analysis, programme evaluation review technique, interpretation of data etc. The results were usually presented either in a preliminary or a final report. It was the result of an evolutionary process from inception of the study to the end.

Although the material on which both Audit and Administration worked (the former in conducting the efficiency-cum-effectiveness audit and the latter for carrying out evaluation) were one and the same, the results produced were diverse and different in content and conclusions, as both conformed to the objectives, scope and methods employed by

either. Available studies on identified topics - either in Government of India or the State Governments - would bear this out. The duties, functions and role of the Audit Department in the Indian constitutional, political and administrative set-up have greatly influenced the results brought out by it in the field of reviews, appraisals, etc.

LIST OF ABBREVIATIONS

1.	AP	—	Andhra Pradesh
2.	AR	—	Audit Report
3.	BO	—	Branch Officer
4.	BSF	—	Border Security Force
5.	CRPF	—	Central Reserve Police Force
6.	CAPS	—	Central Audit Parties
7.	CASS	—	Central Audit Support Section
8.	DAD	—	Departmental Audit Department
9.	DDO	—	Drawing and Disbursing Officer
10.	FAD	—	Forest Audit Department
11.	GM	—	Gazetted Miscellaneous
12.	GOI	—	Government of India
13.	HAD	—	Higher Audit Department
14.	IRLA	—	Individual Running Ledger Account
15.	ITA	—	Internal Test Audit
16.	MICA	—	Manual of Instructions for Central Audit
17.	OAD	—	Outside Audit Department
18.	PAC	—	Public Accounts Committee
19.	PF	—	Provident Fund
20.	PM	—	Prime Minister
21.	SMI	—	Secret Memorandum of Instructions
22.	SO	—	Section Officer
23.	TAD	—	Treasury Audit Department
24.	TM	—	Treasury Miscellaneous
25.	UP	—	Uttar Pradesh
26.	WAD	—	Works Audit Department
27.	WB	—	West Bengal
28.	WM	—	Works Miscellaneous

SOURCES AND REFERENCES

1. Audit Manual
2. M.S.O. (Technical)
3. Secret. Memorandum of Instructions
4. Mukherji Committee Reports on Reorganisation
5. Manual of Autotomous Bodies
6. Manual of Instructions on Restructuring
7. Manual of Instructives
8. Fourth Report of Administrative Reforms Commission on Finance, Accounts and Audit
9. CAG's (DPC) Act, 1971
10. First and Second Report of the Committee on Papers, 1975-76 and 1977-78.

8 Reporting

STATUTORY RESPONSIBILITY

The reporting function of the Auditor General of India under the 1919 Act was total and complete, which was not to be delegated to any officer of the IAAD. The statutory responsibility was identical under Government of India Act 1935 and the AA Order 1936. The directions and guidelines for drafting comments and preparing Reports were designed to enable him to discharge his primary responsibility. The entire system and procedure laid down for processing of Reports and Accounts, explained in the earlier Chapters were based on this fundamental principle, which necessitated every Report/Account to be submitted to the Governor General of Government of India or Governor of the Province to be approved personally by the Auditor General. ARs were signed by the Principal Audit and Accounts Officers, who were solely responsible for their respective Reports and Accounts and the Auditor General countersigned them. The Appropriation Accounts (AA) and Finance Accounts (FA) were certified by him, based on similar certificates furnished by the AGCR/DRA/DADS/AGP & T/AsG of the provinces. In the early days, the DAI processed the draft reports received from the Principal Audit and Accounting officers including correspondence with the heads of offices concerned until they were finally approved and submitted for approval of the Ar.Gl. In 1946-47 there were 28 Reports and Accounts (6 on Government of India and 22 on Provincial Governments). The CAG was responsible, under Article 151 of the Constitution, for preparation and submission of ARs and Accounts to the President of India and to the Governors of the States or heads of Union Territories having legislatures. There was no provision to delegate the reporting responsibility to any officer of the IAAD, either under the Constitution of India or the Act of 1971, as amended from time to time. The burden of this responsibility has increased during the last three decades and its quantum and complexity bear no comparison to either what was performed by the Ar.Gl. prior to 1946-47 or other Supreme Audit Authority elsewhere.

In 1950, an Assistant Auditor General was entrusted with the responsibility for processing the material for reports to assist the DAI, who submitted them to CAG for approval. A Report Section was formed to deal with all matters relating to reporting functions including administration of the "Instructions" issued by CAG for the preparation of AA and AR and FA and AR, examined and to dispose the Central, State and Departmental AA and ARs and the Central and State FA and ARs.

It prepared memorandum of more important points dealt with in the Central AA and ARs for the special attention of the Central PAC and of the Local Committee constituted for the consideration of the Accounts and Reports relating to the Government of Coorg; disposed of miscellaneous references relating to the Accounts and Reports, all questions connected with the constitutional processes of vote and appropriation, maintained the epitome of the Reports of the Central PAC and disposed of foreign publications, etc. A Compilation section compiled the combined Finance and Revenue Accounts of the Central and State Governments in India.

ADAI (R)

The post of an ADAI (Report) was created in Head quarters Office for processing Reports and Accounts in September 1952 and Shri V.D. Dantyagi joined as the first ADAI(R) who continued upto August 1954. The number of Report sections and the strength of superintendents/assistant superintendents and later SOs/AOs increased, as and when the volume of Reports increased and an AC(R) supervised them and assisted the ADAI(R). Until 1985, there was only one ADAI(R), who processed both the Reports of Government of India, and the State Governments. Certain Reports of State Governments were entrusted to either ADAI (Railways) or ADAI (Headquarters) or both and at times even to the DAI by the CAG. *Ad hoc* posts of Directors were created for processing Reports, particularly, exclusive Reports on all India reviews by Shri A. Baksi. In all, 20 officers held the post of ADAI(R) and one DAI who processed Reports on Central and State Governments for obtaining approval of CAG, until 1989. An ADAI for processing State Reports was created in May 1985 and since then, there have been four incumbents. The tenure of each ADAI (Report) varied from 6 months to 4 years and 8 months, held by Shri H.B. Bhar. Ten to twelve months were normally taken for completing Reports on Government of India and twelve to twenty four months for completing Reports and Accounts of all the State Governments. When a Supplementary Report was processed during any year, the time span slightly extended, since the same ADAI had to supervise the additional Report also. In certain years, the state Audit Reports, were completed during sixteen to eighteen months' time span. The chapters on Commercial Audit and Revenue Audit findings were finalised by the respective branches under the ADAI (Commercial) or DRA respectively. As the volume of reporting work increased, the chapters one and two on Accounts were processed by the Accounts section under the DAA but was approved by the ADAI(R) for inclusion in the Report. In the earlier years, the AA and the FA and the

CF & RA were also put up to CAG for approval but later on they were approved by the ADAI for printing. In view of the limited tenure of each ADAI, every CAG had perforce to direct, coordinate and finalise the Reports of each year, which became more pronounced during the latter part of a CAG's tenure, which he handled with ease and dexterity, since his own expertise in reporting had matured by then. Two separate Directors and two Joint Directors formed the back up support to the ADAI since 1985. The turn over of ADAI during the tenure of Shri T.N. Chaturvedi was eleven and naturally two Directors (Report) had to be inducted to provide continuity of work. While Shri A.K. Roy had only two ADAIs during his tenure, others had more than three.

GROWTH AND DEVELOPMENT

The growth and development of reporting within the overall policy laid down by each CAG was to a great extent influenced by the direction, leadership and expertise of each ADAI, who had himself processed Reports as AG in two or three provinces/states earlier, based on the basic material furnished by the Principal Audit officers. But the unity, uniformity and unique nature of Report was the personal contribution of each CAG in office. The ADAI (Report) alongwith Principal Audit Officers, namely AGCR/DACR/ AGCWM/DACWM I and II, DADS, DAP&T and DRA I and II, also assisted the CAG and the Public Accounts Committee in examination of the respective Civil Audit Reports and Revenue Audit Reports. Most of the Committee's work required to be performed by the CAG's office - drafting of questionnaires, memos of important points, briefing the members of the PAC before commencement of the meetings, including the Sub-Committees and advising the Chairman and the members of the Committee, as and when proceedings of the Committee warranted, vetting the draft reports, assisting their finalisation, verification and finalisation of action taken reports etc., were performed under the overall supervision and direction of ADAI. Similar functions relating to Revenue Audit Reports were carried out by the DRA-I and II and Commercial Audit Reports by the ADAI/DAI (Commercial) and Director (Commercial). The MABs also attended the COPU meetings, when the appraisals originating from their offices were taken up by the COPU. No other constitutional authority in India has to peruse so many hundreds of pages of typed material continuously at a stretch until all the Reports of the year are finalised, as the CAG of India. A lean period in reading and approving Reports falls only in two to three months in a year, after the bulk of the Reports has been cleared. All the Reports and Accounts go back to him again for his countersignature and certification. This aspect of the burden of CAG is

least known to those, who receive his Reports and Accounts every year or to the Legislature Committees, who examine them. No publicity of the work turned out by the CAG is normally given officially until recently.

The growth and development of reporting during the tenure of each CAG was phenomenal but distinct and the cumulative contribution is best reflected in the latest Reports presented by CAG - particularly their uniqueness, quality, quantity and promptitude. Shri Narahari Rao faced an uphill task to improve promptitude in submission of Accounts and Reports of Government of India, which had fallen into arrears after the partition of the accounts of the Government of India in 1947 but by the time he relinquished charge, the gap between closure of the financial year and finalisation of the Accounts and Reports had narrowed down. Although the number of Reports and Accounts on State Governments increased, they were presented within 12 to 18 months, despite having to prepare the Accounts and Reports of the newly formed States after the federal financial integration. The Public Accounts Committee authorised him to submit Advance Audit Reports, wherever delay in finalisation of Appropriation Accounts and Finance Accounts was apprehended. The paras had a distinct flavour of "free, fair and independent" outlook of the new SAI. Important paragraphs carried the views of the Audit in no uncertain terms. The quality and contents of the Report improved, despite increase in the number of Reports and Accounts, as compared to the Accounts and Reports prepared up to the end of 1945-46. Few of the paras on transactions audit created history when the concerned Reports were presented. By 1954, the number of Reports and Accounts had increased to 54 - six on Government of India and 48 on State Governments. Shri A.K. Chanda not only continued the tempo of improving the promptitude and contents of the Reports, where his predecessor had left, but also endeavoured to give a new look to audit comments in consonance with his open approach in dealing with Governments. The size of Report was reduced, since wherever Administration had replied to the audit objections in a satisfactory manner, the paras were not actually incorporated in the AR. Still, few of the paras on transactions audit included in the Audit Reports, mostly based on regularity audit, provoked the Administration and the Ministers concerned, which resulted in the historical pronouncement of the Central PAC on CAG's right and discretion to report as explained in chapter 19. The number of Reports and Accounts became 34 - 6 Central and 28 states per year, by the time he relinquished charge.

A number of changes were introduced by Shri A.K. Roy in the format, contents and presentation of Audit Reports. Audit Reports were delinked from Appropriation Accounts and separate ARs and AA and

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FA were issued from 1962 onwards. The revised Report became compact and handy for perusal and examination by the Committee and the separate volume on Appropriation Accounts was less complex and easy to grasp. The time gap between AA and FA was narrowed. But the number of Reports and Accounts almost doubled, which increased the volume and pressure of Report work in Headquarter's Office. He was fortunate to have an ADAI for a fairly long tenure, Shri G. Swaminathan, which not only helped to maintain consistency, unity and promptitude in preparation of Reports each year but also facilitated translating the new ideas and innovations of the CAG. Separate chapters for Audit comments on Government Commercial concerns and departmental undertakings were introduced from Audit Reports 1962 onwards. After the introduction of the Revenue Audit, separate chapters on Revenue Audit findings were included in the Reports. A separate Audit Report (Commercial) on Government of India undertakings was introduced from 1963. The number of paras increased and for the first time review type of paras made their presence in Civil and Commercial Reports during the latter part of his tenure. Time schedule for sending draft paras and Reports and their finalisation was laid down. The paras in the Reports were mostly factual and no audit views were incorporated. The system of incorporating views of Audit on paras on transactions audit and reviews showed a declining trend. Bulk of the material for the Report was to be sent in convenient batches (not more than ten paragraphs each) by 30th September and the remaining routine and statistical paragraphs by 31st October. The material arranged in chapter form, taking into account Headquarter's remarks on the draft paras and replies of departments/Government, were to be sent to Headquarters, as and when each chapter was ready, by the end of October, or at the latest by second week of November. Draft chapters I and II of the Report were to be submitted to the Headquarters after taking into account the Headquarter's remarks and comments on the draft Finance Accounts and draft Appropriation Accounts. If it was likely to delay the submission of the final draft Report to the CAG's approval, these chapters could be sent along with or soon after the submission of the Accounts. Approval to the draft report was to be obtained before the middle of December, so that there was sufficient time for submission of printed copies of the Report for CAG's signature by due date prescribed. By the time he relinquished charge, the number of Accounts and Reports had increased to 72.

Shri S. Ranganathan had three ADAI (Report) during his tenure and the presence of Reviews in Audit Report (Commercial) increased during his tenure. After the introduction of Audit Board, the system of

reporting on Commercial Audit findings was modified and the number of Reports for each year increased. 93 Reports and Accounts - 22 on Government of India (19 Reports and 3 Accounts) and 71 on State Governments (25 Reports and 46 Accounts) were finalised for the year 1970-71.

CAPTION OF THE REPORTS

The caption of the Audit Reports was given as "Audit Report ..." (year in which the Report was signed by CAG), the only exception being in the case of those Audit Reports, which were signed by CAG in the same calendar year in which the accounts of the previous financial year was closed. For example, if the accounts for 1969-70 were signed by CAG before 31st December, 1970, the caption of the particular Audit Report was given as "Audit Report on the accounts for 1969-70". As Audit Reports were always, mainly, associated with the accounts of particular financial years, the caption "Audit Report 1970" did not, in essence, indicate the financial year to which the Audit Report actually related. The caption also did not remain wholly uniform under such practice. In December 1970*, caption for all Central as well as State Audit Reports was modified as under.

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR

(the year of Appropriation Accounts say of 1969-70 to be mentioned)

Central Government (Civil)

Government of Uttar Pradesh etc.

In the certificate* of the CAG in the Finance Accounts and the summary of Appropriation Accounts, the words "my Report for the year ..." (year to which Appropriation Accounts relate) was mentioned instead of the words "the Audit Report ..." or "the Audit Report on the accounts for ...".

In regard** to the Autonomous Bodies, Corporations etc., *status quo* was continued with a slight change in the caption as "Audit Report on — (Name of the Autonomous Body) for ... (Accounting Year)".

REVISED CERTIFICATES ON ACCOUNTS

The certificates to be furnished by the CAG of India in the Finance Accounts of the Union Government, State Governments, Union Territory Government with Legislatures and the Appropriation Accounts

* Letter No. 2237-Rep./78-79 dated 4th December, 1970.

** R. IV/17-70 dated 15th February, 1971.

of the Union Government, Civil, Posts and Telegraphs, Railways and Defence Services were revised to bring out that they were prepared in accordance with the requirements of Articles 149 and 151 of the Constitution of India and the CAG's (DPC) Act, 1971. The revised certificates were required to be furnished on these documents after 15th December 1971, even if the Finance Accounts and the Appropriation Accounts related to a period prior to 15th December, 1971. In the title page of the Appropriation Accounts and the Finance Accounts and Reports of the CAG of India on the Union Government, Civil, Posts and Telegraphs, Defence, Railways, Revenue Receipts, Commercial, and the prefatory remarks thereto, the word, "Central Government" was changed to "Union Government". The Combined Finance and Revenue Accounts ceased to incorporate the signature of the CAG from the year 1971-72.

NEW STRIDES

Shri A. Baksi adopted several measures to improve the quality and contents of Reports. Material of adequate public importance was included in civil chapters of the Audit Reports on States and AsG were required to select sufficiently in advance certain significant programmes undertaken by the State Government, which were subjected to a thorough and incisive scrutiny. Instead of sporadic, patchy and hapazard reviews in Reports, significant programmes, major projects or departments were reviewed both intensively and extensively. Individual irregularities of sufficiently important nature continued to feature but the reviews, constituted the major or most significant parts of the Report, which helped to keep the proper perspective in reporting. Scrutiny went deep into the heart of the matter and discovered what was on the ground and analysis was both penetrating and comprehensive and coverage extensive enough to draw dependable conclusions. In the treatment of the subject, not only the necessary background material was given, but also the supporting facilities required for the success of a programme was brought out. Important organisational weaknesses were mentioned. In April every year the Headquarters Office was informed of the programme selected, in a prescribed proforma - which included *inter alia* the Plan provision, and the annual allotments for recent years. The chapter on commercial and trading activities included in the State Audit Reports was improved a great deal both in content and in presentation and the Central Commercial Audit Reports were the models to be followed by the Accountant General. All India Comprehensive reviews on execution of various projects, programmes, and schemes on which Government of India provided large funds to the state governments were included in the Central (Civil) Audit Report. The deficiencies in

coordination between the AGCR/AGCWM and the State AsG were rectified to avoid any mis-match of priorities, uneven data and incomplete portrayal of findings. An OSD (Reviews) was appointed at Headquarters to assist the CAG in formulating suitable measures, including improvement in co-ordination between HQ's office, selecting topics for reviews well in advance to facilitate a detailed and well co-ordinated examination. The CAG himself held discussions with the AGCR and AGCWM and other principal AsG for selection of schemes for reviews - like crash scheme for rural employment, emergency agricultural production programme, scarcity or drought relief, irrigation projects and roads development, which are discussed in relevant chapters. While the authority or responsibility for the State Audit Report or the material furnished for the Central Audit Report by the AG was in no way diminished, they were free to choose such other programmes as they considered appropriate. But they had to ensure that what was taken in hand in the field was done well indeed and the available resources were not dissipated or scattered thinly over large area of work. Much of the field work on reviews was got done by the Outside Audit branch under the overall direction of the AG. For the first time, Supplementary Reports of All India Reviews on Government of India were issued and also simultaneously on the State Governments. Since then the presence of All India Reviews has increased in the Audit Reports. During his tenure, there were three ADAI (Reports) but he also inducted *ad hoc* Directors for conducting reviews and personally directed and coordinated the planning, programming and execution of reviews. His personal touch on the paras and reviews of the Reports produced during his tenure was well known to those who had the privilege of processing reviews for him during his period. Another innovation introduced by him was to indicate at the end of each para and review, the responsiveness of the Government precisely, despite adequate time given to reply before finalising the Report.

The need to adhere to the time schedule was again emphasised in September 1973. On considering the back log for the Report for 1972-73, extension of time for submission of draft paras was allowed upto 31st October, 1973 and for draft chapters upto 15th December, 1973 but from the Report for the year 73-74 the due date *viz.*, 31st October was required to be strictly adhered to.

The Prefatory remarks in the Reports of the CAG of State Governments (Civil) were revised from the Reports of 1971-72. The chapter on "Outstanding Audit Observations and Inspection Reports" in the State Audit Reports was modified in April 1975 to include specific paras on - General, exposition of the system, the number and value of

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objections issued upto the end of March and outstanding at the end of September, alongwith the corresponding figures indicated in the two preceding reports and highlighting the Departments with heavy outstandings, analysis of major reasons for pendency, with suitable comments, bringing out the implications. Similar display of material on outstanding inspection reports with suitable analysis and comments were to be given.

After the transfer of accounting and entitlement work to Central Government Departments, the heads of offices concerned had adequate time to direct and improve the reporting work which reflected in the quantity and quality of Reports produced after 1977-78.

CHANGES IN 1980s

Shri Gian Prakash had four ADAI Reports. A system of 'summing up' at the end of the para as also the preparation of a questionnaire regarding the possible questions that can arise out of the paras or reviews was introduced and implemented by his first ADAI, Shri P.P. Gangadharan. The concept of planning on a long term basis - instead of programming for every year's Report - and the phased execution of the reviews on the topics selected for each year's Report, both on Union Government and the state governments, was introduced in 1982 during the tenure of his last ADAI (Report), Shri R.K. Chandrasekharan. A shelf of projects, programmes, and topics became available for selection and examination, at any time. Directions, guidelines for carrying out reviews were also issued from headquarters office, instead of leaving them to be developed by the coordinating agency, which helped to increase the coverage of reviews of the components of the 20 Point Programme of the Government of India. On his initiative, the form and content of Chapter I of Audit Report (Civil) was revised in January 1984* based on the proposal made by the then ADAI(R) after scrutiny by the Committee of AsG constituted by the CAG. Proformae for exhibiting the statement of Financial position of the Government of India, alongwith audit comments arising out of the Finance Accounts of the Union Government and attached schedule A - indicating details of capital outlay, sector-wise capital outlay, contribution from Railways and P&T for financing capital expenditure, statement I showing sources and application of funds, Statement II containing abstracts of receipts and Statement III giving analysis, reasons and comments on the annexure and statements were devised and enclosed thereto. Identical proformae for Chapter I of State Audit Reports with statements were also evolved. The revised

* Letter No. 105-Rep.(C)/219-83 dated 20th January, 1984.

chapter was incorporated in Audit Reports (Civil) 1982-83 of the Government of India and the Audit Reports of state governments in the succeeding years. Such an exhibition gave a sophisticated look and had a telling effect, which no lengthy narration until then could give. Also, the turn over of State Audit Reports was quickened by him, which enabled finalisation of all Reports in 12 months after close of the financial year. The total number of Reports and Accounts per year was 130 - 22 Reports on Government of India and 52 Accounts and 56 Reports on State Governments, including Union Territories with Legislature.

PRESENT TREND

Shri T.N. Chaturvedi had the largest number of ADAIs - eleven during his tenure upto 1990. Two Directors were also inducted, which sought to make up the disadvantage of short tenures of each ADAI(R). Reports on individual topics were issued as Supplementary Reports during the year, over and above the regular Reports and a system of numbering of Reports was introduced, which facilitated easy identification of the numerous Reports issued by CAG each year. Exclusive Reports on Audit findings on expenditure incurred by the Scientific department, autonomous bodies and institutions were issued. An over view of the whole Report was inserted at the beginning of each Report, which enabled any reader to grasp the contents of Report at a glance. AR(DS) was issued in two volumes - Volume I on Army & OFs and II on Air Force and Navy. The AR (P&T) was modified to give paras and reviews relating to Postal and Telecommunication Departments separately. By 1989, the number of Accounts and Reports increased to 135 - 26 Reports on Union Government, 57 Reports and 52 Accounts on State Governments, including Union Territories.

Under Article 151 of the Constitution of India and Section 11 of the CAG's (DPC) Act, the CAG of India has to prepare the Appropriation Accounts, Finance Accounts (in respect of accounts compiled by him) and the Audit Report on them of the Union and State Governments and Union Territory to the President/ Governor/Administrator of U.T having legislature before such dates as may be decided with the concurrence of the Government concerned. No definite dates for presentation of these Accounts have been fixed by any Government, which was left to the CAG by tradition and practice. The first CAG had assured the PAC to submit Accounts and Reports without delay and endeavoured to cut out the time lag, which had crept in after partition of the country and bifurcation of accounts. The AA and FA of the Union Government were prepared by the CGA after CAG was relieved of the

accounting functions. The performance of the IAAD in this sphere is discussed in detail in relevant chapters dealing with the union and state governments, including UTs. The overall position is indicated briefly in this chapter.

REPORTS ON UNION GOVERNMENT

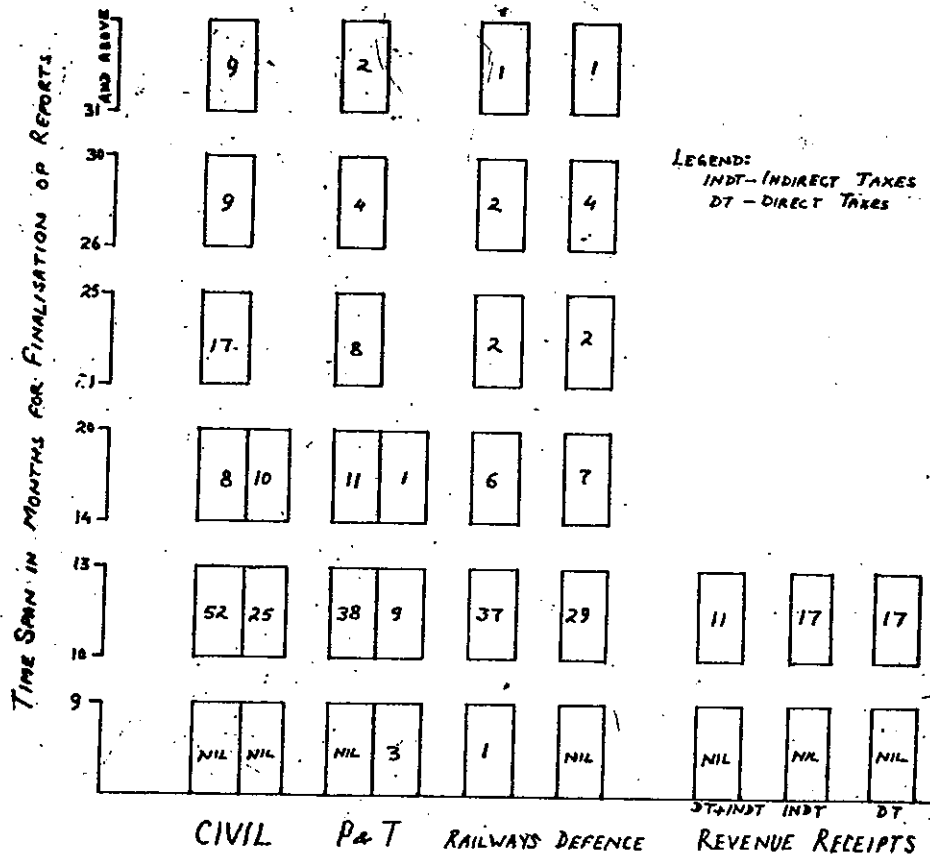
Of the 95 Reports and Accounts (Civil) for the years 1945-46 to 1975-76, 52 Accounts and Reports were presented within 10 to 13 months after the close of the financial year to which they related, 8 during 14 to 20 months; 17 during 21 to 25 months; 9 during 26 to 30 months and 9 beyond 31 months and above. The longer time span was taken in earlier years, which was reduced from 1960s. More or less the same time was taken to prepare the Accounts by the CGCA, after departmentalisation of accounts. 35 ARs were submitted during the years 1976-77 to 1987-88, of which 25 were submitted within 10 to 13 months, after the close of the financial year; 10 (including 2 Supplementary Reports) between 14 and 20 months. Of the 63 Reports and Accounts of P&T for the years 1946-47 to 1975-76, 38 were submitted within 10 to 13 months; 11 within 14 to 20 months, 8 within 21 to 25 months; 4 between 26 to 30 months and 2 beyond 30 months. Of the 13 Reports produced since 1976-77, 3 were submitted within 9 months, 9 between 10 to 13 months and 1 in 14 months. Of the 43 ARs (DS) presented during 1946-47 to 1987-88, 7 were submitted within 10 months, 11 within 11 months, 10 within 12 months, 1 within 13 months, 7 within 14 to 20 months, 2 within 21 to 25 months and 4 within 28 and 29 months and 1 in 35 months. Of the 49 ARs(Railways) including 6 Advance Reports, 1 Advance Report was submitted in 9 months; 10 in 10 months; 10 in 11 months; 8 in 12 months, 9 in 13 months, 6 in 17 to 20 months; 2 in 21 to 25 months, 2 in 27 to 29 months; and 1 in 32 months. 45 Reports on Revenue Receipts were presented for the years 1960-61 to 1987-88 during 10 to 13 months, 2 combined Reports, 3 Reports each on IDT and DT in 10 months, 2 combined Reports 2 Reports on IDT and 4 on DT in 11 months, 6 combined Reports, 9 Reports on IDT, and 9 Reports of DT in 12 months, and 1 combined Report 3 Reports on IDT and 1 Report on DT in 13 months. 145 ARs(C) were issued during 1953 to 1987 in a time span of 11 months to 39 months after the close of the financial year to which they related, 7 Reports upto 1969 were issued as a single volume, 2 were issued in 11 months, 1 in 12 months and 4 in 13 months. From 1970 each year's Report was issued in different parts varying from 2 to 13 parts - in all 138 reports were finalised during a time span of 13 months to 39 months; 1977 Reports (two parts) took 16 to 25 months; 1970-71 Report (13 parts) took 16 to 39 months and latest 1987 report (relating to 85-86

accounts) (10 parts) took 19 to 36 months after the close of the financial year. Time taken for finalisation of Audit Reports after the close of the financial year is shown in the figures 8.1 and 8.2.

REPORTS ON STATE GOVERNMENTS

20 Reports and 40 Accounts on 8 state governments were finalised within 9 months after the financial year; 529 Reports and 1058 Accounts of 25 state governments were finalised beyond 10 to 20 months after the close of financial year; 155 Reports and 310 Accounts of 25 state governments were finalised beyond 21 to 30 months and 51 Reports and 102 Accounts of 17 state governments were finalised beyond 30 months. In terms of months taken to finalise 3% of the Reports and Accounts was finalised within 9 months, 67% beyond 10 but within 20 months, 20% beyond 21 but within 30 months and 7% beyond 30 months and above. No AR(C) of any state government was finalised within nine months after the financial year; 10 to 20 months were taken to finalise 144 Reports on 15 state governments; 11 Reports on 4 state governments were finalised between 31 to 35 months. 6 AR(RR) on 5 state governments were finalised within 9 months; 10 to 20 months were taken to finalise 220 reports on 16 State Governments; 7 reports on 5 states were finalised during 21 to 30 months. Figures 8.3, 8.4 and 8.5 depict the time taken for finalisation of the Audit Reports and Accounts of State Governments.

During the year 1988-89, 27 Audit reports on Union Government, for the year 1987-88, 7 Civil, 3 Defence, 2 P&T, 1 Railway, 3 Revenue Receipts and 11 Commercial, with 825 paragraphs and reviews were issued, as against 26 reports containing 585 paragraphs and 60 reviews finalised and issued in the earlier year. Two ARs(C) were under print. Ten to twenty months were taken to finalise the Reports, and 17 days to 182 days were taken to print them in Government presses, which was not under the control of the CAG and 9 days to 84 days for their presentation to Parliament. The Audit Reports of 178 Autonomous Bodies for the year 1986-87 were also issued to be placed before the Parliament. Reports for 1987-88 on 30 bodies substantially financed by the Union Government were also issued and accounts of 52 bodies had not been received for audit. The Public Accounts Committee selected 55 paras/reviews and appraisals out of 673 paras/reviews and appraisals contained in ARs 1987 and 1988 and discussed 31 paras, reviews and appraisals. The Committee on Public Undertakings selected and discussed 4 Reports of 1981, 1985, 1986 and 1987 containing 6 paras. The Committees presented 33 original reports and 15 Action Taken Reports on their earlier reports.

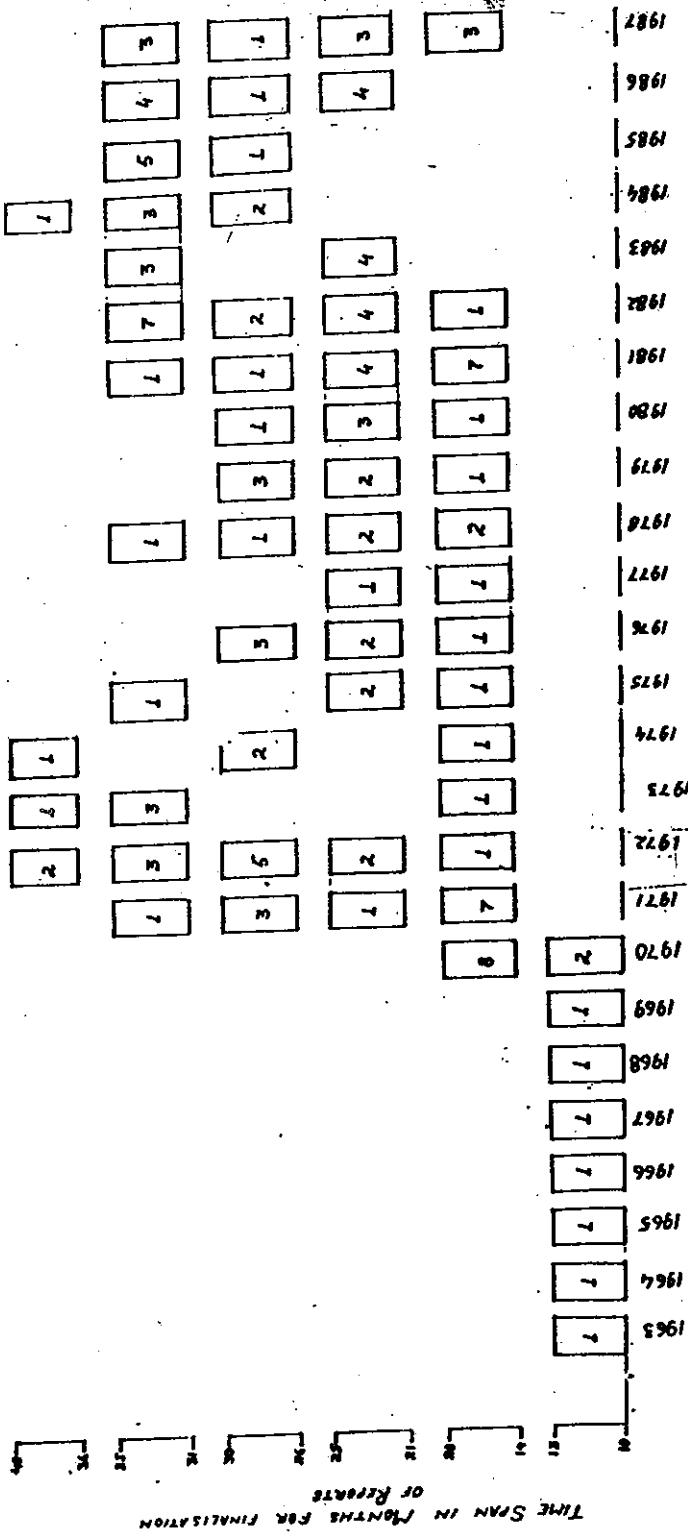


TIME TAKEN FOR FINALISATION OF AUDIT REPORTS AFTER THE CLOSE OF THE FINANCIAL YEAR

NOTES:

- 1) FOR CIVIL & P&T (i) FIRST BAR RELATES TO 1945-46 TO 1975-76 (ii) SECOND BAR RELATES TO 1976-77 TO 1987-88
- 2) FOR RAILWAYS AND DEFENCE - BAR RELATES TO 1945-46 TO 1987-88
- 3) FOR REVENUE RECEIPTS THE SEQUENCE OF BARS IS AS UNDER, HORIZONTALLY:
 - (i) FIRST BAR - INDT + DT (COMBINED) - 1960-61 TO 1970-71.
 - (ii) SECOND BAR - INDT - 1971-72 TO 1987-88.
 - (iii) THIRD BAR - DT - 1971-72 TO 1987-88.
- 4) FIGURES INSIDE THE BARS INDICATE NUMBER OF REPORTS FINALISED.

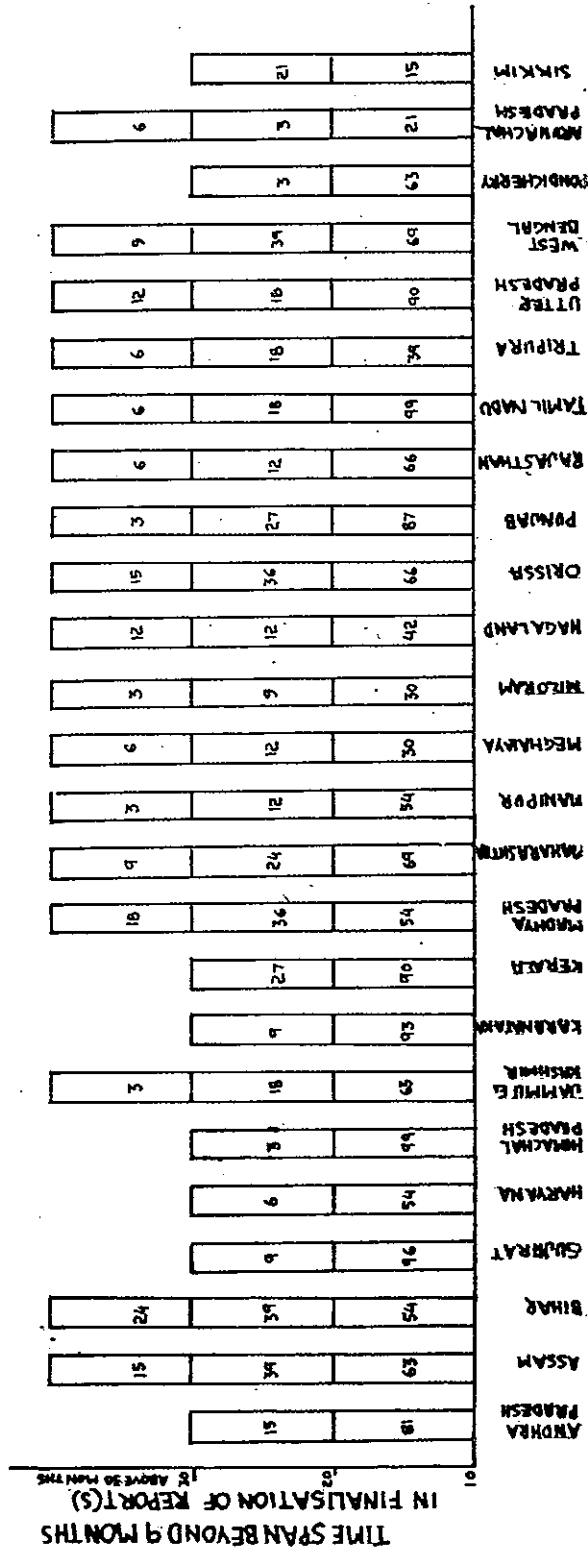
Fig. 8.1: Time Taken for Finalisation of Audit Reports after the Close of the Financial Year



TIME TAKEN FOR FINALISATION OF COMMERCIAL AUDIT REPORTS (CENTRAL) AFTER THE CLOSE OF THE FINANCIAL YEAR

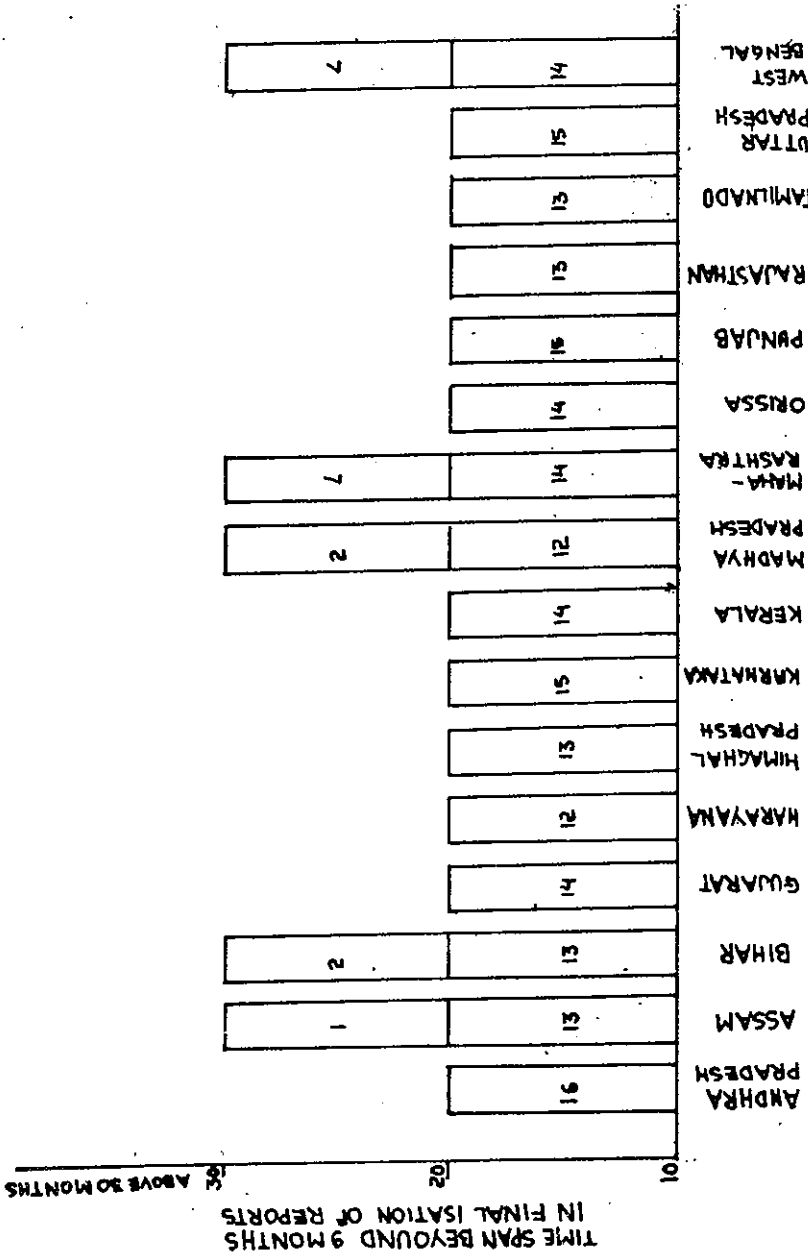
NOTES: 1) FIGURES INSIDE THE BARS INDICATE NUMBER OF REPORTS FINALISED.
 2) YEAR 1965 RELATES TO THE REPORTS FOR THE YEAR 1963-64. OTHER YEARS HAVE A SIMILAR PATTERN.

Fig. 8.2: Time Taken for Finalisation of Commercial Audit Reports (Central) after the Close of the Financial Year



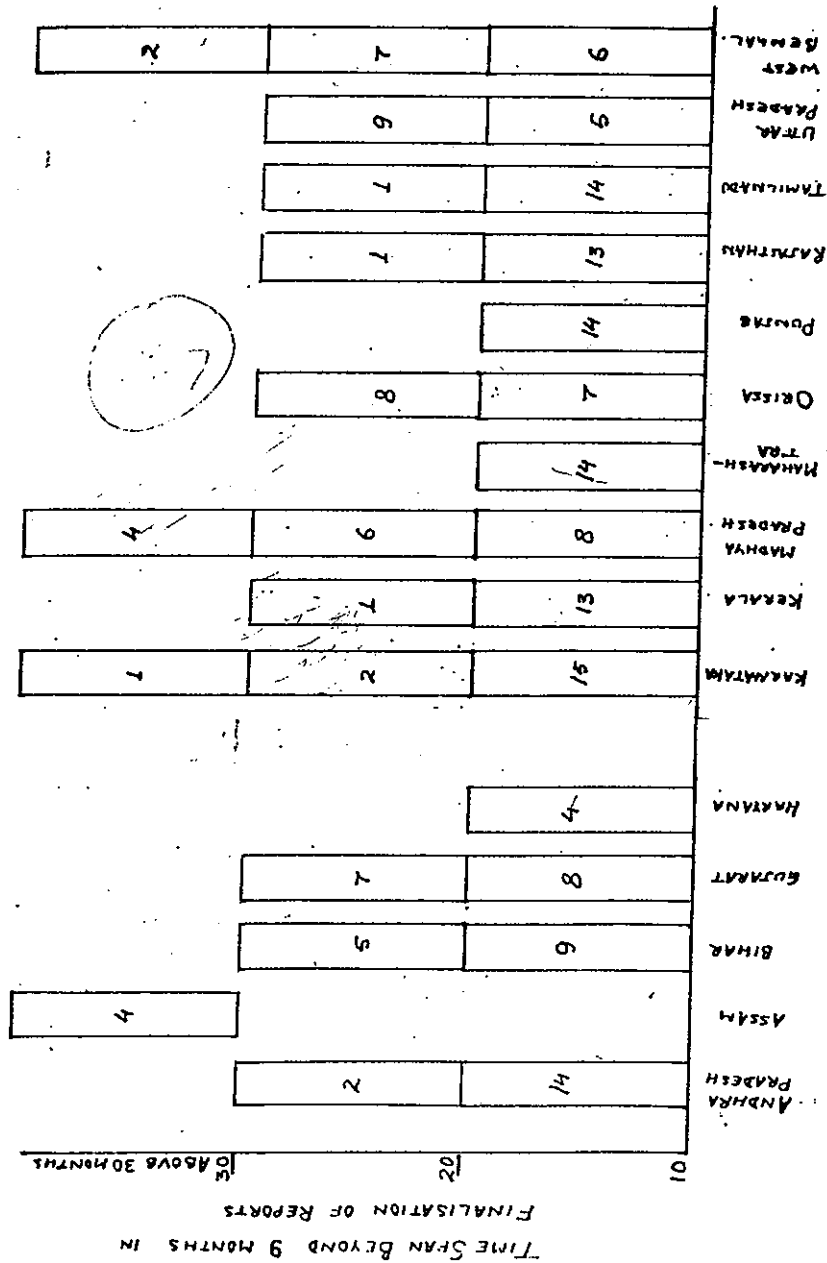
NOTES: 1. FIGURES INSIDE THE BARS INDICATE NUMBER OF REPORTS FINALISED BEYOND NINE MONTHS.
 2. VERTICAL SEQUENCE OF BROKEN BARS FROM THE BASE IS TIME SPAN OF (i) 10-20 MONTHS, (ii) 21-30 MONTHS, (iii) ABOVE 30 MONTHS, AFTER THE CLOSE OF THE FINANCIAL YEAR.

Fig. 8.3: Time Taken to Finalise Appropriation Accounts, Finance Accounts, and Audit Reports (upto 1986-87)



NOTES:-1. FIGURES INSIDE THE BARS INDICATE NUMBER OF REPORTS FINALISED BEYOND 9 MONTHS
 2. VERTICAL SEQUENCE OF BROKEN BARS FROM THE BASE IS THE TIME SPAN OF
 (i) 10-20 MONTHS, (ii) 21-30 MONTHS, (iii) ABOVE 30 MONTHS, AFTER THE CLOSE OF THE FINANCIAL YEAR.

Fig. 8.4: Time Taken to Finalise Audit Reports on Revenue Receipts (upto 1986-87)



NOTES: 1. FIGURES INSIDE THE BARS INDICATE NUMBER OF REPORTS FINALISED BEYOND 9 MONTHS.
 2. VERTICAL SEQUENCE OF BROKEN BARS FROM THE BASE IS THE TIME SPAN OF
 (i) 10 TO 20 MONTHS, (ii) 21-30 MONTHS, (iii) ABOVE 30 MONTHS, AFTER THE CLOSE OF
 OF THE FINANCIAL YEAR.

Fig. 8.5: Time Taken to Finalise Commercial Audit Reports (upto 1986-87)

At the end of December 1988, 52 Civil Audit Reports, and 104 Accounts on State Governments were finalised - 3 relating to the year 1983-84 on 1 State Government, 21 on 7 State Governments relating to the year 1984-85, 45 pertaining to 1985-86 on 15 State Governments, 81 on 27 State Governments relating to the year 1986-87 and 6 on 2 State Governments relating to the year 1987-88. Of these, 117 Accounts and Reports, 3 relating to the year 1983-84, 21 relating to the year 1984-85, 36 pertaining to the year 1985-86 and 57 relating to the year 1986-87, containing 1959 paragraphs and 376 reviews, were presented by 31st December, 1989. 21 Accounts and Reports were under print in the various State Government presses for periods ranging from 10 to 23 months. Delay in presentation of Accounts and Reports to Legislatures ranged from 2 days to 25 months, 6 Accounts and Reports of 1987-88, though finalised were pending to be printed. All the accounts and reports should have been finalised, if they were to be placed during budget session of the State. 32 annual accounts of state autonomous bodies pertaining to the years 1983-84 to 1987-88 were certified and reports issued to State Governments. 219 annual accounts relating to 77 autonomous bodies pertaining to the years 1982-83 to 1987-88 were pending to be certified, as audit was entrusted for retrospective periods and there was delay in submission of accounts. 22 Audit reports on revenue receipts on 16 State Governments containing 1691 paragraphs and reviews were presented to the State Legislatures - 1 relating to 1984-85, 2 pertaining to 1985-86 and 13 relating to 1986-87 and 6 relating to 1987-88. 8 reports of 1987-88 were pending to be printed for periods ranging from 2 to 9 months. Reports relating to 1987-88 on three State Governments, out of 16 State Governments were presented during April 1989 and October 1989. 27 Commercial Audit Reports-on 6 State Governments for the year 1985-86, on 15 Governments for the year 1986-87 and on 6 Governments for the year 1987-88 were finalised. 20 Reports containing 327 paragraphs and 89 reviews were presented to the Legislatures, 1 Report was still at the printing stage and 6 were pending with Governments for presentation to the State Legislatures, despite lapse of seven to twenty-one months. AR 1987-88 on 9 State Governments were yet to be finalised. 1917 paras were selected for examination by the State Legislature Committees of which 1595 were discussed and the Committees presented 148 original reports and 89 action taken reports.

COMPARISON WITH USA

The Reporting function of CAG of India is not comparable to any SAI elsewhere - not only in the totality of the constitutional and statutory responsibility entrusted to him but also in the extent and quantum of

performance. In sheer volume and compass the nearest comparable SAI is the Comptroller General of USA. During the financial year 1987, the General Accounting Office issued 740 Reports for the financial year 1987, 162 on National Defence, 52 on International Affairs, 17 on Science, Space and Technology, 54 on Energy, 59 on Natural Resources and Environment, 31 on Agriculture, 32 on Commerce and Housing Credit, 38 on Transportation, 14 on Housing and Community Development, 48 on Social Services, 59 on Health, 33 on Income Security, 15 on Veterans Affairs, 25 on Administration of Justice, 101 on General Government and 162 on Congressional Testimony by GAO officials. The GAO reports were mostly on federal transactions - individual programmes, topics, departments and bulk of them was based on specific requests of the members of the Congress. They did not cover the states, which form the integral part of the federation, which have separate audit authorities. The Reports of CAG were on Union, State Governments, Union Territories, Government companies and corporations and autonomous bodies, which covered the whole gamut of receipt and expenditure, covering all the Departments/Ministries, including reviews or appraisals on implementation of policies programmes and projects and were more voluminous, complex and factual. They represented the sum and substance of CAG's constitutional and statutory responsibilities in the sphere of auditing and reporting. They are not comparable in size or content or ultimate action by Committees of Parliament or State Legislatures to any other SAIs Reports elsewhere. A distinct feature of reporting of CAG of India is the analytical display and factual contents, rather than mere pronouncement of audit finding in the nature of auditorial judgement, which made the paras and reviews/ appraisals rather lengthy and well documented - unlike similar comments in the Reports of SAIs of other countries. The Reports have a neutral stance based on facts, and left the field open to the Committees of Legislature to conclude their observations/recommendations and Government to decide. Ultimately, this is in conformity with the historical growth and evolution of auditing and reporting in India, ever since the parliamentary financial control of the West Minister type was introduced in India.

NEUTRAL REPORTING

The Principles, directions and instructions for drafting paras issued by the Auditor General prior to the promulgation of the Constitution and by the CAG after the Constitution came into force and for drafting reviews, appraisals from the 1960s onwards, specifically prohibited either in passing judgement on the executive action or administrative decision or offering any suggestion to remedy the deficiencies delineated in the

Audit comment, which was recognised, both by percept and practice, as the domain of the legislature and the executive administration/ Government. Even after more than one PAC acknowledged the inherent right and discretion of the CAG to report on the Audit findings, no attempt was made by any CAG to depart from the tradition and the practice, except in rare cases, which turned to be controversial and not wholly productive or fruitful to the system. It was for the Public Accounts Committee, in the Parliament or the State Legislatures, to examine the contents of the Reports and make specific observations/ recommendations and for the Government to decide on them. Clear demarcation of jurisdictions and functions of Audit, Legislature and Executive were laid down from the very beginning and no attempt was made by any of these agencies involved in ensuring public accountability in the country to trespass each other. Generally, the paras and appraisals brought out specific findings, which led to clear conclusions but Audit did not pass judgement or offer solution, as in the Reports of the other Supreme Audit Authorities in developed countries. Traditionally, this has been accepted both by the Executive and the Legislative Wings of Government and remain the un-written law of the country. The practice has been found both pragmatic and workable. Such a system enabled the CAG to play his role of "friend, philosopher and guide", "the moving hand behind the Committee", in a multi-party Committee system, presided over by a Chairman belonging to any of the opposition parties but composed of majority members from the ruling party under the system of proportional representation and the actual working has been found far more effective and fruitful than a direct rule by the CAG in judging a transaction or even in appraisal of a project, programme or scheme, wherein transactions of both the Union Government and the State Government were subjected to audit and commented upon in the normal manner. His views, during examination of paras by the PAC, carried greater weight and were mostly accepted both by the members of the Committee as well as the witnesses, who appeared before them and by the Government without standing on any formality or prestige. Seldom has any PAC disagreed with Audit findings except in very few exceptional cases, where either the ruling party or leading opposition members evinced unusual interest in shaping the observations or recommendations of the Committee, depending on respective party's interest or individual member's views in the transaction commented upon and examined by PAC. Though the CAG had the benefit of hindsight, while commenting on the transactions, the advantage was lost due to lack of timely response by the Administration to the paragraphs and comments included in the Reports, which left him with no option

except to narrate the transactions and display the audit findings. In the developed countries, particularly in U.K., USA, Western Europe, Australia or Canada, hardly a comment of the Supreme Audit Authority appeared without response of the Executive Administration or Government, which helped the SAI to make definite conclusions or positive suggestions in his Report. Even after the introduction of the integrated financial and accounting system in the Government of India, there has been no improvement in the responding to the comments in the Audit Reports. It is a sad commentary on the attitude of the Administration towards Audit on which every CAG has expressed dismay and frustration. A peculiar feature of the Indian Administration, particularly in the last two decades, when it has made great strides to forge into the most modern, efficient and effective mechanism to frame policies, programmes, projects launched by the Governments and to implement them within the frame work, time and funds earmarked by the legislatures, with creditable performance, which has been acclaimed as one of the best in the developing world even by external agencies, not always friendly to India or to the developing world, has been, paradoxically, the game of 'wait and see' played in dealing with audit comments. It is almost a strategy of Administration, whether in the union or in the State, not to show their hand until the para or the appraisal was taken up by the Committee for examination, which was rather late and blunted the system of accountability enshrined in the Indian System. Until and unless, the responsiveness to the Audit comments becomes full and complete, CAG can only be expected to play the neutral role and behind the scene and watch the developments. As explained earlier, it has not affected his successful functioning but that is no reason for all concerned not to play the roles expected of them in the system of accountability under the Indian Constitution and the Statutes of the country.

EPITOMES

The first Epitome of the Reports of the Public Accounts committee on the accounts for 1921-22 to 1925-26 was published on 12th February, 1929 by Mr. M.F. Gauntlett, the then Auditor General of India, covering important recommendations of the PAC. He prefaced the publication by stating that in the new Volume it has been his aim to adhere as closely as possible to the principles observed in the English Epitome and "(i) to include all recommendations on questions of principle affecting accounts generally, if still in force, (ii) recommendations afterwards amplified or amended only when it seems desirable to illustrate the historical developments of a principle, and recommendations relating to particular accounts only when necessary to explain the form or contents of the

current estimates or accounts." This principle has been adhered to in the preparation of subsequent volumes also.

A revised edition containing 725 pages covering the important recommendations of the PAC on the accounts for 1926-27 to 1947-48 (pre-partition) was issued on 13th August, 1954 by Shri V. Narahari Rao. The Second Volume was issued on 21st May, 1959 by Shri A.K. Chanda, covering the recommendations of the Committee contained in 25 Reports on the accounts for 1947-48 to 1956-57 (post-partition - 1st Lok Sabha) (419 pages). This publication included a combined index embracing the contents of both the earlier and current volumes. The Third volume was issued by Shri A.K. Roy, on 2nd December, 1963 which covered Accounts and Reports for the years 1954-55 to 1959-60. (43 Reports of Second Lok Sabha) (403 pages). The Fourth Volume was published in 1970 by Shri S. Ranganathan, which covered the accounts and Reports for 1960-61 to 1964-65. (The Third Lok Sabha - 72 Reports). The Fifth volume was brought out on 26th March, 1973 by Shri A. Baksi, which covered the Accounts/Reports for 1965-66 to 1968-69 and 125 PAC Reports containing 119 recommendations (Fourth Lok Sabha). The index was confined to the Volume but it had a table of contents. The Accounts and Reports for 1968-69 to 1973-74 and partly for 1974-75 covering 239 PAC Reports embodying 190 recommendations were covered in the 6th Volume (732 pages) issued by Shri Gian Prakash on 30th November, 1979. The 7th Volume covering Accounts and Reports for 1974-75 to 1976-77, and 149 Reports containing 121 recommendations - Sixth Lok Sabha and in some cases for the year 1972-73 and 1973-74, was issued by Shri Gian Prakash on 16th February, 1983.

The 8th Volume covering the Accounts and Reports for 1976-77, 1977-78 to 1981-82 and PAC Reports numbering 231 with 201 recommendations (the Seventh Lok Sabha) was approved by Shri T.N. Chaturvedi in June 1988 and was printed separately for Civil, Defence Services, Posts and Telegraphs, Railways and Revenue Receipts - Direct and Indirect. Major recommendations of the PAC which were of a permanent nature or which involved matters of policy of far-reaching importance were embodied in all the Epitomes issued in the Post-independence era.

In order to make it convenient for reference the epitome pertaining to the 7th Lok Sabha was compiled in five separate volumes as decided by Shri T.N. Chaturvedi covering the recommendations of the Public Accounts Committee on ARs on Direct and Indirect Taxes, Railways, Post and Telegraph, Defence Services and all other Civil Departments, including Delhi Administration and Autonomous Bodies. The volume on Union Government Civil covered 377 recommendations of the PAC

during 1980-81 to 1984-85 on ARs (Civil) for the years 1976-77 to 1981-82. The volume on Defence Services covered 120 recommendations of the PAC during 1980-81 to 1984-85 on ARs for the years 1977-78 to 1981-82. The volume on Union Government Post and Telegraph covered 70 recommendations, for the years 1980-81 to 1984-85 on ARs 1977-78 to 1981-82. The volume on Union Government Railways covered 480 recommendations for the years 1980-81 to 1984-85 on ARs 1977-78 to 1981-82. The volume on union Government (Direct and Indirect Taxes) covered 72 reports of PAC incorporating 585 recommendations on ARs 1976-77 to 1981-82. The latter volumes are under print.

The Epitomes are prepared by the CAG's Office under the overall direction of ADAI(R). The major phases of work - a long, tedious and laborious one - are initial selection of the recommendations from the various Reports, from the respective Report branches in the Headquarters Office, grouping them together under appropriate headings, incorporating relevant decisions contained in Action Taken Reports and their consolidation for preparing the draft Epitome. Preparation of table of contents and Index after the compilation is completed and drafting preface for submission to CAG are the penultimate phases of the work and their printing takes a longer time span than normal time taken for printing of Report. These studies have not been put to any positive use by the Government for better administration or the parliamentary secretariat for informing and educating the members of Parliament.

LIST OF ABBREVIATIONS

1.	AA	—	Appropriation Accounts
2.	AA Order	—	Audit and Accounts order
3.	AC(R)	—	Assistant Comptroller and Auditor General (Reports)
4.	ADAI(R)	—	Additional Deputy Comptroller and Auditor General (Reports)
5.	AGCR	—	Accountant General, Central Revenues
6.	AGCWM	—	Accountant General, Commerce, Works and Miscellaneous
7.	AGP&T	—	Accountant General, Posts and Telegraphs
8.	AsG	—	Accountants General
9.	AO	—	Administrative Officer
10.	AR(C)	—	Audit Report (Commercial)
11.	AR	—	Audit Report
12.	Ar.Gl	—	Auditor General
13.	CAG	—	Comptroller and Auditor General
14.	CGA	—	Controller General of Accounts
15.	CF & RA	—	Combined Finance and Revenue Accounts
16.	COPU	—	Committee on Public Undertakings
17.	DADS	—	Director of Audit, Defence Services
18.	DAI	—	Deputy Auditor General
19.	DACR	—	Deputy Comptroller and Auditor General Director of Audit, Central Revenues
20.	DACWM	—	Director of Audit, Commerce Works and Miscellaneous
21.	DRA	—	Director Receipt Audit
22.	DT	—	Direct Taxes
23.	FA	—	Finance Accounts
24.	GAO	—	General Accounting Office
25.	IAAD	—	Indian Audit and Accounts Department
26.	IDT	—	Indirect Taxes
27.	MAB	—	Member Audit Board
28.	PAC	—	Public Accounts Committee
29.	SAI	—	Supreme Audit Institution
30.	SO	—	Section Officer
31.	UK	—	United Kingdom
32.	USA	—	United States of America
33.	UT	—	Union Territory

SOURCES AND REFERENCES

1. Government of India's Act, 1919 and 1935
2. Audit and Accounts Order 1936
3. Constitution of India
4. C.A.G's (DPC) Act, 1971
5. Appropriation Accounts and Finance Accounts for 1946-47 to 1987-88 of Union Government
6. Audit Reports (Union Government), 1946-47 to 1987-88
7. Appropriation Accounts and Finance Accounts of State Governments upto 1986-87
8. Audit Reports of State Governments upto 1986-87
9. Activity Reports of Headquarters Office 1984-85 to 1988-89
10. Activity Reports of Field Offices 1987-88

11. Epitomes of the Reports of PAC

1921-22 to 1925-26

1926-27 to 1947-48

1947-48 to 1956-57

1954-55 to 1959-60

1960-61 to 1964-65

1965-66 to 1968-69

1968-69 to 1973-74

1974-75 to 1976-77

1976-77 to 1981-82

1980-81 to 1984-85

12. Index of Reports of U.S. General Accounting Office

9 The Services

INDIAN AUDIT AND ACCOUNTS SERVICE

The IAAS was the first among the Central Services Class II constituted under Section 61B(2) of the Government of India Act, 1919, notified on 11th May, 1922* and the nomenclature was used in 1922 on amendments to the Auditor General's Rules made under Section 96D(1) of the Act** and mentioned in the rules made by the Secretary of State under Section 96C(2) of the Act known as the "Public Service Commission (Functions) Rules, 1926.*** The IAAS Recruitment Rules were issued in 1938. An Order issued in 1930 fixed the promotion quota as 20 per cent.

The strength of IAAS cadre in 1946 was 129, plus 7 duty posts borne on the pool cadre and 33 temporary posts. 19 posts were surrendered to Pakistan. The strength of the post partition cadre was fixed at 137 - 78 duty posts, 12 deputation reserves for Finance and Commerce Department (Pool) Cadre, 25 deputation reserves, 6 leave reserve, 10 training reserve and 6 shadow posts. Category-wise composition was 4 Class I AG, 5 Class II, 8 general list class I, 114 general list class II and 2 class II AG and 4 class I IAAS (6 shadow posts).

In 1948, there were 120 officers and the effective strength was 39 only. Consequent on the measures taken to strengthen the service by Shri V. Narahari Rao, the cadre strength increased to 198 in November, 1950, comprising of 145 duty posts, 37 deputation reserves, 10 training reserves and 6 leave reserve (As.G. class I—4, As.G class II 7, General list class I - 12 and class II 175).

SHARE IN THE POOL

The Special pool of officers encadred\$ in February, 1939 with the approval of the Secretary of State called the Finance and Commerce Department Pool Cadre to serve mostly the requirements of the Finance and Commerce Departments Secretariat and subordinate offices had eight IAAS posts - other services forming the pool were Indian Civil Service, Military Accounts Department, Income Tax Department and Imperial Customs Service. The post of IAAS included in the Pool was

* India Office letter No. F. 504 dated the 16th March, 1922 and Notification of GOI (FD) No. 1917- F & E dated 11th May, 1922 (P. 571)

** CCS (CCA) Rules 1930 published vide GOI (Home Deptt.) Notification No. 3/30-ESTS dated 19th June, 1930 in the Gazette of India dated 21st June, 1930.

*** GOI (MHA) Notification No. SRO-628 dated 28th February, 1957.

\$ GOI (FD) Resolution No. F.28(6)-Ex-II/38 dated 2nd February, 1939.

DAI, three posts of As.G. or equivalent thereto, four posts in the General List (later reduced to three) - out of 57 posts. The war affected the working of the Pool and since independence, reservations for the ICS ceased. In December, 1950, the Government of India sanctioned "The Indian Civil Administrative (Central) Cadre Scheme", which the CAG did not join in view of his constitutional and independent status by which no posts in his Department could be reserved for ICACS officers and Government of India agreed that all posts in the Audit Department should be treated as 'excluded posts'. The posts borne on the establishment of the IAAD reserved for the officers of the Finance and Commerce (Pool) cadre were formally encadred in the IAAS in 1956. In 1950, there were 11 IAAS officers in the pool. The last pool officer was Shri A. Baksi, who became the CAG in 1978.

On the basis of the recommendations of the First Central Pay Commission (Varadachariar Commission), the scales of pay for the various posts in the IAAS were revised. The pay of DAI was fixed at Rs. 2750. A.G. P&T, DRA, DADS Rs. 2000-125-2250, Rs. 1800-2000 for other As.G., Comptrollers Rs. 1600-100-1800, General list class I Rs. 1300-60-1600 and class II Rs. 600-40-1000-1050-1100-1150 (Senior scale) and Rs. 350-350-380-30-590-EB-30-770-40-850 (junior scale). A scale of dearness allowance based on the cost of living index of 185 to 200 on the pre-war base was also brought into effect for those on salaries up to Rs. 2000 per mensem with marginal adjustments upto Rs. 2150 per mensem.

INDUCTION

Recruitment to the Service was made in India by the Central Government through a competitive examination conducted by the Federal Public Service Commission, and by promotion, after consultation with the Commission, of selected members of the subordinate gazetted and ministerial establishments of the Indian Audit Department and of the Finance Department of the Central Government. The Central Government had the right of making, occasionally, direct appointments of officers with specialist qualifications, like Registered Accountants. Vacancies in the Service, which were filled by examination, were apportioned between the various communities in India in accordance with the instructions issued by the Central Government from time to time - twenty five per cent of all vacancies to be filled by examination were reserved for Muslims, and eight and one third per cent for other minority communities. The number of promoted subordinates was fixed at one-fifth of the total cadre. Recruitment by promotion was made strictly by selection. The number of vacancies to be filled by promotion

each year was worked out separately and recommendations in favour of the personnel to be promoted were made to the Federal Public Service Commission, through the Central Government.

Officers recruited in India to the Department were appointed as probationers and attached to the AG's offices for training. They were required to pass the Departmental Examinations, within two years' period of probation. If the probationer failed to pass the Departmental Examinations within a period of 3 years, he was liable to lose his appointment. The period of three years ordinarily involved six chances of taking the examinations, but if the first examination was held within 6 months of a probationer's joining the service, it was not taken into account and the period of 3 years was extended to allow for one further chance.

TRAINING

A model training programme by the Ar.Gl. drawn up after discussion with the As.G. was required to be followed by the AG, which was neither intended to be definitive nor exhaustive but the order of training prescribed therein was to be observed as far as possible. Probationers were given training for a period of two years. The Accountants General prepared the programme of training on the basis of the model programme given by Ar.Gl. The programme was designed to impart them knowledge in full detail of the structure of the Civil Accounts of the Central and Provincial Governments, to enable them to carry out all the processes from the preparation of bills in an initial account office to the compilation of the Consolidated Abstract, to familiarise themselves with the processes of audit, the registers used and the method of check, and to learn how to use the Government of India Act, statutory rules and regulations and financial orders, rather than acquire a precise knowledge of individual rules. They are to establish as much contacts as possible with the ordinary Executive officers in Government during practical training in executive offices and inspections of the offices. A sense of practical responsibility was to be brought out by relating the codes to the actual problems in an accounts and audit office, for which actual charge of a small portion of the work in each branch was given. Training in Railway Accounts for a period of two and half months mainly in the Traffic, Workshop and Stores Accounts, and in the Defence Accounts for a period of two months mainly in Ordnance, Supply and Engineering Department and the office of the Controller of Defence Accounts (Factories), Calcutta, was given to every probationer and the detailed programme was prepared by the Financial Commissioner, Railways and the CGDA respectively, who also arranged to set the question papers on

Railway and Defence Accounts, as a part of Departmental Examination for probationers. (This was deleted from the programme of Training from January, 1957 onwards). The programme for training in accounts included study of office organisation and procedure - two weeks, training at the treasury - four weeks, training in a Public Works Sub-division and Division - Six weeks, treasury section of DAD - One week, accounting work in Departmental Audit sections (including Forest) - four weeks accounting work in works audit department - two weeks, account current, three weeks and training in book department - three weeks, in all 25 weeks. For the general training in other civil work - nine weeks in general audit principles and GAD, Seven weeks in departmental audit sections, six weeks in works audit sections, four weeks in pension audit and reporting, two weeks in bills, deposit and provident fund sections, two weeks training in Central Accounts Section of Reserve Bank of India, inspections four weeks and further practical training 22 weeks, in all 56 weeks.

Spare time was also usefully employed in refresher courses in accounts work particularly in Account Current section. The Accountant General prescribed the actual details of the work to be done (e.g., the number of bills or accounts to be prepared) within each period, depending on the capacity and progress of the probationer. The Accountant General obtained periodical reports, and satisfied himself by personal enquiry and otherwise that the probationer was acquiring competent knowledge of the work of the office. The Accountant General's mandate was to endeavour to produce a member of the Indian Audit and Accounts Service and not a member of the Subordinate Accounts Service. Arrangements for the training of probationers in an outside office were made by the Accountant General to whose office the probationers were attached.

IAAS TRAINING SCHOOL

As explained earlier, Shri Narahari Rao had set up the IAAS Training School in 1950 at Chadwick House Simla, a residential-cum-tutorial institution. Shri P.K. Wattal, a distinguished officer of IAAS, who had worked as the Accountant General and also Finance Secretary to a provincial Government, was the Principal, who was assisted by two assistant audit officers and a part time SAS accountant (Commercial). The first batch of IAAS probationers selected out of the candidates declared successful in 1949 Examination, joined the School in 1950 and had 48 weeks training, including the practical training in AG, Punjab and was dispersed after the first Departmental Exam in late October - November, 1951 for joining the various As.G's offices, as posted by the

CAG. The next batch of probationers joined at Yarrows, where Mr. M.A. Jinnah* was reported to have spent his honeymoon. After the completion of their training, the School was shifted to Madras in February, 1953, where the Principal was Shri V.K. Subramanyam, a retired officer of the Emergency Cadre, who functioned under the overall supervision of AG Madras. Two batches of probationers - 1952 and 1953 batches - were trained at Madras. The School was shifted back to Shimla in October, 1955 and 19 IAAS probationers and 6 IRAS probationers joined Yarrows. Shri G. Mathias was the Principal. The adjoining building, Yarrow Villa, was taken for hostel to accommodate the 29 probationers of 1957 batch. 10 rooms in Gorton Castle accommodated the Classes and Principal's office.

CHANGES IN TRAINING PROGRAMME

In 1954, the treasury training was modified to include training at the banking and non-banking treasuries for 2 weeks each, training in a public works sub-division and division including training in a big Construction project for 2 weeks, and the general training was modified to delete the Railway accounts and Defence Accounts, and training in the Central Accounts section of the Reserve Bank of India and further practical training (22 weeks) were added. The total duration of training, thus, increased to 54 weeks. In 1958, this was substituted by further practical training as superintendent in WAD, TAD and GAD sections (12 weeks) and the total duration increased to 66 weeks. During the phase of further practical training, they were given actual charge (under a Deputy Accountant General) of such work as the Accountant General may decide and were also given practical experience of Treasury Miscellaneous, Works Miscellaneous and Public Works Inspection, Report, and Budget and Appropriation Audit; a general study of the system of appropriation accounts and the work connected with the preparation of appropriation accounts and the report on them.

Training in departmental audit work, e.g., Railways, Military, Commercial, Customs, etc., were not given during the period of probation. Such training was arranged for during the early service of an officer when administratively convenient.

CHANGES IN DEPARTMENTAL EXAMINATION

Probationers were required to pass the First and Second Departmental Examinations, as prescribed. The syllabus for the First Departmental Exam was Precise and draft, Political and Revenue System in India,

* Who later became the first Governor-General of Pakistan on 15th August, 1947.

General Principles of Govt. Audit and Accounts and Commercial Book Keeping (250 marks each) and the Principles of Parliamentary Financial Control (200 marks) and books were prescribed for the syllabus, which were modified in 1967. The Second Departmental Examination had certain chapters of Government Securities Manual, Compilation of Central Treasury Rules Vol. I and II, GFRs Vol. I and II, Civil Service Regulations, FRs and SRs, Audit Code CAG's MSO and Audit Manual, Account Codes Vol. I to IV and Combined Finance and Revenue Accounts, Central Public Works Account Code (200 marks each) and General papers on Railway Accounts and Defence Accounts (100 marks each). From 1967, the First Departmental Examination was modified to include (i) Principles of Govt. Accounting and Audit and principles of Commercial Auditing, (ii) Advanced Accountancy, (iii) Indian Financial system and draft outline of the Fourth five year plan and (iv) Constitution of India and the Principles of Parliamentary Financial Control, as also the syllabus. In the Second Departmental Examination, papers on Service Regulations and office Administration, Govt. Accounts and Financial Rules, Projects and Works Accounts, Commercial Law and Costing were introduced.

In 1968, the model programme was modified to 98 weeks - 17 weeks of Combined Foundational course in the National Academy of Administration, 51 weeks of training in the IAAS Staff College, which included study of office organisation and procedure (2 weeks), Treasury Training (4 weeks), Treasury section of Departmental Audit Department (1 week), Accounting work in Departmental Audit Section, including Forest (4 weeks), Account Current (2 weeks), Reserve Bank of India Remittance and Deposits (2 weeks), Book Department (2 weeks), Training in Public Works Sub-Division and Division (Buildings and Roads, Irrigation and Electrical Divisions) and training in Accounting and Audit Procedure in Works Audit Department (6 weeks), General Audit Principles and Gazetted Audit Department (4 weeks), Treasury Miscellaneous Section (1 week), General Provident Fund section (2 weeks), Training in Income Tax receipts etc. (2 weeks), Department Audit Sections (6 weeks), Budget and Appropriation Accounts (2 weeks), Efficiency-cum-performance Audit (2 weeks), Pension Audit and Reporting (2 weeks), Miscellaneous sections, guest lectures etc. (4 weeks), To be utilised by the Director at his discretion (3 weeks) and 30 weeks of training in AG's office, which covered training in the Central Accounts section of the Reserve Bank of India (1 week), Public Works and/or other project (4 weeks), Revenue Audit (8 weeks), further practical training (5 weeks), inspection, Outside Audit Department and WAD (4 weeks) and training in accounts of Public Sector Undertakings/

chartered accountants' firm and inspection of Commercial Accounts with Audit parties (8 weeks). A model programme for training in PSUs (3 weeks), chartered accountants firms (3 weeks) and office of Chief Auditor Commercial Accounts (2 weeks) was given, which was required to be implemented under the supervision of MAB and *Ex-Officio* DCA. In 1976, the training of 51 weeks in the Staff College was modified to include training in Banking and non-banking treasuries (2 weeks), Central Accounts section of the Reserve Bank of India (one week), course of lectures on Science and Technology etc. (2 weeks), Public Works Divisions and Sub-Divisions (3 weeks) and Study tours (2 weeks). Practical Training during first Semester was given in Establishment, Book Department, Treasury Section of the Departmental Audit, Accounting work in Departmental Audit section, Budget, Account Current and during second Semester in Fund sections, departmental audit, gazetted audit, works audit, pension, appropriation accounts. Training in AG's office was increased to 36 weeks and included Inspection Civil and WAD (4 weeks), Receipt Audit (8 weeks), Railway staff college Baroda (8 weeks), work as superintendent in TAD, WAD, GAD sections (12 weeks), and training in accounts of PSUs and inspection of Commercial Accounts with Audit parties (4 weeks). The total period of training was 104 weeks.

THE STAFF COLLEGE

The name of school was changed to staff college and the designation of the Principal was changed to Director in March, 1969. In all, 12 Principals and 7 Directors headed the School ever since its inception, and their tenure ranged from 1 month to 4 years and 4 months, held by Shri V.K. Subramanian. The number of probationers dropped to 16 from 1960 and later 11. 1958 batch had 29 IAAS and 22 IRAS. Probationary officers from Sikkim, Nepal were trained from 1977 onwards. In October, 1974 the Staff College was shifted to Railway Board Building.

CHANGES IN COURSES

Refresher short courses were held from 1971, 2 weeks of study tours commenced from 1974, mostly covering public sector undertakings (ten selected ones) at Baroda, Bombay and Bangalore. Economic theory and Economic Development was introduced in the syllabus from 1974. A system of guest speakers was also introduced, which was extended to lectures on science and technology later. Semester system of coaching was introduced from 1974 onwards.

The Director was required to ensure that the arrangements made for practical training were adequate for the probationer to have a

thorough knowledge of the working in AG's office. Both Director and AG were required to report every three months to the CAG about the progress of training from, 1976 onwards.

MODIFICATION IN EXAMINATION

In April, 1974, the subjects of first DE were modified to Principles of Government Accounting and Audit (200 marks), Advanced Commercial Accounting (150), Commercial Auditing (50), Parliamentary Financial Control and Indian Financial System (200), Government Accounts - Civil (200), Economic Theory and Economic Development (200), and the syllabus were suitably changed. The second Departmental Examination included Service Regulations and General Financial Rules (200), Audit of Receipts, Government Audit, Project and Public Works Accounts and Railways. Posts and Telegraphs and Defence Finance and Accounts, Cost and Management Accounts and Commercial Law (200 marks each) and the syllabus was changed suitably.

The programme of practical training of 36 weeks in Accountant General's offices was further modified in 1979 to include actual training for two weeks in OAD or WAD and two weeks in Receipt Audit, working as Auditor in a wing for two weeks, working as section officer in a wing for 4 weeks and working as Assistant Accountant General (on probation) in charge of one or two regular sections for 26 weeks.

SANDWICH PATTERN

A sandwich pattern of training, as was in vogue for IAS officers, was introduced for IAAS probationers from 1984 and the institutional training of one year was divided into two phases, the first phase of nine and a half months covered theoretical inputs and the second phase of two and a half months, after on-the-job training in field offices, was utilised for general and financial management techniques and discussion of various problems faced during their on-the-job training. The probationers were attached for practical training under As.G. (A & E) from 1984 but training on audit subjects was arranged in audit offices in consultation with the As.G. (Audit). The ICAS probationers joined the College for their initial training from 1984-85 onwards.

CHANGES IN EXAMINATION

In 1988, the format and contents of departmental examination were modified. The departmental examination consisted of two parts; the first examination had four papers and the second five papers, each of three hours duration and carrying maximum marks of 100 each. The following is the revised examination scheme :

Paper No.	Subjects
	<i>FIRST DEPARTMENTAL EXAMINATION</i>
I	Government Accounts (Civil)
II	Advanced Commercial Accountancy
III	Parliamentary Financial Control and the Indian Financial System
IV	Government Audit.
	<i>SECOND DEPARTMENTAL EXAMINATION</i>
V	Service Regulations and General Financial Rules (with Books)
VI	Audit of Receipts
VII	Project Accounting and Appraisal
VIII	Commercial Law and Commercial Auditing
IX	Cost and Management Accounts.

A scheme of local tests in four subjects - computers, salient features of Finance Accounts and Audit of Railway, P&T and Defence Departments, Economic Theory and Economic Development and Service Regulations and G.F.Rs. was introduced. The probationers were also required to take and qualify in an examination in Hindi.

Auditor and S.O. level training of probationers, which was earlier given in different field offices, was made part and parcel of 51 weeks' training at Shimla and was imparted in the offices of the AG (Audit) and Sr. DAG (A & E) H.P. Shimla under the close supervision and monitoring of staff college. Field training of 10 weeks in A & E offices was arranged by attaching them for one week each with the branch officers dealing with Account Current, Loan, T.M., W.M., Book, Budget and Appropriation, Pension Co-ordination, P.F. Co-ordination, Secretary to AG (A & E), Secretary to AG (Audit) and Audit Reports. For the next 16 weeks, the probationers were required to function as branch officers for a period of 4 weeks each of Accounts compilation, Works and Forest Accounts Compilation, Administration and OAD (Civil).

The present members of IAAS were all trained in the IAAS Training School/Staff College, unlike the IAAS Officers recruited prior to 1950, and the entire service bears the academic excellence and modern outfit of a professionalised high-level management cadre of diverse talents and expertise.

TRAINING OF PROMOTEES TO IAAS

A scheme of training for Audit/Accounts Officers on promotion to the Indian Audit and Accounts Service was introduced from 1979 and

improved upon in 1984 to equip them for higher level managerial responsibilities expected to be shouldered on their appointment to the Indian Audit and Accounts Service. The programme has been so designed as to familiarise them with the latest concepts and trends in the areas of planning, management, audit and accounting and to increase their professional competence by combining higher learning with superior functional skills. Training covered a period of 4 to 6 weeks and was conducted initially in the IAAS Staff College at Shimla and later in the Headquarters office.

INTER CHANGE OF OFFICERS

Shri A.K. Chanda introduced the scheme of inter change of officers of one department with those of another and officers of IAS, IRAS, IDAS joined the IAAD during his period. Three to seven officers were deputed from other Services during each year in his period. The Scheme was continued during A.K. Roy's tenure and the maximum number of officers on deputation was ten (1966-67). The number gradually reduced to nil in 1971 but was revived on adhoc basis during latter years.

EMERGENCY CADRE

The emergency cadre in class II of the IAAS created in March, 1941, to meet the increasing demands for deputation to Supply Finance and other departments connected with the war effort, by promoting temporarily certain very good AAOs and outstanding SAS superintendents subsisted until one year after the date of the official termination of the war. The sanctioned strength rose from 12 to 71 and there was no recruitment to the Cadre after 1948 but the life of the cadre was extended beyond 31st March, 1947 for 3 years and because of the increasing demand and shortages after partition, vacancies were allowed to be filled to be tapered off, as and when officers of the regular cadre became available, so as to keep it within the sanctioned strength. On the whole, the officers of the cadre rendered valuable service, few in organising the new offices in Part B states and left lasting impression, and the last officer of the cadre retired in 1961, when the cadre got extinguished.

MANAGEMENT

Postings and transfers from one office to another of all officers below the rank of Deputy Auditor General was made by the Auditor General and the Deputy Auditor General by the Central Government. The Accountant General made postings within his office to the sanctioned charges of Assistant Accountant General. CAG received demi-official intimation of an officer's preference for particular localities or for particular branches

of the work of the Indian Audit Department and their wishes were met so far as possible subject to the requirements of the Department. Any officer who sent such an intimation communicated the contents to his Accountant General to whom copies of replies were sent by the Ar.Gl. All reports of taking and giving over charge were sent to the Auditor General on the day the transfer of charge was made. In actual practice officers did bring pressure to influence their postings and certain officers did manage to stay in Delhi in some assignment or other throughout their service, which were exceptions to the rule.

Civil Accountants General and Departmental Accountants General wrote an annual report on each officer, including probationers in accordance with instructions issued by the Auditor General from time to time and sent confidentially to the Assistant Auditor General (Personnel) by name, so as to reach that officer by the 15th of April each year. Reports were intended to supply such information as to make them a really reliable means of arriving at a full and proper judgement of the character and the capacity of the officers concerned and based on careful observation and carefully and conscientiously framed. The standing orders of the Central Government regarding the conduct of all Government servants in civil employ published in a separate pamphlet, entitled "The Government Servants' Conduct Rules" were applicable to all officers.

Any misconduct on the part of an officer or any Court attachment by a Civil Court etc., were reported by the AG to the Ar.Gl. The rules regarding the imposition of penalties were those contained in the Civil Services (Classification, Control and Appeal) Rules and strict compliance with them was required in any disciplinary case. During the period 1947 to 1989, only seven officers were punished after departmental enquiries and three officers were prematurely retired from the service, which is a standing testimony to the general level of honesty and integrity of the officers of the service.

A classified list of officers in the Finance Department and in departments under its administrative control was issued half-yearly corrected up to the 31st May and 30th November for the information of members of service.

SECOND PAY COMMISSION

The scales of pay for the various posts in IAAS were revised after the implementation of the recommendation of Second Pay Commission (1959). Revised scales were - DAI Rs. 3000, ADAI Rs. 2500-125/2-2750, AG class I Rs. 1800-100-2000-125-2250 junior Administrative Grade Rs. 1300-60-1600, junior time scale Rs. 400-400-450-30-510-EB-700-40-1100-50/2-1250.

CADRE STRENGTH

In April, 1960, the Cadre strength was 463 - 319 Duty posts, 93 deputation reserves, 29 leave reserve and 22 training reserve and the disposition of duty posts was - 1 DAI, 5 AG Grade I, 23 AG Grade II, 10 Comptrollers, 26 junior administrative grade, 111 Senior time scale and 287 junior time scale. The expansion of the IAAD and increase in the number of IAAS officers on deputation to PSUs were reflected in the composition of the enhanced cadre strength. The number of officers on deputation varied from 26 to 100, the average being 64 during the tenure of Shri A.K. Chanda. He expressed the view, while giving evidence before the Parliamentary Committee on CAG's (DPC) Bill, that the scales of pay of higher level officers in IAAS, - both AsG, ADAI and DAI were not adequate, compared to other services.

In July, 1966, the cadre strength was 764 - 598 duty posts and 166 reserves and the composition of duty posts was - 1 DAI, 30 AG's grade, 48 JAG, 116 senior time scale, 403 junior time scale. The number of officers on deputation varied from 111 to 260, the average being 194 per annum. The reserves were fully utilised only for deputing officers to PSUs during Shri A.K. Roy's tenure, mostly in the junior administrative and senior time scale. Shri A.K. Roy also felt that the scale of pay of As.G/ADAI/DAI were not comparable to the JS/Additional Secretary and Secretary to the Government of India and AsG were paid less than their counter-parts in State Government. In March, 1972, of the 545 duty posts, 243 IAAS officers were in position. During Shri Ranganathan's tenure, about 272 officers were on deputation. The scales of pay after Third Pay Commission (1973) were revised - DAI Rs. 3000-100-3500, ADAI Rs. 2500-125/2-3000, AG I Rs. 2500-125/2-2750, AG II Rs. 2250-125/2-2500, junior-administrative grade (ordinary) Rs. 1500-60-1800-100-2000, senior time scale Rs. 1100-50-1600 and junior time scale Rs. 700-40-900-EB-40-1100-50-1300. Shri S. Ranganathan stated before the Parliamentary Committee on CAG's (DPC) Bill that "the prospects of promotion within the IAAS were not reasonable enough to sustain the cadre as a whole and there was a kind of imbalance or comparative imbalance, which detracted from the structure of the cadre as a whole."

By adopting a policy of withdrawal of officers from deputation at the end of their tenure and restricting new deputations, Shri A. Baksi increased the *de facto* working strength to 400 by April, 1975. The cadre review prepared by the Committee constituted by him worked out the cadre requirements as 850.

CADRE REVIEW OF SERVICES

The Administrative Reforms Commission, which examined the existing machinery for the management of different all-India and Central Services Cadres, had recommended that for all services, advance projections should be made of the requirements of personnel for five years at a time and mid-term appraisal also should be made, if circumstances so warranted and necessary correctives made by cadre management committees to be constituted. The Government of India accepted the recommendations with the modifications that the review should be made, instead of every 5 years, as recommended by the Commission, after every 3 years and it would not be necessary to associate the users' interests with the review committees, but their requirements may be taken into consideration, while making the reviews and the Government issued necessary guidelines for proper cadre management in May, 1972. The composition of the Committee prescribed by Government was Cabinet Secretary, Chairman and Secretary to the Ministry controlling the Cadre, Secretary, Department of Personnel and A.R. and Secretary, Ministry of Finance (Department of Expenditure) as members.

The main objectives of the cadre review were to estimate future man-power requirements on a scientific basis for a period of three years at a time, to plan recruitment in such a way as to avoid future promotional blocks and at the same time prevent gaps building up, to restructure the cadre so as to harmonise functional needs with the legitimate career expectations of its members and thus to enhance the effectiveness of the service. Guidelines indicated the manner of determination of regular duty posts, probationers' reserve, leave reserve, training reserve and deputation reserve and the manner of estimating such requirements and also preparing recruitment plan as well as format for preparation of cadre review proposals. In December, 1972, CAG informed the DPAR that while issuing these instructions CAG was not consulted in terms of Article 148(5) of the Constitution of India and he was already seized with the problem of cadre review and propose to start work after January, 1973, when the recommendation of the Pay Commission and Government's decision thereon would be available as also the decisions on the recommendations of the Re-organisation committee constituted by him. He also stated that the cadre review Committee will be appointed by him and will consist of officers of the IAAD.

ABORTED REVIEW

The First Cadre Review Committee was constituted by CAG in December, 1973 consisting of DAI (as Chairman), ADAI(C) and DAA as

members. It reviewed the working of all wings of the department and each branch in civil accounts and audit offices to determine the requirements of officers. Its major recommendations were creation of a selection grade of Rs. 2000-2250 for IAAS without stagnation condition and on the same pattern as IAS to accommodate increasing demands of direct charges in senior scales to improve working in offices, overall increase in the cadre to meet requirements of work and increase in the promotion quota to 40% from Group 'B' to IAAS. The recommended cadre structure was as under :

<i>Grade</i>	<i>No. of posts</i>
DAI	1
ADAI	5
AG (level I and II)	80
J.A.G.	203
Sr. Time scale (Supervisory charge)	175
Sr. Time Scale (Direct charge)	93
Junior Time scale	146
Deputation reserve	150
Training reserve	24
Leave reserve	35
Deputation reserve to CPAO's Organisation	11
	923

The cadre review carried out at CAG's behest was not recognised by the Department of Personnel and the proposal for creation of selection grade in IAAS was not cleared at all and formed the subject matter of protracted correspondence between the CAG and the Ministry of Finance. Meanwhile, about 97 officers stagnated at the maximum of the junior administrative grade, of which 50 for more than 3 years and only one out of 21 officers of 1953 batch had become AG, even after 23 years. Shri A. Baksi created the post of ADAI (RA) in 1973 and continued till 1976. There were five ADAIs during 1972 to 1976, but reduced to four in 1977. The number of Accountants General Level I increased from 7 to 9 in 1973, 11 in 1974 but came down to 8 in the remaining three years.

NEW COMPROMISE

After the new CAG took over, a compromise solution was suggested during a meeting of the Finance Secretary, Secretary DPAR and DAI,

held on 25th July, 1978, that since no review by the body outside the IAAD might be considered appropriate, it was for the officers of CAG, DPAR and Ministry of Finance to sit together and come to an agreed conclusion and submit a note for consideration of Government and CAG may take informal assistance of DPAR in the cadre review and approach the Ministry of Finance to obtain the orders of Government. The new CAG, Shri Gian Prakash, had no objection in associating a representative of DPAR with the cadre review to be conducted by the Department, subject to the condition that he, as the cadre controlling authority (by virtue of his constitutional position), would pass final orders on the committee report. The Department of Personnel insisted on conducting a regular cadre review before agreeing to the proposed selection grade. But the CAG held that the cadre review conducted earlier at his instance was a valid cadre review, and cannot be set aside, and in future reviews, the officer of the DPAR can be associated. Orders of Government for introduction of Selection grade in the IAAS were issued in January, 1980 only. But the suggestion to give retrospective effect to the introduction of the Selection Grade from 1st January, 1976 was not accepted and consequently quite a few officers lost the benefits of the Grade. The long awaited benefit helped to alleviate the drought in the career prospects of senior personnel stagnating in the cadre. Creation of new posts under the powers vested in the CAG was no substitute to a proper and regular cadre review during the tenure of each CAG, as no proper expansion of either middle or top level or conferment of Selection grade or any improvement in the pay scale of ADAI etc. could take place.

By and large the service lost, especially the senior level officers in IAAS, by a wrong step to carry out the cadre review and at the same time by restricting deputations drastically on the plea of filling the gap in the department.

Shri Gian Prakash agreed in December, 1982 to constitute a Cadre Review Committee consisting of himself as Chairman and Secretary DPAR and DAI as Members but no Cadre Review Committee meeting was held during his tenure. Thus, the vital issue concerning the cadre management drifted for nearly thirteen years and the IAAS lost heavily, as compared to other established Services in Government of India. Also, the proposals for improving the pay scales of ADAI were not accepted by the Ministry of Finance. The whole episode exposed the risk in the management of a service by the different authorities - CAG and Government of India - who don't see eye to eye in all issues.

NEW RULES

"The Indian Audit and Accounts Service (Recruitment) Rules, 1983" were notified on 24th March, 1983. The salient features of the new rules were increase in the promotion quota to 33-1/3 per cent of the duty posts and deputation reserve, and limiting the eligibility of the AOs to be considered for promotion to 53 years on the crucial date viz. 1st July every year and placing the names of eligible Accounts Officers/Audit Officers for the purpose of combined eligibility list in the order of their dates of appointments as section officers without however affecting the *inter se* seniority as Accounts Officer/Audit Officer in a particular cadre. About 50 officers, who were promoted to IAAS, became As.G. before retirement. A few of them became ADAIs. The trend declined since 1980s due to delayed promotions and operation of new rules and modus operandi for selection.

THE FIRST CADRE REVIEW

One of the first acts of the new CAG, Shri T.N. Chaturvedi, was to hold the Cadre Review Committee meeting, consisting of himself, Secretary* DPAR and DAI**. The Cadre Review Controlling Authority's recommendations broadly were - (i) upgradation of the post of ADAI(Commercial) from Rs. 2500-3000 to the grade of Rs. 3250/- (fixed) and re-designating as DAI(Commercial)-cum-Chairman, Audit Board and 3 posts of ADAI from Rs. 2500-3000 to Rs. 3000/- (fixed); (ii) creation of (a) 8 posts of Principal Accountant General/Principal Director of Audit in SAG level-I (Rs. 2500-2750) plus special pay of Rs. 250/- p.m. by upgrading equal number of SAG posts; (b) 13 additional posts in SAG (Rs. 2250-2500/2500-2750) raising the strength of posts at this level from 86 to 99 (50 including 8 Principal As.G. in level-I and 49 in level-II); (c) 3 additional posts in JAG (Rs. 1500-2000/2000-2250) raising the strength of posts at this level from 180 to 183, of which 37 to be operated in the non-functional selection grade (Rs. 2000-2500) as per DPAR guidelines; (d) 58 additional posts in STS (Rs. 1100-1600) increasing the strength of posts at this level from 127 to 185; (iii) surrender of 74 posts in JTS (Rs. 700-1300) in lieu of the new creation at higher levels reducing the strength of JTS posts from 232 to 158 and (iv) refixing the strength of reserves - 120 as deputation reserve, 15 as leave reserve and 45 as training reserve.

The total strength of the cadre was 818 on 1st January, 1985, comprising one DAI (Rs. 3250 fixed), 4 ADAIs (Rs. 2500-3000), 86 Senior Administrative Grade (Rs. 2250-2500/2500-2750), 232 Junior

* Shri U.C. Agarwal.

** Shri R.K. Chandrasekharan.

Time Scale (Rs. 700-1300), 158 Senior Time Scale (Rs. 1100-1600) and 143 Junior Administrative Grade (Rs. 1500-2250) and total reserve of 194, 110 deputation, 29 leave and 55 training reserves. The cadre strength as on 1st January, 1985 the proposal of the Cadre Controlling Authority and the recommendations of the Cadre Review Committee are summed up in the table below :

Sl. No.	Grade/Scales of pay	As on 1.1.85	Proposal of Cadre controll-Authority	Recommended by the Cadre Review Committee
1.	Higher Grades DAI (Rs. 3250 fixed)	1	1*	2
2.	ADAI (Rs. 2500-3000)	4	6**	3 [§]
3.	Senior Administrative Grade (Rs. 2250-2500/ 2500-2750)	86	106	99@
4.	Junior Administrative Grade (Rs. 1500-2000/ 2000-2250)	143	157	146
5.	Senior Time Scale (Rs. 1100-1600)	158	204	216
6.	Junior Time Scale (Rs. 700-1300)	232	232	158
	(a) Total duty posts	624	706	624
RESERVE				
(Rs. 700-1300)				
	Deputation	110	120	120
	Leave	29	40	15
	Training	55	55	45
	(b) Total reserves	194	215	180
	Grand Total	818	921	804

An equal number of posts were surrendered in the Junior Time Scale in lieu of the posts created in the higher levels, and 109

* Proposed scale was Rs. 3500 (fixed).

** Two posts of ADAI proposed to be upgraded to the scale of Rs. 3250 (fixed) while the remaining 4 posts proposed to be upgraded to the Rs. 3000 (fixed).

@ posts to be designated and operated as Principal AG/Principal Director of Audit in SAG Level I with a special pay of Rs. 250 per month.

§ Pay scale of the posts of ADAI be revised from Rs. 2500-3000 to Rs. 3000 (fixed).

posts kept vacant/held in abeyance for a period of time were also abolished.

NEW BENEFITS

While the CAG operated the posts, which were within his delegated powers in a phased manner in accordance with the functional requirements of the Department, sanction of the President for upgrading the existing post of ADAI (Commercial)-cum-Chairman Audit Board (Rs. 2500-3000) to that of DAI (Commercial)-cum-Chairman, Audit Board (Rs. 3250 fixed) was received on 11th September, 1985 and operating the remaining three posts of ADAIs in the scale of Rs. 3000/- (fixed) as against the existing scale of Rs. 2500-3000 and eight posts of Principal Accountants General/Principal Directors of Audit, who were granted a special pay of Rs. 250/- p.m. each the addition to the existing level I scale on 6th June, 1985. Only two officers benefitted by the upgradation of the post of ADAI(C) to DAI (Commercial) until 1989. The Accountants General in certain States, were recognised as demarcated regional heads and their areas of responsibility were identified. Management of available office accommodation, proposals for construction/hiring of office accommodation, management of residential accommodation including allotment, of residences to staff of different offices eligible for accommodation out of a pool under the control of the IAAD, proposals for construction/acquisition of residential accommodation, deputation of staff to state governments or other organisations, welfare aspects of the staff working in various offices, attention to news items appearing in local papers, magazines etc., likely to create misgivings, which may need clarification, and bringing to the notice of Headquarters, co-ordination by eliciting information, seeking clarifications and tendering advice and entering into correspondence with the Comptroller and Auditor General particularly in improving efficiency, reducing arrears, maintenance of discipline and progress of Audit Reports and discussions in the PAC and COPU. They were expected to highlight specific and peculiar needs and problems of all offices in their report to Headquarters office. The Accountants General were required to keep the Principal A.G. informed on issues raised by Associations that may affect other offices for evolving a common approach. The Principal A.G. was required to initiate or respond to requests for discussions on issues raised by the Associations, which have a direct or secondary implication on more than one office, and to keep the Director (Staff)/DAI closely informed/posted of developments. While in their specific areas of activities, Accountants General were to carry on such interaction independently, they were to keep the Principal AG informed,

wherever the functions of other Civil offices were involved. PrAG was to ensure proper coordination amongst different Accountants General and where necessary, seek clarification or guidance from the office of the CAG, so as to ensure a common and consistent approach on issues. The PrAG was expected to function as the spokesman for the IAAD on matters of policy involving the fundamental concepts/practices of accounting or audit. Periodical meetings with all Heads of Offices in a particular State were to be held to familiarise with the problems and evolve a common approach. The Headquarters office was to be kept in the picture.

FOURTH PAY COMMISSION

As a result of the recommendation of the Fourth Pay Commission, the pay scales of IAAS were revised with effect from March, 1987 as under:

Dy. Comptroller and Auditor General	Rs. 8000 (fixed).
Additional Dy. Comptroller and Auditor General	Rs. 7600 (fixed) without spl. pay.
Principal Accountant General	Rs. 7300-100-7600 (without special pay).
Accountant General	Rs. 5900-200-6700.
Junior Administrative Grade (SG)	Rs. 4500-150-5700.
Junior Administrative Grade (OG)	Rs. 3700-25-4700-150-5000.
Senior Time Scale	Rs. 3000-100-3500-125-4500.
Junior time Scale	Rs. 2200-75-2800-EB-100-4000.

On 1st July, 1988, the total cadre strength was 850 - 650 duty posts (1 DAI, 4 ADAI, 8 Pr.AG/DA, 89 SAG, 146 JAG (SG 65, OG 81) 170 DAGs/DDs etc. and 232 AAG/AD etc.) 120 deputation reserve 15 leave reserve and 45 training reserve. The disposition was - 389 on duty, 103 on deputation, 40 on training and 5 on leave. The net shortage was around 261, mostly on junior and senior time scale, which constituted the inherent weakness of the cadre in IAAD. The effective ratio of IAAS to AO dwindled to 1 : 10. The cumulative shortfalls in promotion of AOs to IAAS, though made good in subsequent years, planning of recruitment of direct recruits on the assumed depletion by retirement, death etc. and with reference to the long term needs based on expansion of functions and duties of CAG have led to an anomalous situation of supply falling short of changing demands from time to time. The benefit of a large feeding cadre to sustain and strengthen the IAAS was not fully utilised -

as in other services - until 1983, when promotion quota was enhanced. The duties and functions of CAG even under the existing statute are likely to expand - viewed in the background of the past trend and certain new policies and programmes to be formulated to obtain increased turnover of appraisals on PSUs to fulfil the mandate given to CAG. The future scope and potential of auditing and reporting, after the expansion and strengthening of the Panchayati Raj and Zilla Parishads, Municipalities and Corporations, for being developed into an effective third tier structure in Indian democracy, which will add a new dimension for decentralised audit and reporting in almost all states, will necessitate large scale expansion of IAAS of the type witnessed in 1960s and 1970s.

Some IAAS officers rose to the highest position in Government of India/State Governments and international organisations after Independence. In all, 28 officers became Secretaries to the Government of India; six officers held the position of Chief Executives in Public Sector Undertakings; Services of 10 officers were lent to the UNDP/UNIDO/ILO etc.

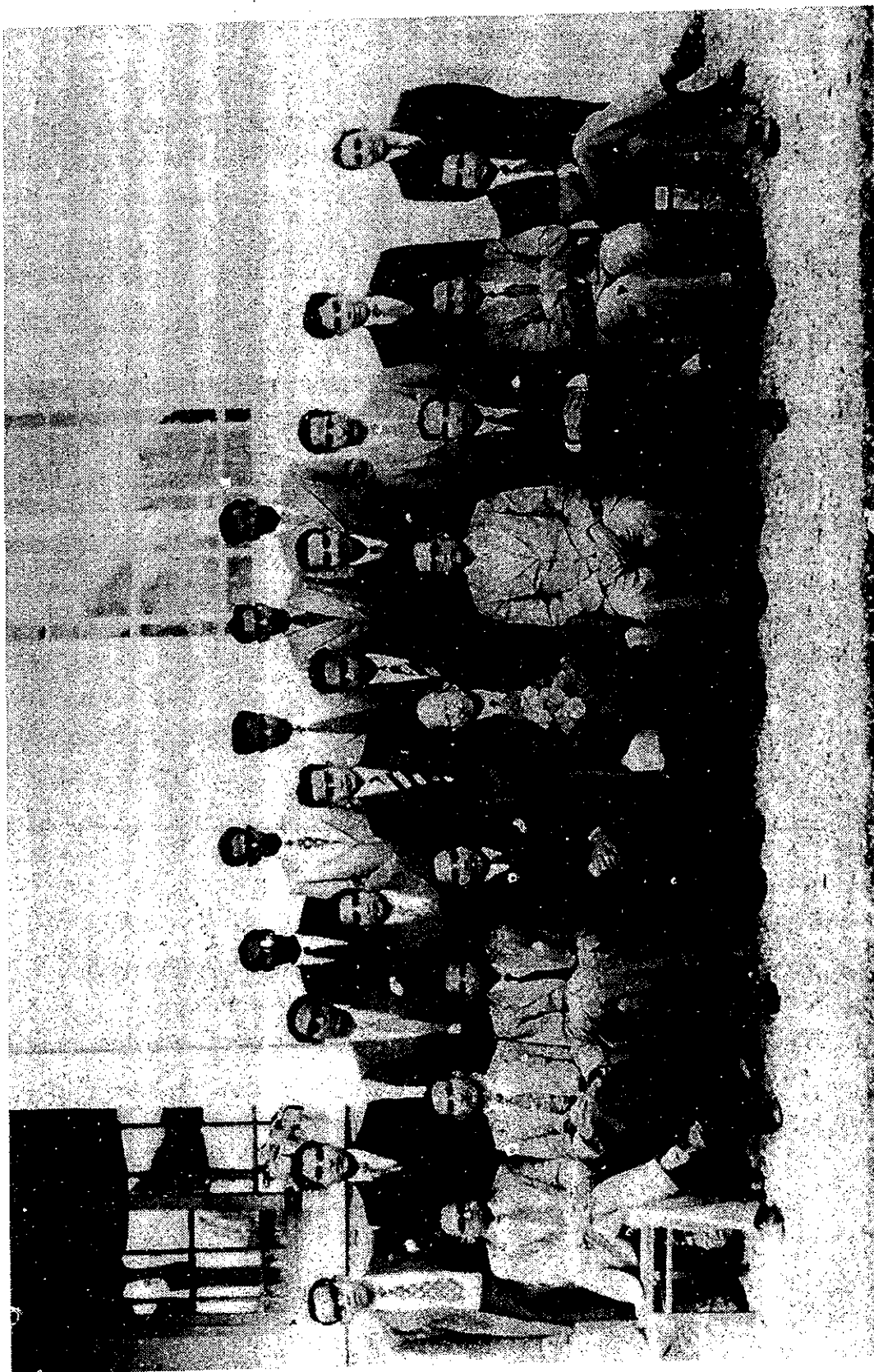


Fig. 9.1: 1950 Batch LAAS Probationers - Chandwick House with Principal Shri P.K. Wattal and the author to his right

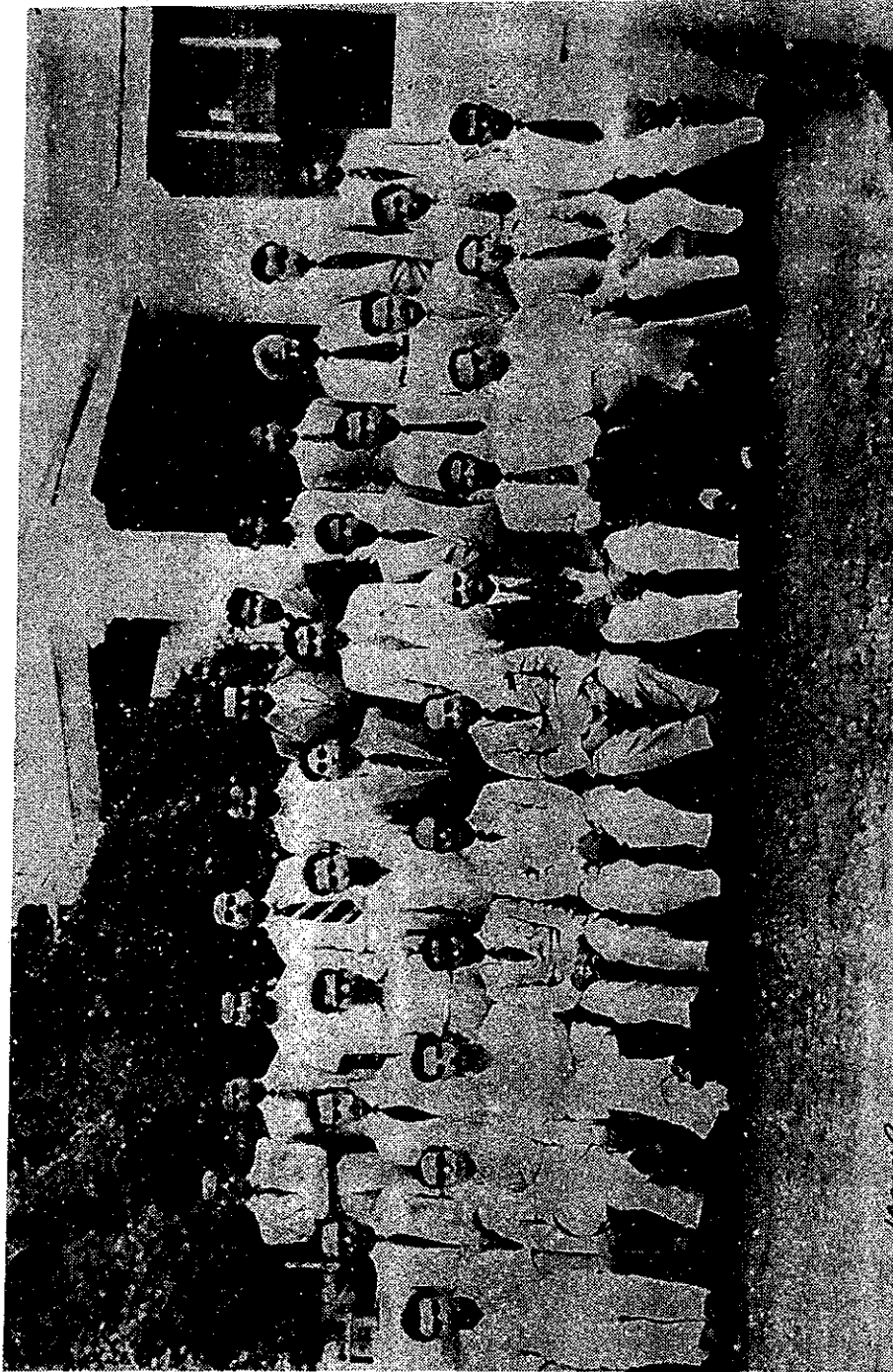


Fig. 9.2: IAAS Probationers 1953 Batch, Madras with Shri A. Balakrishnan, the Accountant General and Shri V.K. Subramanian, Principal

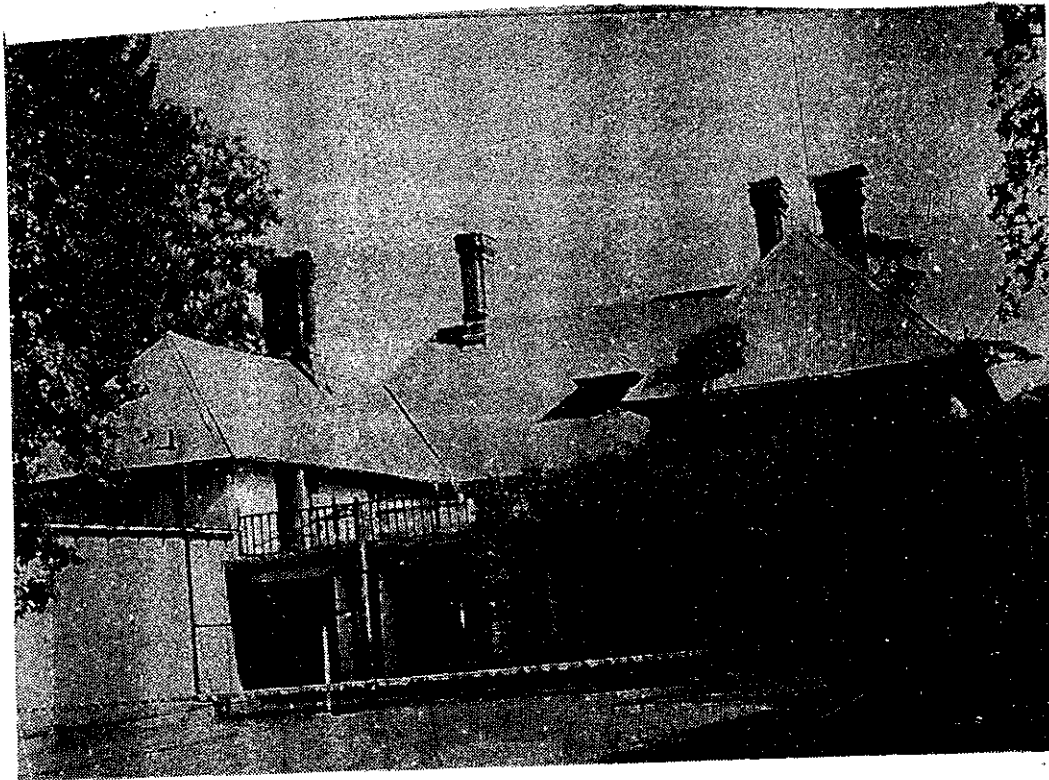


Fig. 9.3: Yarrows, Simla

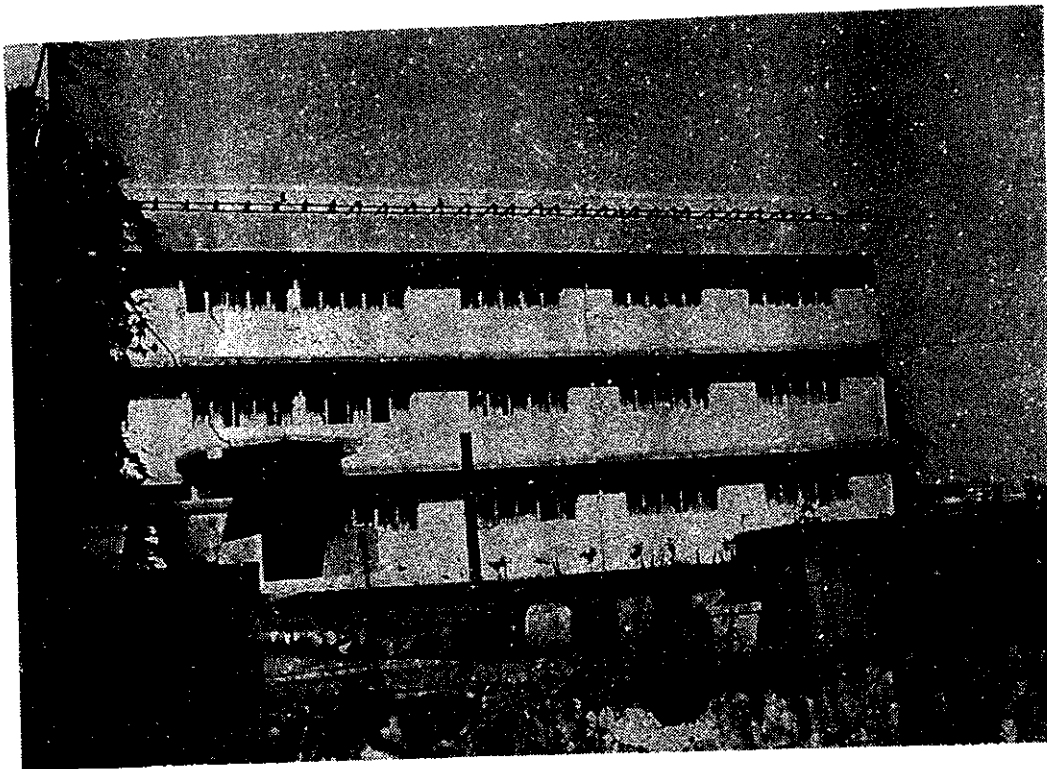


Fig. 9.4: The New Building of IAAS Staff College

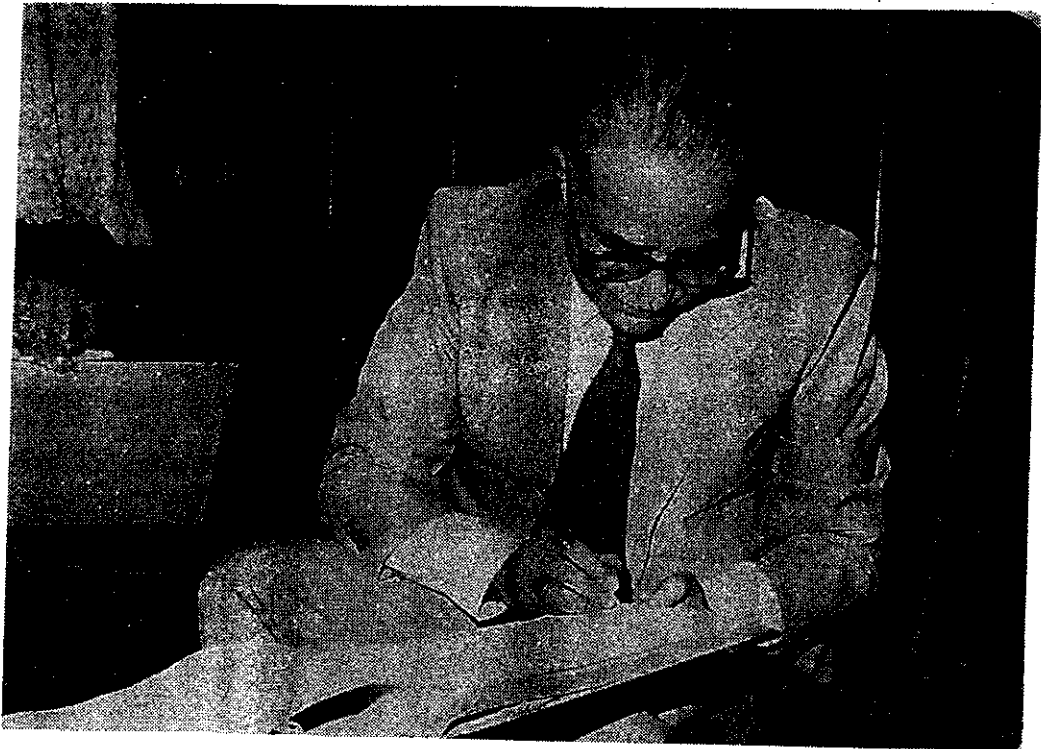


Fig. 9.5: Shri T.N. Chaturvedi, CAG of India signing Visitors Book

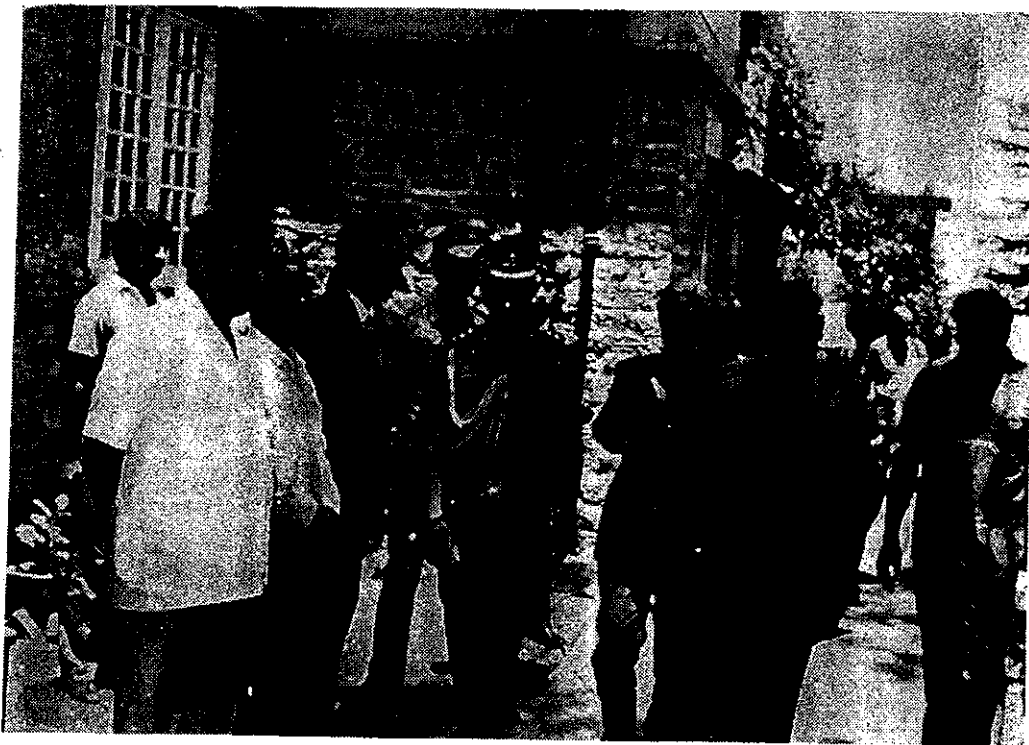


Fig. 9.6: President R. Venkataraman's Visit to Staff College

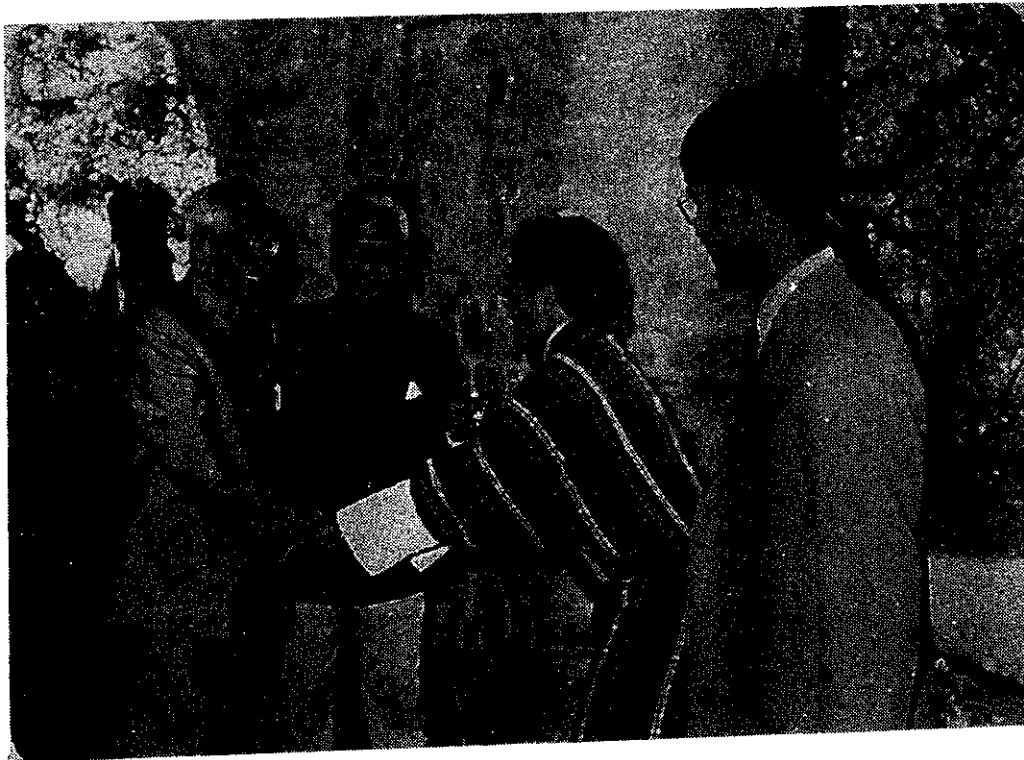


Fig. 9.7: Probationers being introduced to the President by the Director, staff College



Fig. 9.8: Lady Probationers being Introduced to the President

ASSISTANT ACCOUNTS OFFICERS

Originally (1880) known as 'Chief Clerks' with gazetted status, Chief Superintendents in 1883, and Assistant Accounts Officers in 1917, in the joint scale of Rs. 450-30-750 from 1919, the cadre strength was 55 in 1923. The pay scale was revised to Rs. 660-40-900 in the office of Auditor General and Rs. 500-35-850 in other offices and Rs. 700-50-1000 in Telegraph Check office. A uniform scale of Rs. 500-35-850 was adopted in 1928. The strength of the cadre in 1932 was 73. After the Vardachariar Commission 1947, the pay of post - 1931 entrants was revised and the Central Civil Services (Revision of Pay), Rules 1947 provided for AAOs in the office of CAG the scale of Rs. 500-30-650-EB-30-900-plus a special pay of Rs. 100 and those in subordinate offices Rs. 500-30-650-EB-30-900. The ratio of AAO to superintendent was 1 : 5. The strength of the cadre in 1950 was 249. Recruitment to the grade of Assistant Accounts Officer was made by promotion from the Subordinate Accounts Service on the principle of selection-cum-seniority, *i.e.* selection was made after consideration of the merits of the candidates from senior men downwards. Appointment was made in officiating capacity in the Civil Audit and Accounts Service by the AG and the substantive appointment was made by the CAG except in the P&T, Railway Audit offices, where they were made by the AGP & T and DRA. Ordinarily, they were not liable for transfer except in cases, prescribed by the CAG. The confidential reports of the AAOs were kept by the AG.

INDUCTION

Recruitment to the grade of Assistant Accounts/Audit Officers in the various offices of the Indian Audit and Accounts Department was made by promotion from the cadre of section officers with five years of service in the SAS accountants' grade. In 1955, 50% of the posts were declared as selection posts and promotions on the basis of selection were made from amongst the meritorious SAS accountants. After the implementation of the recommendations of the Second Pay Commission in 1960, the pay scales were revised to Rs. 590-30- 830-35-900 and those working in the headquarters office were allowed a special pay of Rs. 100, as was in vogue earlier. In October, 1960, the cadre strength was 623. The ratio of AAOs to SAS Accountants was 1 : 5. The designation of AAOs was changed to Administrative officers in Headquarters office from August, 1962 and Accounts/Audit officers in the field offices from April, 1968. The recruitment rules notified in 1964 provided for 50% of the posts as selection posts and the remaining 50% as non-selection ones.

PROMOTION POLICY

The concept of restricted zone of consideration was introduced in 1964, when the zone of consideration was fixed as six times the number of vacancies and in 1966, it was reduced to five times and in 1970 to two and a half times. In 1973, a completely new system of promotion on the basis of selection was introduced. The zone of consideration was totally discarded with a view to picking up really brilliant and outstandingly competent persons for merit promotion. In search of talent, the selection committee could go much further down in the eligibility list (a section officer with just five years of service as such was eligible for promotion). The important objective behind the new system of selection of section officers for out of turn promotion was, that in future a substantial number of Accounts/Audit officers could rise to IAAS sufficiently early, so that at least some of them could go upto high levels in the department. Merit was required to be assessed impersonally and objectively solely with reference to the record of work and conduct of officers, as reflected in their CRs. CR form was revised and re-designed to ensure maximum objectivity in assessment. Screening of the officers for merit promotion was made by Initial Screening Committee consisting of Sr.DAG/DAG and then finally by a Departmental Promotion Committee comprising officers of the rank of Accountant General. With a view to achieving demonstrable objectivity in the selection, outside officers in both the Initial Screening Committee and the Departmental Promotion Committee were inducted; all the members of both the committees were nominated by CAG and out of turn promotion was made only with the approval of CAG. In July, 1970, the CAG proposed for increasing the quota for promotion to IAAS from 20 to 25 per cent, which was agreed by the Ministry of Finance and the Ministry of Home Affairs in September, 1970. But UPSC insisted the change to be incorporated in the form of amendment to the Recruitment Rules, which was deferred to be taken up after the CAG's (DPC) Act came into force, as the Act widened the scope and content of CAG's work.

WELFARE OFFICERS

Shri S. Ranganathan, proposed to Government of India a scheme of welfare officers in the scale of Rs. 700-40-1100-50/2-1250 for major offices in the Department in 1970 to look after the welfare activities in those major offices on the same lines as each of the Ministries of the Government of India, who had an Under Secretary (Welfare) and suggested creation of 23 posts of welfare officers in offices, which had a staff strength of about 1000 or more. The duties and functions of the

proposed welfare offices broadly fell under three categories viz. Staff Welfare, House keeping and Recreational, Cultural and Community activities. The functions under staff welfare included giving personal hearing to individual members of staff regarding their difficulties or grievances, assistance to staff suddenly taken ill or those chronically ill and helping in securing admission in places of treatment, helping, in cases of need, in securing admission of children in schools, colleges and other educational institutions and supply of liveries etc. to Class IV. House Keeping functions were ensuring cleanliness of office buildings, premises, office canteens, staff colony etc., provision of adequate drinking water facilities, timely provision of hot and cold weather arrangements, and provision of parking lots for cycles and scooters and ensuring their safety and protection against sun and rain. Recreational, cultural and community activities included encouragement to players for participation in games etc., arrangements for matches and tournaments, encouragement to persons possessing talent in music, dramatics, art, literary and other cultural activities, arrangements for various cultural functions and picnics and liaison with recreation club, cooperative stores, credit society, house building society etc. While according sanction for the Scheme in January, 1971, the MOF laid down that recruitment to the posts should be made on a local basis in consultation with the UPSC from amongst AOs, who rendered 9 years' or more service in that grade. The recruitment rules incorporating these provisions were notified in March, 1974. The scheme has been in operation since then in the Department. The scale of pay was revised to Rs. 3000-10-3500-125-4500 consequent on implementation of the Fourth Pay Commission recommendation. In December, 1989, there were 36 Welfare Officers in position in 36 large offices. During the last decade and a half these posts have benefitted very senior AOs, who could not make to IAAS due to age restrictions.

THIRD PAY COMMISSION

After the acceptance of Third Pay Commission's recommendations by Government in 1973, the pay scales were revised to Rs. 840-40-1000-EB-40-1200 for Accounts/Audit officers and to Rs. 840-40-1000-EB-40-1200 plus a special pay of Rs. 150 for Administrative officers in the headquarters office. The cadre strength in March, 1973 was 1847 and the ratio to SAS Accountants was 1 : 4.

The Pay Commission had recognised the acute stagnation of class II officers at the maximum of their scale and recommended increasing the quota for promotion to class I posts. The Administrative Reforms Commission had also recommended raising the promotion quota to 40

per cent in the services, where it was less. A Secretaries' Committee decided that the cadre controlling authorities should study and determine the extent, having regard to all relevant factors. A group of Ministers constituted to consider the general question in different services was yet to make its recommendations. In December, 1973, CAG sent a proposal for increasing the promotion quota to 25% but the Department of Personnel did not agree in December, 1974, as the general question was under the consideration of groups of Ministers. CAG personally wrote to the Finance Minister for clearing his proposal but there was no response.

In 1975, there were 3000 class II officers and more than one-fifth stagnated at the maximum of their pay scale for several years and even after the introduction of the new scale, recommended by the Pay Commission some of them stagnated for over five years. Since 1965, the average number of class II officers promoted to the IAAS was only four per year. Due to non-clearance of promotion quota by the Department of Personnel the Recruitment Rules could not be finalised. (At that time the promotion quota in Income Tax Service Class I was increased to 50 per cent).

CHANGES IN PROMOTION POLICY

CAG decided from the panel year beginning from September, 1982, that all the selection posts would be filled up on the basis of relative merit of the officers falling within the prescribed zone of consideration and discontinued the separate procedure followed hitherto. Thus, all section officers with five years of service as such, and who came within the specified field of choice were considered for promotion against selection posts on the basis of relative merit, 'outstanding', very 'good' and 'good', in that order, instead of on real merit alone. Two separate panels, 'X' panel for promotion to the 50% selection posts and 'Y' panel for promotion to the remaining 50% non-selection posts, were prepared and names from the respective panels were placed alternately in the combined panel for promotion. Promotion on the basis of selection no longer required the approval of CAG and the Accountants General/Heads of Departments were empowered to operate the panels. The size of the panel and the composition of the DPC was determined by CAG. New cadres of Asstt. Accounts Officer/Asstt. Audit Officer, became the feeder cadre for promotion to the grades of Accounts/Audit officers. Recruitment rules for the posts of Accounts/Audit Officers were therefore revised and the revised rules were notified.

While extending the benefit of higher scales of pay to class III officials under the scheme of reorganisation implemented from March 1, 1984, the CAG suggested revision of the scale of pay of AOs, to

Rs. 1100-1600, which was in vogue in the Department for officers in the cadre of temporary AAGs, as they were required to supervise AAOs, SOs and auditors in the audit of transactions, both in local and Central audit of the Governments concerned and as they constituted the front line supervision for peripatetic parties. In case extension of the scale to the AOs was likely to take time, grant of special allowance of Rs. 150 per mensem as interim relief was suggested. After much correspondence *ad hoc* special allowance of Rs. 100 per month to AOs working in the Audit Wing of IAAD was sanctioned from September, 1985. The Fourth Pay Commission did not find adequate justification for continuance of the *ad hoc* allowance of Rs. 100/- per month granted by Government to Audit Officers in September, 1985 pending the Pay Commission's report.

A new Group-B cadre of Asstt. Audit Officer in the Audit offices in the pay scale of Rs. 650-1040, was formed, in March, 1984. This was extended to the Accounts offices from April, 1987, after the implementation of the Fourth Pay Commission recommendation. These posts were filled by promotion from the grade of Section Officers with three years of service as such on the basis of seniority subject to fitness. The strength of AAOs, who were reckoned as gazetted officers was 6071 in March, 1989.

Accounts/Audit officers with five years of service in the grade, who were not more than 53 years of age as on July 1 of the year to which the promotions pertain were eligible for promotion to the IAAS on the basis of selection on merit against the promotion quota of 33-1/3% as per the IAAS Recruitment rules notified in 1983. For this purpose, a combined eligibility list of Accounts/Audit officers with reference to the date of their appointment as section officer, without disturbing the *inter se* seniority in the grade of Accounts/Audit officer in a particular cadre, was prepared and those coming within the prescribed zone were considered for promotion.

The scale of pay of AOs were revised to Rs. 2375-75-3200-EB-100-3500 after the implementation of Fourth Pay Commission's recommendations. In March, 1984, the cadre strength was 3456. Despite repeated recommendations by CAG, the pay scales of AOs have not improved and after the induction of the new cadre of AAOs, the pay scale of which almost overlap the major part of AOs' except for few steps earlier and later, the distinctions have been blurred to such an extent that the risk of loss of their seniority and distinct role in IAAD is imminent in course of time. Large number of AOs were deputed to State Governments, Government of India, PSUs, Autonomous Bodies and Institutions and few even to international organisations.

THE SUBORDINATE ACCOUNTS SERVICE

The Subordinate Accounts Service departmental qualifying examination, introduced in 1897, is one of the oldest recognised examination in Government Accounting and Auditing. Initially, it was divided into three distinct branches - Ordinary, Local Audit and Currency Branches. Customs Audit, and Posts and Telegraph Branch were added in 1910, Defence Audit Branch was added in 1925, Commercial Branch in 1928, Railway Audit Branch in 1930 and a Supply Audit Branch in 1947. In 1947, there were different scales of pay for the Superintendents viz., Rs. 200-15-350-20-450, Rs. 175-15-400, Rs. 150-15-375. In the Railway Audit Branch, the scales of Senior Auditors were Rs. 250-15-400 and of junior auditors Rs. 150-10-240. The Subordinate Accounts Service had 8 branches by 1947 - (a) Civil Subordinate Accounts Service - ordinary, local audit, customs audit, supply audit and commercial audit branches, (b) Subordinate Railway Audit Service, (c) Postal and Telegraph Subordinate Accounts Service and (d) Subordinate Accounts Service for Defence Services test audit. The recruitment of apprentices for the SAS was revived in 1946 and 50 more posts were left for promotion from SAS passed clerks. The strength of the SAS was raised by 100 posts in 1949 and 1950.

The SAS became the Central Subordinate Service under the rule making control of the President acting in consultation with the Comptroller and Auditor General and constituted the front line supervision of work in the Section/or peripatetic party. Those who had passed the departmental examination were eligible for appointment to the SAS. Appointment to the SAS was made by the Accountant General partly by confirmation of eligible apprentices but mainly by promotion of the eligible clerks in their offices and the divisional accountants under their control. Experience in Public Works Accounts acquired either by holding charge of public works divisions or by training under public works divisional officers, arranged by heads of offices for a period of one year was a necessary pre-requisite for confirmation of any person in the SAS. This comprised of three spells of (i) six months for those who had passed the Part I of the examination and before taking part II, (ii) three months to those who passed Part II of the examination or any public works papers, when he would be placed in the actual charge of the accounts of the public works division and (iii) for another three months on public works inspection. On the civil side, a member of the SAS was regarded as senior accountant, when he crossed the efficiency bar in the SAS scale of the office to which he belonged. Transfer to and from the branches of the Subordinate Accounts Service was permitted under

certain special conditions. Initially, SAS passed clerks appointed to the SAS and the SAS Accountant were called upon to accept transfer to the office of the CAG or Central Government, Ministry of Finance on the terms prescribed by CAG or the Central Government. Separate regulations for the departmental examinations qualifying for the appointment to the SAS were laid down. The qualifying examination was held in two parts and was held in both the parts once a year in the several Audit and Accounts offices by means of question papers set by or on behalf of the CAG and others locally under the audits of the AG and were examined and marked by the officers nominated by or on behalf of the CAG or the AG. The prescribed age was less than 32 years for sitting in the examination for Part I and 40 years for Part II. The syllabus and subjects of the examination were prescribed by the CAG from time to time. Part I comprised of *Precis and Draft, Fundamental Rules and Regulations* - theoretical and practical spread over 1-1/2 to 3 hours reaching upto a total of 11-1/2 hours with a maximum marks of 550, Part II had *Public Works Accounts, Rules and Procedures* - theoretical and practical 1-1/2 hours duration and *Advance Book Keeping with costing and stores control*, 2 theoretical papers of 2-1/2 hours each with maximum of 150 marks totalling to 500. The syllabus, subjects in each part, duration of the paper and the maximum marks admissible varied from branch to branch but there were common papers on *precis and draft, fundamental rules etc., civil accounts and audit* and separate papers on subjects relevant to the branch concerned. In 1950, the strength was 1282 and the ratio of SAS accountants to UDCs was 1 : 9.

DIRECT RECRUITMENT

After the revival of direct recruitment of SAS apprentices in 1946 and subsequent strengthening of the Cadre, separate Training School headed by a Principal, Shri Gnanasagaram, a senior officer of the emergency cadre of IAAS, known for his knowledge and experience was opened at Madras. He was assisted by four to five SAS accountants. Another School was opened at Nagpur in 1953 for training the apprentices recruited from northern states. While 150 apprentices joined the first batch, quite a few of which later competed in the All India Examination and joined the IAS, IAAS and other Central Services, 120 to 130 apprentices were trained in each subsequent batch. About 1000 apprentices were trained and the School was abolished in December, 1958. The arrangement continued till the SAS position in the Department became adequate to manage the offices with the annual accretion by passing of Departmental candidates.

After the implementation of recommendations of the First Central Pay Commission, the pay was revised as under :

Civil and P&T	Rs. 200-15-380-EB-20-500.
Defence	Rs. 200-15-380-EB-20-500 plus Spl. pay of
Railway Audit	Rs. 40 per month.
Senior Auditor	Rs. 350-15-380-20-500.
-Junior auditor	Rs. 200-15-350.
SAS Apprentices	Rs. 125.
Superintendents in Ar.Gl's office	Rs. 375-25-650.
Assistant super- intendents	Rs. 200-15-380-EB-30-500 plus spl. pay of Rs. 40 per month.
Superintendents CRA Branch	RS.375-25-650.

The Customs Audit Branch was abolished from 1968. The Revenue Audit Examination for SAS accountant was introduced in 1963, which included two papers on Income Tax - one theoretical and another on practical with 75 marks each and second paper on Central Excise and Custom - both theoretical and practical carrying 150 marks.

Based on recommendations of the Second Pay Commission (1959) the scales were revised as under :

SAS Accountants	
Civil, P&T, Railway and Commercial Audit	Rs. 270-15-435-EB-20-575
Defence Audit	Rs. 270-15-435-EB-20-575 plus special pay of Rs. 40 per month.
Customs Audit	Rs. 420-25-500-30-750.
Superintendents in CAG's Office	Rs. 450-25-550-30-760.
Asstt. Superintendents in CAG's Office	Rs. 270-15-435-EB-20-575 plus special pay of Rs. 40 (subsequently special pay at 20% of their pay in the regular scale was sanctioned from 1st February, 1961).

In 1960, the strength of SAS accountants was 3037 and the ratio of superintendents to UDCs was 1 : 8.

After implementation of the the Third Pay Commission (1973) the pay scales were revised as under :

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SAS accountants (Section Officers from April, 1973) in field offices - all branches except P&T and Defence.	Rs. 500-20-700-EB-25-900.
P&T and Defence	Rs. 500-40-700-EB-15-900 plus special pay Rs. 100.
Assistant Superinten- dents in CAG's Office.	Rs. 500-20-700-EB-25-900 plus fixed special pay of Rs. 125.

The designation was changed to Section Officer in 1973. In March, 1973, the strength of SOs was 7152 and the ratio of Section officers to auditors was 1 : 5.

In March, 1984, the gazetted status was given to 80% of the SOs in Audit offices and were designated as AAOs, and their strength was 6071. The Fourth Pay Commission retained the scale of AAOs.

In March, 1989, the strength was 8915 and the shortage in the cadre was around 9% of the sanctioned strength. As the SOs/AAOs/AOs form the sheet anchor of front line supervision in IAAD, any deficiency in working strength is bound to affect the efficiency and effectiveness of the Department. Also, further expansion of the function of CAG is solely dependant on the availability of adequate number of SAS qualified personnel.

The SAS qualified personnel were in great demand both in the States and Government of India and the PSUs until departmentalisation. Few of them have risen to very high positions in PSUs.

DIVISIONAL ACCOUNTANTS

The cadre of Divisional Accountants was constituted as early as 1860 and by 1946-47, it had become an organised cadre working in the PWD and other divisions but administered by respective As.G. The success of the Public Works accounting system in India owed a good deal to the DAs, who virtually functioned as the FA&CAOs at the primary unit of spending and accounting. The scale of pay of divisional accountants in 1946-47 was Rs. 80-8-200-25/5-225. After acceptance of the recommendation of the First Central Pay Commission, the pay scale was revised to Rs. 130-10-250-EB-15-355 and during probation they were allowed pay of Rs. 100. In P&T Audit Department, where there were two categories of Accountants, senior Divisional Accountants and junior divisional accountants the pay scale for the former was raised to Rs. 175-

15-295, while for the latter, the pay scale of Rs. 130-355 was applicable. In July, 1950, the strength of the cadre was 675 distributed over 13 offices. By 1960, the strength had risen to 1291 in 13 offices. After the second pay commission the scales were changed to Rs. 180-10-290-EB-15-440 with selection grade of Rs. 325-15-475 (limited to 10% of the posts) and to Rs. 270-15-435 in the case of P&T Senior Divisional Accountants. After the Third Pay Commission, the revised scales were Rs. 425-15-500-EB-15-560-20-640-EB-20-700-25-750 (Ordinary Grade) and Rs. 550-20-650-25-800 (selection grade). The Divisional Accountants were responsible for the correct compilation of accounts of PW divisions and for rendering financial advice to the Divisional officers. They were also to function as representatives of Audit and act as primary auditors. Though they were treated as central Govt. servants, their pay and allowances were charged to the State Governments under which they were functioning. Thus, they were subjected to dual control. While administrative control insofar as appointment, transfers and postings, promotion to selection grade, leave, advances etc. vested with the As.G., the functional control was with the Divisional officers. The performance of DAs was reported upon by the Divisional officers and the reports were reviewed by the Group officers concerned in As.G. offices.

Keeping in view the inconsistency of the divisional accountants having to assist the divisional officers in the discharge of their responsibilities and also to work as primary auditors on behalf of the As.G., which created innumerable problems in day to day administration, a policy of transferring the cadre to the state Governments was initiated from 1953. Although certain states took over the cadres initially, the reorganisation of states and rethinking on the part of some state governments changed the situation from time to time. Except Assam, J&K, Kerala and Karnataka, the cadres remained with the As.G. concerned in other states, who pursued the matter with the State Governments but not much headway could be made because of Court cases and other legal tangles. At present, the cadre in 14 states *viz.* Bihar, Gujarat, Haryana, Himachal Pradesh, Madhya Pradesh, Maharashtra, Meghalaya and Arunachal Pradesh, Orissa, Punjab, Rajasthan, Tamil Nadu, UP and West Bengal are administered by the As.G.

The total strength of the DAs cadre in various states on Ist January, 1988 was 5008, against which there were 3406 regular DAs and 1077 (738 drawn from state PWD and 339 from As.G. offices) emergency Divisional Accountants.

The Fourth Pay Commission recommended that the DAs should be provided promotional avenues in the offices of the As.G. as AOs in the scale of Rs. 2375-3500 but various practical difficulties were advanced for

implementing this recommendation. The Government finally restructured the scales of DA as under :

Ordinary Grade (50%)	Rs. 1400-40-1600-50-2300-EB-60-2600.
Selection Grade (30%)	Rs. 1640-40-2600-EB-75-2900.
Group 'B' Gazetted (20%)	Rs. 2000-60-2300-EB-75-3200.

Works accounts and audit constituted the first technical work in Government and the DAs were responsible for their proper maintenance in good condition.

AUDITORS

Prior to independence there were different pay scales for upper division clerks in different Audit offices depending on local conditions. While the variations were considerable in the case of Civil Accounts offices, the pay scales in Defence Audit offices and to a lesser extent in the case of Railway Audit offices, were uniform. Recruitment to the posts of upper division clerks was made by the As.G. (except for a short period during war when a centralised recruitment for all Central Government offices through Federal Public Service Commission was resorted). The minimum educational qualifications for the post of UDC was prescribed as second class university degree. A Selection Board constituted by the As.G. made the selection of eligible candidates and recommended the order in which appointments were to be made amongst them.

The First Pay Commission in 1947 standardised the pay scales into a single pattern and recommended uniform pay scales for similar posts in various Audit offices. The scale of pay of UDCs was prescribed as Rs. 80-220 in all the Audit offices. In July, 1950, there were 11562 UDCs. In 1950, a departmental examination was introduced for upper division clerks, which was made obligatory for them to pass after rendering one year's service. After passing the examination, their initial pay was raised to Rs. 100 and they became eligible for confirmation in the grade. The syllabus for the examination and the instructions for the conduct of the examination were prescribed by the CAG. A maximum of four chances was allowed to pass this examination. A selection grade limited to 10% of the strength of the cadre was introduced and promotions were made to this grade from amongst those, who completed 10 years service as UDC, based on merit-cum-seniority. Based on recommendations of the First Pay Commission, the scale of UDCs was revised to Rs. 80-5-120-EB-8-200-10/2-220 and SGC Rs. 160-10-330. By 1960, the strength of UDCs increased to 22,367. After the Second Pay Commission the scale was revised to Rs. 130-5-160-8-200-

EB-8-256-EB-8-280-10-300 for UDCs, Rs. 210-10-290-15-320-EB-15-380 for SGCs.

Revenue Audit examination was introduced from November, 1963 as an incentive to upper division clerks, who earned two advance increments on passing this examination. In October, 1966, the UDC's strength was 25,607. A scheme for filling up some of the posts of purely accounting-cum-administrative nature by non-SAS, by upper division clerks (including selection grade clerks) to be known as Accountants was introduced from 1st April, 1966 and those who had put in more than 20 years of service and had exhausted all chances in SAS examination were made eligible for selection as Accountants. This scheme was reviewed in 1968 and the number of posts that could be filled up by non-SAS personnel was restricted to 20% of the SAS posts and they were redesignated as supervisors. The supervisors were allowed to draw pay in SAS scale. In 1973, the field offices were advised to obtain the prior approval of the Headquarters office before making appointments of supervisors. The strength of the selection grade in the upper division cadre was raised to 20% in 1967. The designation of upper division clerks was changed as auditors from 1st April, 1973.

The implementation of the Third Pay Commission's recommendation resulted in revision of auditors' scale to Rs. 330-10-380-EB-12-500-EB-15-560 and S.G. auditors scale to Rs. 425-15-560-EB-20-640.

The functional selection grade posts of auditors were converted into non-functional one from 1st August, 1976 and the scale of pay was raised from Rs. 425-640 to Rs. 425-700. An auditor who had either completed 14 years service in the ordinary grade or crossed 3/4th span of the scale of pay of ordinary grade was made eligible for appointment to the selection grade.

DEMAND FOR PARITY IN PAY SCALES

It was recognised both in the Department and even in unbiased quarters in Government that the work of an auditor in the IAAD was more technical than the job content of an Assistant in the secretariat. Shri V. Narahari Rao had obtained an *ad hoc* scale for UDCs in the IAAD under his scheme to strengthen the department. Shri A.K. Roy had repeatedly stated that an upper division clerk in the AG's office turned out far more work than an Assistant in the Secretariat. Parity in pay scales of UDCs with the Assistants in the Secretariat has been a long standing demand of the recognised associations in the Department.

Shri S. Ranganathan had indicated in his memorandum to the Third Pay Commission in March, 1971 his 'decision' to introduce a new cadre to be designated as Auditors in the scale of pay corresponding to the grade of Assistants in the Central Secretariat (Rs. 210-530), who would constitute

one third of the strength in U.D. cadre. Recruitment to this grade would be partly by promotion from UDCs and partly by direct recruitment of graduates on the basis of a competitive examination. The decision, however, was not implemented. The Third Pay Commission's report did not touch on the introduction of new cadre corresponding to assistants.

CONFRONTATION

The issue came up before the Departmental Council and the demand of the staff was referred to the Government of India in 1978, explaining the problems likely to arise in implementing them, for which no solutions were available in the Pay Commission's report and the explosive possibilities of the unresolved issue created by the decision of CAG few years back. The Ministry of Finance took the view that the decision was not correct since the CAG was not competent to create new posts in Audit Department on any of the approved scale of pay, because any two posts could be treated similar, only when the nature of duties and degree of responsibility attached to two posts were similar and the posts carried the same scale of pay, even though the designation might be different. Duties and responsibilities attached to the post of Auditors in IAAD could not be held similar to the duties attached to the Assistants in the Central Secretariat and creation of posts in Assistants' grade would not conform to the pattern already approved by the President for the Audit department after considering the recommendations of the Third Pay Commission with the concurrence of the CAG and any deviation required their prior approval. The issue was not to be considered in isolation for IAAD, since a general issue regarding upgradation of ten per cent posts of UDCs in non-secretariat administrative offices was pending consideration of the National Council. Government's decision led to deletion of the item from the agenda by the official side, resulting in friction in Administration and agitation by employees spearheaded by recognised associations in all the offices.

The staff side revived the demand in the Departmental Council in the form of revision of pay scale of Auditors from Rs. 330-560 to Rs. 425-800 in December, 1980. The Ministry of Finance informed in February, 1981 that the demand of the staff side for upgradation of posts of auditors to the grade of assistants in the Secretariat and *de novo* determination of audit wage structure was placed before the cabinet, who have approved the proposal of the Ministry for recording disagreement on them. Although both the demands were arbitrable, the Staff side took their demand regarding grant of higher scale to the Auditors to the Board of Arbitration and sought a meeting with a Committee of Ministers regarding the demand for *de novo* determination of wage structure.

The Committee of Ministers consisting of the Finance Minister, the Home Minister and the Labour Minister heard the Staff Side on 15th October, 1982 and decided that if the Staff Side withdrew their case before the Board of Arbitration, the Government could consider their demand for *de novo* determination of the wage structure in the IAAD, which was followed by a series of meetings of the Staff Side members with the official side

WAYOUT

While the discussions were in progress, the CAG, Shri Gian Prakash, proposed a scheme for restructuring of the IAAD with a view to strengthen specialisations of skills by which the staff in the IAAD was to be bifurcated into two streams for Audit and Accounts and Entitlement work, with the former enjoying a little better scales of pay, as compared to the latter who were to continue on the existing scales of pay. As a result of the discussion with the staff and the Ministry of Finance, a consensus was reached to bifurcate the Indian Audit and Accounts Department as proposed by the CAG, and to grant higher scales to Audit staff by upgrading 80 per cent of the posts of Auditors from Rs. 330-560 (Selection grade Rs. 425-700) to Rs. 425-800 and Section Officers from Rs. 500-900 (Selection Grade Rs. 775-1000) to Rs. 650-1040 in view of their higher functional responsibilities. Accordingly, the Staff Side withdrew their case from the Board of Arbitration and the scheme was formally approved for implementation. The scheme was notified by CAG in December, 1983 for implementation with effect from 1st March, 1984 and the staff was asked to indicate their preference for allocation to the respective Wings. Allocations were made to the two Streams according to suitability and administrative requirements with due regard to seniority but by and large employees were allocated according to their choice. In April, 1984, there were 17731 Auditors and 10184 accountants in the Department.

While restructuring scheme was implemented in the Department from 1st March, 1984, in AG West Bengal there was a stay by the Calcutta High Court and after vacation of the stay, the scheme was implemented on 1st November, 1985. Restructuring of cadre in a way met partly one of the long standing demands of the staff, which had been the root cause for strife and struggle in almost every office - which though recognised by CAG as early as 1970's, was blocked by the Finance Ministry for nearly 15 years. It was no mean achievement of Shri Gian Prakash.

OVERALL BENEFITS

The overall benefits of restructuring to various categories of employees were, introduction of a cadre of record keepers (Rs. 225-380) covering

about 1500 Group D employees, grant of group B gazetted status (Rs. 650-1040) to 80% of section officers in Audit offices extending to 5,000 employees; grant of scales equal to those of Assistants in the Secretariat (Rs. 425-800) to 12,500 senior auditors, special pay of Rs. 35 p.m. to over 1000 upper division clerks in Accounts and Entitlement offices, a regular scheme of appointment of section heads called supervisors in A & E offices from selection grade accountants (senior accountants) thus providing an avenue of promotion to even those, who have not passed the section officers grade examination; cent per cent promotion to the cadre of accountants (Rs. 330-560) from clerks (Rs. 260-400) against the earlier 25% quota in A & E offices; promotion of clerks as stenographers and grant of *ad hoc* special allowance of Rs. 100/- p.m. to Audit officers. A functional selection grade for record keepers (Rs. 950-1400) was introduced initially limited to 15%, which was increased to 20% in June, 1989. 33-1/3rd of total posts of stenographers (Rs. 1200-2400) and personal assistant (Rs. 1400-2300) were earmarked as Personal assistants to be posted with group officers/welfare officers and Accounts/Audit Officers holding important charges.

LONG WAIT

Under the scheme of restructuring of cadres, if the number of persons allotted to Audit was in excess of the number of posts in the Audit offices, after transfer of the staff to the Audit offices on 1st March, 1984, the remaining persons were kept in a waiting list, but they continued to work in the Accounts and Entitlement offices. As and when vacancies arose in the Audit cadres, the persons on the waiting list were transferred to the Audit offices in their turn and ceased to be on the waiting list for any grade after their promotion to any other functional grade in A & E office and was given the right to decline transfer to the Audit office. In March, 1984, nearly 7050 officers and staff were wait listed - 196 AOs, 890 SOs, 5549 auditors, 418 clerks, 38 other group C and 164 group D - in 10 Civil Accounts Offices, which gradually tapered off and in March, 1989, 518 accountants, 1 group C and 3 group D were waiting in 7 offices.

Thus, after nearly a decade and a quarter, what the CAG considered to be reasonable scale of pay to the Auditors or Section Officers and which the staff demanded, was frustrated by the attitude adopted by the Ministry of Finance. This caused wide spread agitation and strife in field offices, which affected the work considerably, despite all attempts to gloss over it. It was ultimately conceded by the Ministry of Finance, Government of India, not wholly but partly, by forcing an artificial bifurcation of offices, which did not add either to professional

skills or total efficiency and effectiveness in the performance of accounting functions. The Fourth Pay Commission's award removed the inequity to the staff in A & E offices. But, the Accounts and Audit Officers were left in the cold languishing in the warmth of CAG's recommendations to Government of India for improving their scale of pay without any ostensible gain.

SUPREME COURTS RULES

The Supreme Court, while disposing of the appeals filed by certain employees belonging to the AG's office U.P., formulated rules in regard to the transfer of the staff from the waiting list. Accordingly, those employees in the Accounts and Entitlement office functioning in an ordinary grade or a selection grade, who had opted for absorption in the Audit office and were kept in the waiting list, would continue to have the benefit of absorption in the Audit office, as and when vacancies become available in that office. Employees who are in the waiting list would cease to be in the waiting list for any grade, if they were promoted to a higher functional grade in the Accounts and Entitlement office and on such promotion their option for absorption in the Audit office would stand finally revoked. In cadres, where direct recruitment was made against the quota presently prescribed for the purpose in the Audit office, no such direct recruitment would be made as long as there were persons in the waiting list for the corresponding grade.

FOURTH PAY COMMISSION RECOMMENDATIONS

The Fourth Central Pay Commission recommended that there should be broad parity in the pay scales of the staff in IAAD and other Accounts Organisations. While considering the higher scales given to the staff of the Audit cadres they had observed that Audit and Accounts functions were complementary to each other and were generally performed in many Government offices in an integrated manner, which was necessary for their effective functioning. Accordingly, they recommended that posts in the pay scales of Rs. 425-700 in the organised Accounts cadres may be given the scale of Rs. 1400-40-1600-50-2300-EB-60-2600, which should be treated as a functional grade requiring promotion as per normal procedure. The scale of Rs. 2000-3200 for section officer was also recommended to be treated as a functional grade. The number of posts to be placed in the scales of Rs. 1400-2600 and Rs. 2000-3200 was left to the Government to decide. Government decided in June, 1987 that 80 per cent of the posts of section officers (SG) will be in the higher scale and 20% section officers in lower scale and 80% of posts will be Sr. accountants and 20% lower scale. The Government accepted the

recommendations of the Pay Commission and issued orders* introducing higher grades for senior accountants and section officers from 1st April, 1987, which, in effect equalised the pay scales of A & E office staff and Audit staff. At one stroke the main purpose of restructuring of cadres devised to give higher emoluments to the auditors and SOs on the audit side was eroded and the parity between the staff engaged in auditing and accounting work was restored thereby almost rendering the whole scheme of reorganisation of 1984 unnecessary. The chronic malady of non-recognition of the distinct character of the two functions, though complementary, performed under different circumstances, remained unremedied, with baneful consequences on management of the cadres. In IAAD, the imbalance between demand and supply on commercially qualified personnel - auditors, SOs, AAOs and AOs can be directly attributed to this anomalous situation.

20 per cent of the posts of SOs in A & E offices were allowed to be filled by promotion of non-SAS passed Accountants and thus a regular promotional avenue was provided to them. In Audit offices 5% of the posts of SOs were similarly allowed to be filled by non-SAS passed auditors.

STENOGRAPHERS/PAS

The stenographers were in two grades - ordinary grade carrying the pay scale of Rs. 80-5-120-EB-8-200-10/2-220 (equivalent to that of UDCs) and selection grade Rs. 200-10-300, which could be granted only to those attached with the Head of the Department in 1947. In July, 1950, there were 99 stenos in the IAAD. Based on the recommendation of the Second Pay Commission the scales were revised to Rs. 130-5-160-8-200-EB-8-256-EB-8-280-10-300 and Rs. 210-10-290-15-320-EB-15-425 in the field offices and Rs. 210-10-290-15-320-EB-15-425-EB-15-560 in CAG's office. In 1960, the strength of the stenos was 288. In 1963, the stenographers were extended the facility of appearing in a recruitment-cum-departmental examination and those who qualified with a minimum speed of 100 word per minute. and 120 w.p.m. were granted two/four advance increments in the pay scale. The examinations consisted of two papers, one on English (grammar, precis-writing, simple drafting etc.) for 2 1/2 hours duration carrying 100 marks and the other constituting speed test in shorthand and transcription of the same carrying 200 marks. 40% in English and 55% in dictation in shorthand and transcription were regarded as qualifying marks. In 1968, the posts of stenographers in the scale of Rs. 130-300 attached to the officers of the rank of Sr.DAsG and DAG (Admn.) were upgraded to Rs. 210-425 and those with 5 years service and possessing a minimum speed of 100 w.p.m. in shorthand were made eligible for promotion

addition, the lower division clerks with 6 years of service were allowed to negotiate and qualify in the SAS examination. The pay scale of LDCs was revised to Rs. 55-3-85-EB-4-120-5-130 affect the Varadachariar Pay Commission in 1947. In 1950, the promotion scheme introduced in 1941 was discontinued. There were 5246 clerks in July, 1950. The relaxation of allowing the lower division clerks with six years service to compete in SAS examination was continued and those who qualified in Part I of the examinations were promoted to upper division in the earliest vacancies arising thereafter. It was only in 1955 that a regular scheme of promotion of clerks from lower division to upper division was introduced and those who had put in 5 years of service and had shown capacity of a much higher order than what was expected of clerks were promoted against the promotion quota which was between 10% and 16-2/3%. Consequent on the implementation of the recommendations of the Second Pay Commission, the scale of pay was revised to Rs. 110-3-131-4-155-EB-4-155-180 from July, 1959. In October, 1960, the number of clerks had increased to 7227. In 1967, the quota of promotion was raised to 20%. From 1973, another scheme of promotion of lower division clerks through a limited departmental competitive examination was introduced whereby those with three years service as lower division clerks and who were successful in the examination could get promoted to upper division against 5% of the vacancies in the upper division cadre. The promotion quota for lower division clerks thus increased to 25%. The pay scale again underwent revision from January, 1973 after the Third Pay Commission and was charged to Rs. 260-6-290-EB-6-326-8-366-EB-390-10-400. The total strength in March, 1973 was 8578. After restructuring of cadres in IAAD in 1984, the scheme of promotion of clerks (revised designation for lower division clerks from April, 1973) through limited departmental competitive examination was discontinued and promotion quota for clerks in Audit offices was revised as 25% and promotion was made on the basis of seniority-cum-fitness. In Accounts and Entitlement offices, recruitment to the posts of Accountants was discontinued and 50% of vacancies in accountants cadre were filled by promotion of clerks with 5 years service in the grade, on seniority-cum-fitness basis, while the remaining 50% of the vacancies was filled by promotion of clerks with 3 years service on passing the departmental examination for Accountants or SO Grade Examination Part I. A new scheme of promotion of clerks as stenographers was introduced both in Audit and A & E offices and those who qualified in a limited departmental competitive examination were promoted against 20% of the vacancies reserved for them in stenographer cadre. The scale of pay, after implementation of the recommendations of the Fourth Pay Commission, was Rs. 950-20-1150-EB-25-1500.

The Recruitment rules notified in 1988 provided for filling 50% vacancies in Audit Offices by promotion of clerks with 5 years regular service and by promotion of graduate clerks with 3 years service on passing a departmental examination and 66-2/3 per cent of vacancies in A & E offices by promotion of clerks with 5 years regular service in the grade on seniority-cum-fitness basis and promotion of matriculate clerks with 3 years service (including graduate group 'D' officials) on passing a departmental examination for Accountants or of clerks on passing the SO grade examination Part I. In March, 1989, the strength of LDCs was 11,214.

GROUP D STAFF

Group 'D' staff generally comprise of Daftaries, Jamadars, Peons, Sweepers, Chowkidar etc. The strength of the cadre is determined on the basis of work standards laid down and the orders issued by the CAG from time to time. Recruitment to the posts in Group D cadre is made by obtaining names from Employment Exchanges as well as from open market. The minimum educational qualification for recruitment to group D posts is a middle school or equivalent standard. The possession of the aforesaid minimum educational qualification is not necessary for recruitment of sweepers, farash and chowkidars.

In 1947, the pay scales were Rs. 30-1-2-35 for chaprasies, peons and daffadars, Rs. 35-1-50 for Jamadars and Rs. 40-1-50-EB-2-60 for Daftries or Record Suppliers. There were 5522 class IV in April, 1958. The scales of pay were revised after the Second Pay Commission to Rs. 70-1-80-EB-1-85 for peons, sweepers, farash, chowkidar, mali and Hamal, Rs. 75-1-85-EB-2-95 for daftries and Rs. 80-1-85-2-95 and Rs. 80-1-85-2-95-3-110 for SG daftries, Record sorters and junior gestetner operator.

A scheme of promotion of class IV to lower division cadre in Civil Audit and Accounts offices and for promotion of class IV and sorters in the P&T audit offices was evolved in 1967 under which 10% of the vacancies in the Lower Division Cadre were reserved for promotion of such officials who had put in atleast 15 years service (reduced to 12 years in 1971) on passing a simple departmental promotion examination which included a paper of simple English and a paper of Arithmetic. The candidates were also required to pass a typing test with a minimum speed of 30 words per minute.

The question of providing additional avenues of promotion to persons in group D cadre, particularly those who have passed matriculation examination was considered in 1973 and a scheme of promotion of matriculate class IV employees to lower division cadre was introduced. Under this scheme, the matriculate class IV employees, who

have rendered a minimum of 5 years continuous service as class IV employees or in any higher grade were allowed to take a limited departmental competitive examination for filling up 5% of the vacancies in the cadre of clerks. This was in addition to the existing promotional opportunities already available to class IV employees with not less than 12 years service. After the Third Pay Commission, the scales of pay underwent revision to Rs. 196-3-220-EB-3-232 in the case of peons, sweepers, farash, chowkidars, mali and hamal, Rs. 200-3-216-4-234-EB-4-250 in the case of Daftries and Jamadars and to Rs. 210-4-250-EB-5-270 in the case of selection grade daftries, record keepers and junior gestetner operators. A selection grade was introduced in 1977 for peons, sweepers. The designation was changed to Group D in 1982. After the restructuring of cadres in IAAD from 1st March, 1984, the promotional schemes were modified. A new cadre of record keepers in the pay scale of Rs. 225-5-260-6-290-EB-308 with a functional selection grade in the scale of Rs. 260-6-326-EB-8-350 limited to 10% of posts* (subsequently revised to 15%/20%) was created. This was to be promotional posts for all group D with 7 years service possessing middle school pass qualification and appointment to this grade was made on seniority-cum-fitness basis. The limited departmental competitive examination for matriculate class IV was continued even after restructuring but the standard of the examination was upgraded and the syllabus was also suitably revised. The quota of promotion for those who qualified in this examination was fixed as 10% instead of 5%.

After the implementation of Fourth Pay Commission's recommendations the pay scales were revised to Rs. 750-8-790-EB-10-940 for peons, sweepers, farash, chowkidars, mali, hamal etc. who were in ordinary as well as selection grade, Rs. 775-10-965-EB-12-1025 for daftries and jamadars/hawaldars Rs. 825-15-900-EB-20-1200 for record keepers and Rs. 950-20-1150-EB-25-1400 for S.G. record keepers. In March, 1989, there were 6512 group D in the Department.

LIST OF ABBREVIATIONS

1.	CCS (CCA) Rules	—	Central Civil Services (Classification control and Appeal) Rules
2.	CGDA	—	Controller General of Defence Accounts
3.	CPAO	—	Chief Pay and Accounts Officer
4.	CR	—	Confidential Report
5.	DAA	—	Director of Audit and Accounts
6.	DAs	—	Divisional Accountants
7.	DE	—	Departmental Examination
8.	DPAR	—	Department of Personnel and Administrative Reforms
9.	DPC	—	Departmental Promotion Committee
10.	GFR	—	General Financial Rules
11.	IAS	—	Indian Administrative Service
12.	ICAS	—	Indian Civil Accounts Service
13.	ICACS	—	Indian Civil Administrative (Central) Cadre Scheme
14.	ICS	—	Indian Civil Service
15.	IDAS	—	Indian Defence Accounts Service
16.	ILO	—	International Labour Organisation
17.	IRAS	—	Indian Railway Accounts Service
18.	MAB and Ex-officio DCA	—	Member Audit Board and Ex-officio Director of Commercial Audit
19.	MOF	—	Ministry of Finance
20.	OG	—	Ordinary Grade
21.	PrAG	—	Principal Accountant General
22.	Pr. AG/DA	—	Principal Accountant General/Director of Audit
23.	PA	—	Personal Assistant
24.	PSUs	—	Public Sector Undertakings
25.	PWD	—	Public Works Division
26.	SAG	—	Senior Administrative Grade
27.	SAS	—	Subordinate Accounts Service
28.	SG	—	Selection Grade
29.	UNDP	—	United Nations Development Project
30.	UNIDO	—	United Nations Industrial Development Organisation
31.	UPSC	—	Union Public Service Commission

SOURCES AND REFERENCE

1. Reports of the First, Second, Third and Fourth Pay Commission
2. IAAS Recruitment Rules
3. Classified List of IAAS Officer
4. CAG's Manual of standing orders
5. MSO (Administrative) Vol. 1.
6. Cadre Review Committee's Reports
7. Recruitment Rules of AO, SO, AAOS, Auditors, Accountants, Stenographers, Clerks etc.
8. IAAD by Shri. M.S. Ramayyar
9. IAAS Staff College problem and reports.

10 Change in Government

NEW CAG

The general elections held after the emergency ushered in the Janata Party rule in Government of India, which broke the Congress Party rule, since independence. Measures taken by the new Government to remove certain restrictions on accessibility to files and to render CAG's advisory role on accounting matters are explained in the earlier chapters. On the advice of the Government headed by the Prime Minister, Shri Morarji Desai, President appointed the Secretary, Ministry of Defence, Shri Gian Prakash as CAG of India. He was sworn in on 27th March, 1978. After passing the combined competitive examination in 1945, he had joined the Indian Audit and Accounts Services as probationer. On completion of his training, he worked as AAG in AGCR, before joining the Indian Administrative Service in 1947. He was allotted to UP, where he served in various capacities, District Magistrate and Collector in few districts and became Secretary to the local Government in the Government of Uttar Pradesh. In 1963, his services were placed at the disposal of Government of India, for appointment as Joint Secretary in the Ministry of Health and Family Planning and Works, Housing and Urban Development. He worked in that capacity for nearly seven years and was Chairman, Town and Country Planning Organisation for about 5 years. In 1968, he went to Holland as a United Nations Expert in the field of Urban Development and also attended the meeting of World Population Commission in Geneva. He returned to UP in March 1970 to become Commissioner and Secretary for the Department of Labour, Transport, Industries etc. His services were placed at the disposal of Government of India in May 1972, as Joint Secretary in the Ministry of Home Affairs and later Adviser in the Planning Commission. When the President's rule was imposed, he was appointed Chief Secretary in Uttar Pradesh. After the elections, he returned to Government of India to become Additional Secretary in the Cabinet Secretariat. He worked as Secretary to the Ministry of Health and Family Planning for two and half years and later Secretary, Ministry of Defence. He brought his vast and varied experience both in the UP Government and Government of India extending over three and a quarter decade to the new office.

During his tenure, there were five DAIs - Shri Y. Krishan upto 29th February 1980, Shri T. Rengachari from 1st March, 1980 to 30th June, 1981 and 1st October, 1981 to 31st January, 1982, Shri P.P. Gangadharan from 1st July, 1981 to 30th September, 1981, Shri A.R. Shirali from 11th

February, 1982 to 20th July, 1982 and Shri B. Maithreyan from 21st August, 1982 until his retirement.

Shri T. Rengachari joined as Finance Officer in the Ministry of Finance on 16th September, 1946 and joined as IAAS probationer in June 1948. After working as AAG, AC(P), DAG, Sr. DAG for 9 years, he became CA, North Eastern Railway and North Eastern Frontier Railway in January 1960, at a comparatively short service, as compared to the prevailing pattern in the Department, and continued to remain at the top for nearly 13 years, as AG, Gujarat, Maharashtra, Andhra Pradesh, P&T and DADS. In February 1973, he became ADAI (HQrs.) and in August 1977, ADAI (Commercial). In January 1980, he became DAI and retired on 31st January 1982.

Shri B. Maithreyan joined IAAS on 12th March 1950 and after serving the Department in various capacities for nine years, AAG, DAG, RAO, Bhakra Nangal, DAG/DACR etc., he went on deputation to Koyana Hydro Electric Project, Maharashtra, FA&CO, ONGC and FA Tarapore project. Later, he joined as Joint Secretary (Budget), Ministry of Finance during May 1970 to July 1975, where he was involved in processing of the CAG's Bill. He was OSD with status of Additional Secretary in the Department of Expenditure, for implementing the Financial and Accounting Reforms connected with the taking over of the accounting and entitlement work from the CAG. He was on deputation to IMF as Chief Fiscal Adviser to the Government of Sierra Leone for nearly four years. He returned as ADAI (Railways) in July 1982 and became DAI in August 1982, in which capacity he carried out the functional reorganisation of the Accountants General's offices in the states.

Four officers held the post of ADAI(Comml.) and Chairman, Audit Board during his tenure. The post of ADAI(R) was held by four officers, ADAI(HQ) by four officers and ADAI(Rlys.), except for four months, was combined with DAI during his period.

CONSULTATION AND COMMITTEES

The new CAG adopted a pragmatic approach to administration and management. Unlike his predecessor, he held more number of Conferences of Accountants General/Directors of Audit/MAB & DCA - the maximum number during the tenure of any CAG before - when most of the problems faced by the field offices were discussed and solutions arrived at, to be implemented by the heads of offices. He laid special stress in management of accounting and entitlement functions with a view to improve performance in all the offices. The system of monitoring and control was intensified not only to keep a watch on the performance of field offices but also to control the functioning of headquarters office

under his very eyes. He introduced a system of monthly meeting of senior officers at headquarters, which was presided over by him, and enabled him to control the performance of the various divisions in the headquarters and also ensure effectiveness of headquarters office as a coordinating, sanctioning, and clearing agency of the large Department, which functioned under his authority.

REORGANISATION OF OFFICES

The CAG constituted a Committee* on 31st May, 1979 to examine the question of re-organisation of Civil Audit and Accounts offices in all its aspects, both technical and administrative, including transfer of work relating to the transactions of the Central Government to separate Central Directors of Audit and organising audit of State Electricity Board, State Road Transport Corporation, State Finance Corporation and State Warehousing Corporation on regional basis. The Committee did not recommend the reorganisation of the Civil Audit and Accounts Offices on a regional/divisional/district basis for carrying out certain limited accounting and audit functions, since the disadvantages far outweighed the advantages, that might accrue under such reorganisation, apart from the administrative problems likely to be created. Formation of a full fledged mini-Accountant General's office at the regional/divisional level for a group of districts for the performance of all accounting and audit functions was considered more viable and efficient arrangement, both administratively and technically, to improve the efficiency of working of the offices but the administrative difficulties involved called for evolution of a long term policy to be implemented over a period of 10 to 20 years to make the scheme a success. A Study Group had gone into the question of organising the Audit set up on a functional basis or regional basis or continuance of the existing arrangements and recommended status-quo and the Committee agreed with their views and recommended divesting the State Accountants General of the responsibility of audit of transactions of the Central Government in their jurisdiction through formation of regional offices of Directors of Central Audit. Adoption of the optimum size of the Civil Audit and Accounts Office as 1500, though not a thumb rule but depending on the situation from State to State was recommended. Formation of separate Commercial Audit office under an AG for the States of Andhra Pradesh, Karnataka, Kerala, Madhya Pradesh, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh

* The Committee consisted of Shri T. Rengachari, then ADAI (Comml.), as Chairman and S/Shri P.P. Gangadharan, ADAI, G.B.Singh, ADAI, R.C. Suri, Director (O & M & Trg.), T.C.Krishnan, AG(I), T.N., K.P. Rangaswami, AG(I), Bihar, M. Parthasarathy, DA & A, and P.V. Vasudevan, JD (O & M & Trg.).

and West Bengal was recommended. Reorganisation of the offices of the Accountants General, Karnataka, Assam, Meghalaya, Arunachal Pradesh and Mizoram into two offices, upgradation of the branch office at Rajkot into a full fledged office under an Accountant General, reorganisation of the offices of the Accountants General I and II, Bihar through formation of a third office under an Accountant General at Ranchi and formation of separate audit offices for audit of income-tax receipts at Calcutta and Bombay were recommended for improving the efficiency of the Civil Audit and Accounts Offices. In Madhya Pradesh, formation of a separate office under an Accountant General for State and Central receipt audit was recommended. Re-organisation of the office of AGTN into three offices, namely, AG I to be entrusted with Cadre management and administration, inspection civil, accounts including departmental audit, gazetted audit and provident fund groups and Madras and Tuticorin Port Trusts, AG II to be allotted Public Works and Forest Department of Tamil Nadu State including Public Works Inspection, State Receipt audit, pensions, audit of Pondicherry Union Territory, Central Receipt audit and audit of transactions of the Union Government including audit of Pay and Accounts offices and departmental offices of the Union Government and AG (Commercial, TN) for auditing state public undertakings and departmental commercial undertakings, was suggested. After the formation of a separate audit office for state commercial audits in UP at Lucknow, the office of the AG, III, UP was to be kept as at present for audit of receipts and the remaining work was to be distributed between AG I and II. Consequent on formation of a separate commercial audit office for West Bengal, the remaining work was to be distributed between AG I and II. Formation of separate offices for state commercial audits in Gujarat and Bihar could be considered, when the availability of commercially qualified men improved. Status-quo for the offices of As.G, J&K, HP and Chandigarh, Haryana and Orissa was recommended. Re-organisation of the office of the AG, Assam, Meghalaya, Mizoram and Arunachal Pradesh into two offices, namely one for Assam and Arunachal Pradesh and another for Meghalaya and Mizoram keeping in view the political and other factors in North Eastern region was recommended. As the strength of the office of AG Gujarat was around 2300, a branch office at Rajkot to be placed under an independent AG, to deal finally with all matters concerning the branch office, except in regard to cadre management, and the possibility of placing supervision of state receipt audit work under the AG, Rajkot was to be explored. In view of the strength of the AG I, Bihar, excluding the strength of the local fund audit, being over 2200, reorganisation of the office of the AG I, Bihar into two offices through formation of

another office AG III, Bihar at Ranchi for state public works, irrigation and forest departments and attached work relating to audit of river valley projects in AG II Bihar at Patna and audit of state receipts to the new office was recommended. As a result of the implementation of some of the recommendations, the number of Civil Audit and Accounts offices increased to 40 by 1982.

TRANSFER OF RECRUITMENT WORK

The practice of a Committee of officers headed by the AG recruiting the auditors and clerks for the offices in a station, in vogue since direct recruitment was started by the IAAD, was discontinued, not only to relieve the AG and IAAS officers of the burden, over and above their normal work, but also to fall in line with the recruitment procedure followed by other Central Government departments operating in the State. The work was entrusted to the Staff Selection Commission from March, 1979. Initially, there was a set back in obtaining panels of eligible candidates mainly due to communication gaps and the nature and qualifications of the candidates required by individual offices but CAG's intervention and frequent consultation with Chairman of the Commission and proper liaison with the Regional Commissioners by the Accountant General sorted out the teething troubles. In certain offices there was agitation from local associations in inducting candidates from neighbouring states or outlying regions of the same state on linguistic and other considerations, which were mutually settled in conformity with local requirements. By the end of his tenure the recruitment by the Staff Selection Commission had stabilised.

REFORMS IN AUDITING AND ACCOUNTING

CAG constituted a Committee* to consider and make recommendations in respect of (i) concept, scope, methods and procedures of departmental audit in the offices of the Accountants General, (ii) feasibility and scope of systems audit and measures necessary for its introduction, (iii) scope, contents and procedures of civil inspections, public works inspections and audits under Sections 14, 15, 19 and 20 of the CAG's (DPC) Act, 1971, (iv) measures to improve the quality of efficiency-cum-performance reviews and material for the Audit Reports, (v) guidelines for settlement of old outstanding objections and inspection reports, (vi) measures necessary to strengthen the training function in the Department, (vii)

* Shri R.C. Suri convenor and Sarvshri R.K. Chandrasekharan, AG I, Karnataka, S. Sethuraman, AG, Kerala, G.N. Pathak, DADS, S.P. Joshi, Director, IAAS Staff College, Simla and Smt. Padma, AG II, Maharashtra, Members.

measures to improve the quality of accounting, (viii) perspective planning for Accounting and Audit, (ix) systems of work in the offices including record management and control mechanisms. The Committee presented its first report on the first five terms of reference in December 1981, which contained 128 recommendations - 28 on Departmental Audit, 5 on Systems audit, 26 on civil inspection, 12 on audit of bodies and authorities, 14 on Public Works inspection, 21 on efficiency-cum-performance audit, 13 on outstanding audit objections and inspection reports and 9 on Civil Audit Reports. In March 1982, the Committee was reconstituted, and it presented second part of the Report on the remaining terms of reference in July 1982. The Report contained 90 recommendations - 18 on compilation of accounts, 7 on accounts as an aid to management, 2 on Appropriation Audit, 9 on Record Management, 10 on Training and 22 on perspective planning. Most of the recommendations of the Committee were implemented during 1982-83 and are discussed in the relevant chapters.

REVAMPING OF HEADQUARTERS OFFICE.

The study of the Headquarters office was entrusted in October 1982 to ADAI(R)** with a view to reorganise and rationalise the work and personnel and he presented the report in January 1983. The Report brought out the expansion in Headquarters office during the last 10 years — increase of 90% strength of junior administrative grade officers, despite the shortage in the field offices; 36% increase of AOs, 55% of SOs, 12% of auditors, 39% of clerks and 50% of the senior PAs. The increase in expenditure was 332%. The increase was mostly in Administration, Headquarters Report, Audit and Commercial Audit branches. Based on an appraisal of the duties and functions, volume and content of work and evaluation of input, performance and scope for integration and rationalisation, reduction of about 150 posts covering most of the sections/divisions was identified. Also, suggestions for rationalisation of inward reports/returns (about 163 were received in 1982), coordination, and increasing output of all Report and Accounts branches with a view to accelerate their finalisation were made. Some of the recommendations were implemented in 1984-85.

CHANGES IN INSPECTION OF OFFICES

A Committee set up by Shri A. Baksi, after the AG's Conference in 1974, had made several recommendations for improving the utility and effectiveness of Director of Inspection. A detailed inspection of the field office by

** Shri R.K. Chandrasekharan.

the DI may not give the headquarters office any additional material to formulate a general policy for rectification of persistent defects and would only duplicate the functions of Internal Audit with only a difference at the reporting level. The DI should be utilised more to conduct a study in depth and detail, of a major area of weakness in a particular office so that recommendations for a proper course of action, to avoid such weakness, can be formulated. The half-yearly appraisal reports of the defects noticed in Internal Audit in conjunction with the other periodical reports received in the Headquarters could be studied by him to identify the area of weakness in the field office, to be inspected by him, conduct a detailed study of that area, ascertain the percentage of deviations from the prescribed procedure, keeping in view the inflow of vouchers and documents, the availability of trained personnel and other facilities and suggest concrete steps to improve a particular area of weakness. If, on the basis of his study of the reports, he found that a particular area of weakness was common to many field offices, he may also consider the desirability of conducting a review of the procedure prescribed to see whether any improvement can be made. No further examination of the technical working of the office by the Director of Inspection was necessary. After completion of the inspection, the draft report should be discussed in detail with the head of the office, which should incorporate the procedure proposed to be adopted for the rectification of the defects as also their avoidance. Any divergence in the views held by the DI and by the head of the office should be prominently brought out in the report so that the headquarters office may consider the question and issue suitable instructions, if necessary. Details of individual defects noticed in the course of this review need not be incorporated in the report but should be handed over to the head of the office for its pursuance, through the Internal Audit wing. A detailed follow-up of the report of the Director of Inspection was not necessary from the Headquarters office. The identification of the area of weakness and agreement on proposed rectification procedures should facilitate the head of the office to send a quarterly report on the progress of rectification. If in the course of rectification, any bottleneck not contemplated earlier came to light, they could be incorporated in the quarterly report to enable the Headquarters office to assess whether a variation of procedure was called for. The DI was to be assisted by some picked section officers with sufficient expertise in the functional groups in the field offices. The inspection of the field offices should be preferably covered in a cycle of three years. No action was taken on the recommendation till 1978.

Shri Gian Prakash reiterated that the DI was expected to identify the areas of weakness as well as of strength of a particular office and

indicate whether effective action was taken by the superior officers including the AG to maintain a reasonable standard of efficiency in respect of various types of work done in the office. He should also suggest ways and means of effecting improvement in the working of the offices. Inspections were intended to generally determine the state of health and of efficiency of the offices and to take corrective measures to improve the state of affairs. It was neither possible nor desirable to exactly define the scope of inspections by the Director of Inspection. But the need to ensure that control mechanism under an AG functioned efficiently, to make his reports factually correct, constructive and the AG's accountability has been performed, was reiterated. The points raised in DI's reports were discussed in the monthly Conference taken by CAG in Headquarters office and also during discussions in the AG's Conferences. During his visit to the field offices important points of DI's Report were discussed with AG and his officers for on the spot action.

Internal test audit in the offices of the Civil Accountants General and Posts and Telegraphs Audit and Accounts Offices, which was introduced in 1969, was further intensified. Administrative officers (Inspection) drawn from other offices and borne on the cadre of Administrative officers in Comptroller and Auditor General's office were posted to the Civil Accountants General's offices. The Administrative Officer (Inspection) - Internal Test Audit Officer was to share original work of Internal Test Audit with the Internal Test Audit Accountants and also supervise the work of Internal Test Audit. The internal test audit reports were to be prepared in two parts, part A containing the more important and serious defects and irregularities and Part B containing the minor and less important defects and irregularities and copy of Part A of the report was to be sent to the Director of Inspection. As far as possible, the AG was to arrange internal test audit of the sections in a functional group in one spell to facilitate spotlighting the common weaknesses and deficiencies in the working of the sections in the functional group and taking concerted action to remedy deficiencies identified by the DI in different offices.

The inspection wing was reconstituted and the post of DI elevated to the Accountant General's grade. Copies of internal test audit reports of each section, as soon as internal test audit of that section was completed were required to be sent by the AG to the DI, and these were scrutinised by him to familiarise with the working of the sections in the several functional groups in the various offices and identify the weaknesses and deficiencies noticed in the working of the sections by internal test audit. The DI examined extensively the working of sections in two of the functional groups in each office. The functional groups in

the Civil Accountants General's offices were Gazetted Audit Group, Departmental Audit Group (Audit sections) and pension group, including pension audit, works audit group, accounts group comprising of compilation sections in Departmental audit group, account current, loans, provident fund group. The DI selected one functional group from the first 3 groups (which mainly constitute the accounting sections). He also examined the working of the control sections, namely, TM, WM, OAD, ECPA, Report and Appropriation Audit. Examination of the control sections generally confined to the procedural aspects in the functioning of those sections, and their effectiveness in coordination and control of the sections in the functional groups under their charge. The working of office administration, which included checking of cash book, contingent registers, service books, leave accounts of office establishment, recruitment etc. was reviewed by him. Other reports furnished by the Accountants General to CAG, like the quarterly arrear reports, quarterly reports on pensions, provident funds, and reports on debt, deposit, remittance and suspense balances etc., were studied by the DI. The DI examined whether I.T.A. section has discharged its duties effectively and adequately.

P&T Audit offices were also divided into convenient functional groups for the purpose of his inspection more or less in the same manner. The Railway, Defence and Commercial Audit offices were subjected to inspection by the Director of Inspection and the scope of inspection was office administration and other procedural aspects. The DI inspected one office every month and the duration of inspection of an office was about a fortnight. The idea was to cover all the Civil Accountants General offices, P&T Audit Offices, Railway, Commercial and Defence Audit offices once in about 3 years.

The periodicity of inspection of the field offices was prescribed as three years in 1970, but in actual practice, the turn of the office came after 4-5 years due to increase in the number of offices with no change in the strength of parties. Two copies of the report (Part I and II) on the inspection of the field offices were forwarded to the Accountants General and Directors of Audit. Compliance report in respect of the paras/sub-paras in Part I of the report were required to be sent to headquarters quarterly. Since April 1988, Inspection Reports were prepared in three parts - Part I - Introductory and old outstanding paras, Part II - Important deficiencies noticed during inspection and Part III - minor objections of routine nature, to be settled locally. The progress report is received in following proforma - Para/sub-para number of the inspection report; subject/content of the sub-para in brief; action taken towards compliance; measures taken, if any, called for to avoid

recurrence of such defects in future (including for sections in the group not checked by the Inspection party).

Prior to March 1984, 111 offices were subjected to inspection - 41 Accountants General, including Central Audit offices, Directors of Audit, Railways, 21 Members, Audit Board and *Ex Officio* Director of Commercial Audit including 10 branch offices, 10 Posts and Telegraph Audit offices, 4 Food Audit offices and 11 Defence Audit Offices including their branch offices. After 1st March, 1984, the total number of offices to be inspected was 128 - 27 Civil Accounts offices including branch offices, 34 Civil Audit offices including branch offices, 14 Railway Audit offices, including branch offices, 10 Posts and Telegraphs Audit offices, 11 Defence Audit offices including branch offices, 21 Commercial Audit offices including 10 branch offices, and 4 offices of Director of Audit (Food).

TRAINING

A Training Division was set up in Headquarters in 1978 for organising (i) international training programme and training of sponsored foreign participants in Audit and Accounting, (ii) training programme for officers and staff of the department, (iii) preparation of training modules and audio visual packages and (iv) monitoring of the training activities of the R.T.Is and the field offices. Regional Training Institutes were set up to attend to the training needs of AOs, SOs, auditors, clerks etc., initially at Madras in April 1979, Bombay in February 1980 and Ranchi in December 1982. The RTIs organised refresher courses, specialisation courses and special courses in different areas of accounting, entitlement, audit - Civil, Commercial, Railways, P&T - management and housekeeping, designed to refresh and update the knowledge of the participants and to expose them to modern concepts of audit, management, budgeting and accounting with the objective of improving the quality of work and developing their abilities of supervision and control. The courses helped to exchange information on practices and procedures obtaining in different offices and for useful discussions of problem areas.

The pre-examination training scheme for candidates appearing in the section officer grade examination was reviewed in 1982 and revised course modules indicating the number of sessions to be devoted for each topic were adopted. In order to help the reserved category candidates to qualify in the SO grade examination, a scheme of special coaching was devised for implementation in selected offices. After restructuring of cadres and reorganisation of offices in 1984, the training needs were reassessed and suitable changes were made in the course content,

duration and methodology of induction level training keeping in view the requirements of the reorganised offices.

INTENSIFICATION OF O & M WORK

An Organisation and Method Unit had been functioning in the headquarters office since February 1964, under the supervision of D.A.A. with one AO and one SAS accountant. The unit was engaged in study of existing rules and procedures, and forms in use in the field offices and suggested modifications and simplifications, examined the suggestions received from the Accountants General on simplification of rules and procedures and issued revised instructions, whenever the suggestions were accepted, conducted work study by visiting the field offices with a view to simplifying the procedure in particular branches. Certain *ad hoc* duties, like collection and consolidation of data to answer the questionnaire issued by Third Pay Commission, processing papers relating to Commonwealth Auditors General's Conference and of International Audit Institutions, and work connected with the re-organisation of field offices, rationalisation of supervisory charges and examination of proposals for staff strength on *ad hoc* basis for the field offices, re-organisation of groups or offices etc. were entrusted from time to time.

As decided in the Accountants General Conference held in July 1978, the functions of the Unit in the Headquarters office were redefined and on an experimental basis the O&M Units were introduced in selected offices in As.G. Andhra Pradesh, Bihar, Maharashtra, Tamil Nadu and Uttar Pradesh. The headquarters unit was entrusted with work relating to review of audit systems, methods and procedures with a view to enable the Department to discharge its responsibilities, more effectively, review of accounting systems, methods and procedures with a view to make the accounts available to the State Governments in time and in as much details as required by them, review of organisation of the department for meeting the increasing audit and accounting tasks and other responsibilities of the department, its structure, delegation of powers and responsibilities, sanction procedures, span of control, control systems, communications within the department and standardisation of forms, simplification of work procedures and methods, provision of mechanical aids, records management, flow of records and examination of the problem areas, re-organisation of field offices and fixation of standards for regulating staff. All work relating to INTOSAI, ASOSAI and conference of the Commonwealth Auditors General, liaison with other Supreme Audit Institutions and International agencies interested in public audit and accounting as well as internal institutes/bodies

concerned with public administration, and review of the course - content of various training programmes for different categories of staff and identification of the changes required to meet the growing requirements of training, were entrusted to the unit. A senior AG level officer was appointed as Director to guide the unit in August 1978, and he reported to the DAI/CAG and was assisted by a Joint Director/Deputy Director and handpicked Audit officers well versed in different branches of audit, accounts and administration with a flair for O & M work. The field O & M units were required to study the existing procedures and practices in the respective offices and make suggestions for changes to streamline and further improve their effectiveness. While the field units confined their studies to local issues, the Head quarter's unit examined central and larger issues, which covered the Department or functions as a whole. The field studies were monitored by the headquarters unit so as to recommend the result of any useful study by one office for adoption by other offices. In November 1980, O & M units were set up in seven more offices *i.e.* Kerala, Karnataka, Madhya Pradesh, Orissa, Punjab, Rajasthan and West Bengal and in July/August 1983 in the offices of the Accountant General, Himachal Pradesh and Chandigarh and DACW & M New Delhi, which brought the total number of field O & M units to 14. The field unit comprised one AO, one SO and one auditor, who functioned directly under the AG. Work of compilation of a data bank containing basic information on major government projects, expenditure, thrust of policy, budget etc. was added to the unit.

Eight Audit guides were prepared on Pension Audit, Provident Fund, ECPA, standards of field investigation in ECPA, Systems Audit, Audit under Sections 14 and 15 of CAG's (DPC) Act, 1971, Audit of Stores and Stock Accounts, and Manpower Audit, four Accounts Guides on Distribution and compilation of Accounts, Transfer entries, Adjustment of Inter-Government transactions and suspense heads and two Administrative Guides on 'How to put up papers to Group officers/AG/DA and Principles and Practice of Records Management were brought out during 1982-83 to 1984-85 and circulated to the officers and staff of the IAAD. A quarterly O & M News letter incorporating gist of O & M and Training activities in various offices, extracts or summaries of articles on audit and accounting appearing in International journals and other magazines as also reviews on important books on management, audit, accounting etc. was started from April 1983 which was edited by the Director (O & M). It was converted into a journal named Journal of Management and Training from April 1984, which incorporated not only information about O & M and training activities but also excerpts from articles by eminent authors on modern trends in

O&M functions, audit and accounting and management so as to create a sense of awareness of developing trends and to help reorientation of traditional thinking and behaviour pattern. Director (O & M and Training) was the editor and until March 1989, four issues of 4 news letter and 19 Journals had been issued.

RESTRUCTURING OF CADRES

A major irritant in the relations between administration and staff since 1970s, namely, the demand of staff for parity in scales of pay of SOs and auditors with their counterparts in the Secretariat of the Government of India had assumed serious proportions both during his predecessor's tenure and his period and affected the working of the Civil Audit and Account offices in several ways, was amicably solved towards the end of his tenure. The circumstances under which the settlement was reached are explained in chapter 9. The decision of CAG to bifurcate As.G's offices in the States for performing accounting and auditing functions helped the Ministry of Finance, Government of India to accommodate the demand of the staff substantially in the shape of the restructuring of cadres in the IAAD. The then DAI, Shri B. Maithreyan, Secretaries to Ministry of Finance, Government of India, Shri V.B. Eswaran and Shri P.K. Kaul and the leaders of the All India Non-Gazetted Audit and Accounts association, Shri S.K. Vyas and Shri C.S.V. Warriar played dominant, useful and positive roles in hammering out the final settlement. Once the decision on restructuring was taken, the then DAI, Shri B. Maithreyan, with his known zeal, drive and initiative, completed the whole process, affecting several thousand employees in a period of three to four months time, well before Shri Gian Prakash relinquished office. The As.G. and all the ADAIs in headquarters were involved in finalising the modalities of restructuring and in their actual implementation.

FUNCTIONAL REORGANISATION

The decision of CAG to bifurcate the Civil Audit and Accounts offices in the States with effect from 1st March, 1984 into two separate offices to look after the accounting and audit functions of the State Governments, to improve the quality of audit and provide the State Governments with better equipped accounting and entitlement organisations was announced in December 1983. The re-organised offices in each State were designated as Accountant General (Accounts and Entitlement) who was entrusted with accounting and entitlement work of the State Government and the Accountant General (Audit) who was entrusted with audit of receipt expenditure and other transactions of the Union and State Government. The accounts and vouchers from the Treasury offices, P.W.

divisions and Forest divisions were received by Accountant General (Accounts and Entitlement) who would compile the monthly accounts, prepare Appropriation Accounts and Finance Accounts, maintain detailed accounts of loans and advances, provident fund accounts, wherever the work remained under the jurisdiction of the Accountants General, deal with pension verification/report, gazetted entitlement involving issue of pay slips etc., where the work was performed by him and reconcile accounts maintained in his office with those of the treasuries in respect of transactions under various deposit heads.

The Accountant General (Audit) was to look after audit of the accounts and vouchers received in the office of Accountant General (A & E) from the treasury offices, pension authorisations issued by the Accountants General (A&E), audit of Government departments and offices including audit under CAG's Act 1971, local audit of public works/forest offices, audit of projects and resident audit offices, audit of commercial undertakings of state government corporations etc., audit of state receipts and local audit department (in West Bengal and Bihar only) till such time it was transferred to State Governments. Consequent on reorganisation certain changes not only in systems and procedures in the field offices but also their dealings with the State Government and the subordinate formations/auditee institutions took place.

MODALITIES

As.G. offices were bifurcated into two distinct offices with separate cadres. Audit offices were entrusted with purely audit work, such as, Departmental Audit, Pension Audit, OAD/Civil Inspection including audit of autonomous bodies, Grants-in-aid, Works Audit and Forest Audit, Projects and Resident Audit, Commercial Audit, Receipt Audit, Efficiency-cum-Performance Audit Local Fund Audit (only in West Bengal and Bihar) and processing of Audit Reports. Accounts and Entitlement offices were entrusted with all accounting functions, like Departmental Compilation, Book and Budget, Account Current, Loans and Advances, Broadsheets and Objection Books, Deposits, Provident Fund Accounts, Treasury Accounts, Pension Verification/Report, Gazetted Entitlements including G.M., PAO, Appropriation, Works Misc. and Forest Misc., TM, and IAD. Posts sanctioned for house-keeping, establishment, administration, welfare, cash etc., and as leave reserve, training reserve and group D staff, were allocated on *pro rata* basis for each cadre, *i.e.*, separately for Accounts/Audit officers, SQs, auditors and clerks. The staff in AG's Secretariat, O & M and Hindi sections and other isolated posts were distributed equally between the Accounts and Entitlement offices and Audit offices. After allocation in

this manner the strength for each A&E office/Audit office was determined *de novo* and sanction for posts in each category was issued by HQ office specifying clearly the numbers in the higher pay scales for auditors and officers issues under the 20%—80% formula for Audit offices including the pure Audit offices already existing. The distribution of permanent and temporary posts for each cadre was, however, notified subsequently.

The AG(A & E) was entrusted with Accounts and Entitlement work and management of residual problems relating to the existing cadre and allotment of staff to the AG (Audit) from among the applicants both initially and as and when a vacancy arose. The AG (Audit) was in complete charge of all audit work including the administration of the cadres of the staff transferred. All cadres from Group 'B' to 'D' in the new Accounts and Entitlement offices and Audit offices were treated as distinct and separate. For this purpose all those who applied for Audit and got selected were to sever all links with the Accounts and Entitlement Cadre upon allotment to the audit cadre.

Organisation of the Accountant General (Audit) and Accountant General (Accounts and Entitlement) is given in Figures 10.1 and 10.2

All officers and members of staff were given an opportunity to indicate their preference. All regular employees borne on the strength of each office were required to indicate their choice in the prescribed proforma by 31st January, 1984 and allocations were made to the two cadres according to suitability and administrative requirements with due regard to seniority. Allocation was made to the extent possible as per choice of the offices. Selections for the posts in the Audit offices were made by screening committees appointed for the purpose. Auditors working as supervisors were considered for allocation to the audit cadre only if they sought reversion as auditors/SG auditors. Auditors who passed the SOGE but who had not been promoted as SOs were given preference for allocation to Audit office over auditors who had not passed this examination; but the *inter se* seniority of the auditors selected for Audit office was maintained.

The screening committees drew up lists of persons selected for allocation to the Audit office for each of the functional grades. These lists were prepared according to existing seniority of the persons within each of these functional grades. According to the number of posts in the corresponding grades available on 1st March, 1984 the seniormost persons were allocated and transferred to the Audit office. If the number of persons selected was in excess of the number of posts/vacancies in the Audit office, the remaining persons were empanelled in the waiting list but were retained in the AE office until their transfer to the Audit Office

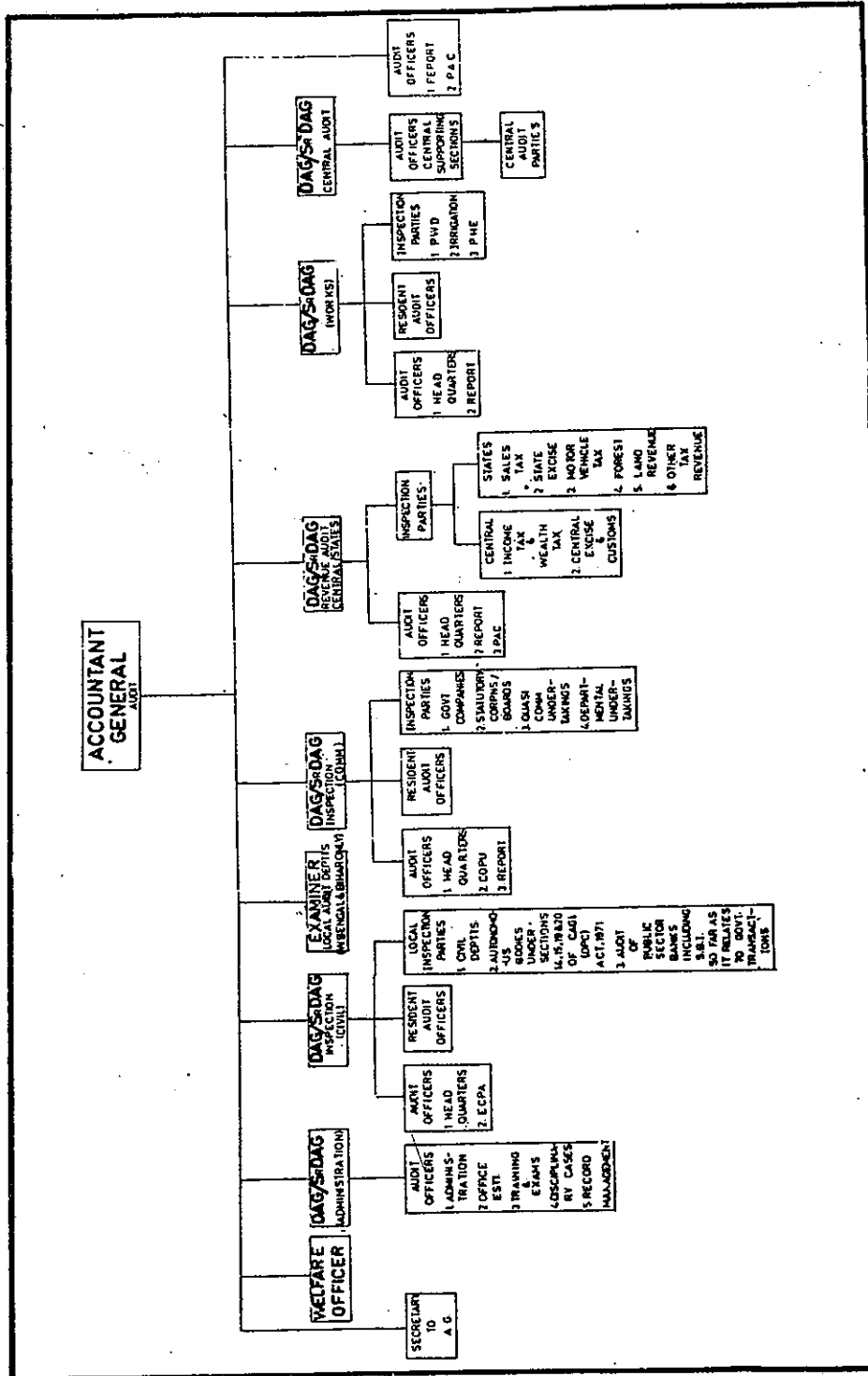


Fig. 10.1: Organisation Accountant General (Audit)

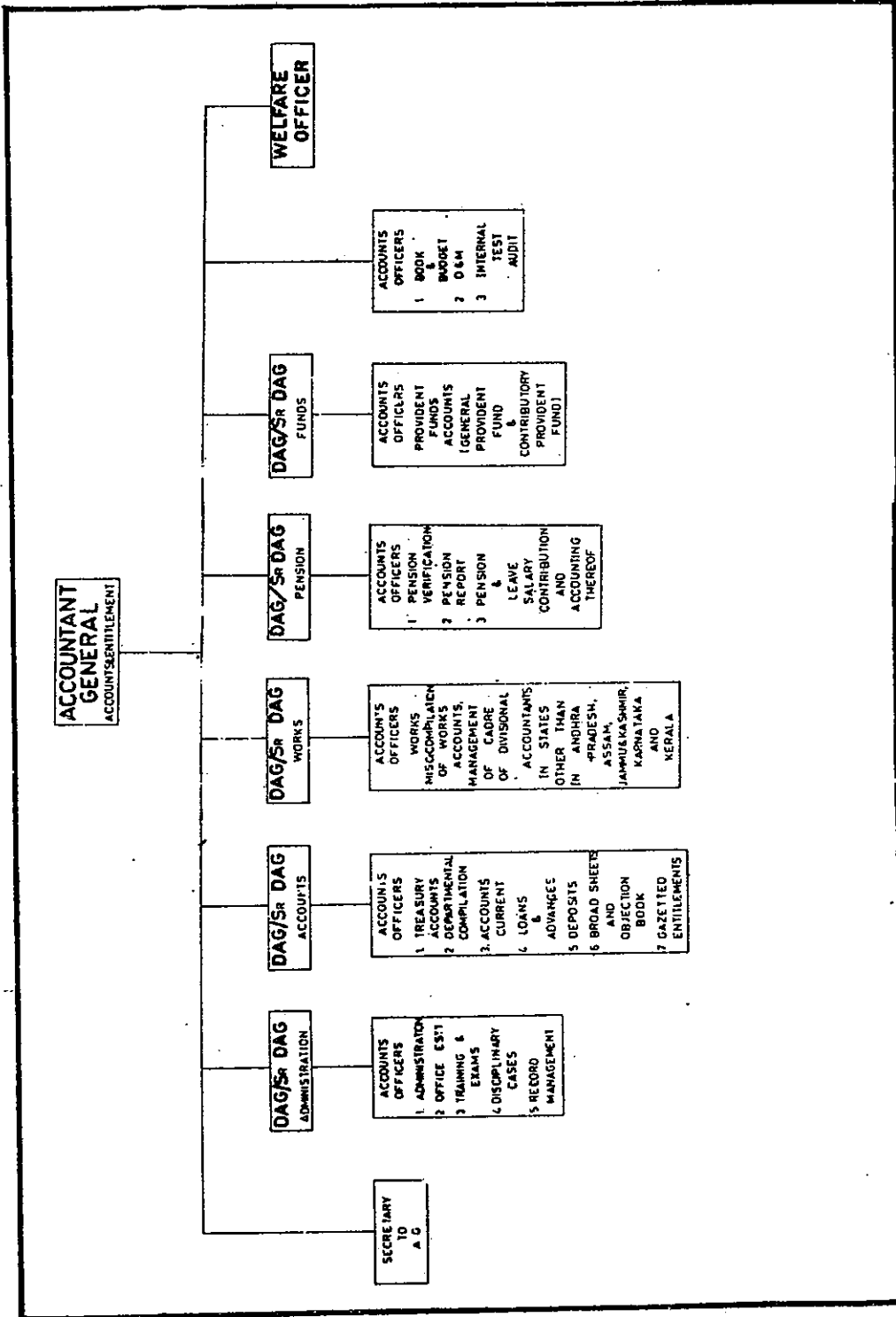


Fig. 10.2: Organisation Accountant General (Accounts and Entitlement)

according to their position in the waiting lists, as and when vacancies arose. Persons who were on the waiting lists ceased to be on the waiting list for any grade, if they were promoted to any other functional grade in the A & E office and were not eligible for transfer to the Audit office or for transfer to the waiting list of another grade.

Identification of jobs which should be manned by clerks and Accountants in the A & E offices was made by the HQ office and a broad pattern was indicated to the field offices but the local Accountants General (A & E) were given discretion to modify the pattern in the light of the local conditions such as the availability, level and numbers of staff in the Accounts and Entitlement office, period likely to be taken for filling up the vacancies in the clerks' and accountants' cadres, etc. Detailed instructions for carrying out audit work in the revised set up were embodied in the manual of instructions for central audit issued by the Headquarters office explained in chapter 8.

In keeping with the higher pay scales given to the auditors and assistant audit officers and to ensure accountability, clear demarcation of duties for the personnel in the audit parties was made and each member was required to prepare separate report on his audit findings for inclusion in the Inspection Report to be finalised by the Head of the Party.

RESULTS

As a result of the reorganisation on functional basis, the number of offices increased from 36 to 57 - 24 A & E offices with a total strength of 22103 - 464 officers and 21639 staff - 36 Audit offices - with a total strength of 31141 - 6828 officers and 24313 staff.

In March 1984, the total strength of IAAD was 61,596, comprising of 629 IAAS officers, 3456 AOs, 6071 AAOs, 4258 SOs, 17,731 auditors, 10,184 accountants, 932 stenos, 11,398 clerks and others, 6937 group D. The strength of the CAG's office was 38 IAAS officers, 56 AOs, 184 AAOs, 14 SOs, 13 Sr. PAs, 233 auditors/SG auditors, 60 stenos, 143 clerks, 24 others and 132 group D. The branch-wise distribution of strength (excluding IAAS officers) was - AE offices (24) 22,103 - (464 AOs, 1087 SOs, 10,184 accountants, 60,721 clerks, 237 stenos, 243 record keepers, 96 others and 2287 group D., Audit offices (37) - 29,561 (2272 AOs, 4561 AAOs, 1986 SOs, 1390 auditors/senior auditors, 2761 clerks, 384 stenos, 211 record keepers, 98 others, 3361 group D), P&T offices - 2048 (149 AOs, 290 AAOs, 106 SOs, 923 auditors/SG auditors, 244 clerks, 56 stenos, 35 record keepers, 5 others and 240 group D), Defence Audit Offices - 1015 (83 AOs, 130 AAOs, 45 SOs, 474 auditors/SG auditors, 93 clerks, 31 stenos, 55 record keepers, 4 others and 324 Group

D), Commercial audit officer - 2202 (248 AOs, 445 AAOs, 136 SOs, 692 auditors/SG auditors, 273 clerks, 107 stenos, 55 record keepers, 4 others and 324 group D), Railway audit officer - 3007 (179 AOs, 400 AAOs, 102 SOs, 1510 auditors/SG auditors, 269 clerks, 69 stenos, 68 record keepers, 1 other and 415 group D).

AMENDMENT OF 1984

One of the amendments proposed in April 1980 to the CAG's (DPC) Act, 1971 related to the pension of CAG. After several discussions, the Ministry of Finance agreed to process the bill to amend the Act. The Minister of State in the Ministry of Finance introduced the CAG's (Duties, Powers and Conditions of Service) Amendment Bill on 3rd March, 1984 to amend the provisions relating to pension admissible to serving officer appointed as CAG to the pension admissible to him in the service to which he belonged by treating his service as CAG as continued approved service for the purpose and to grant a special pension calculated at the rate of Rs. 700 per annum for each completed year of service as CAG subject to a maximum of Rs. 20,400 per annum. A retired officer was to be given the aggregate of the pension admissible to him under the rules governing the service to which he belonged and a special pension calculated at the rate of Rs. 700 per annum for each completed year of service subject to a maximum of Rs. 20,400 per annum. These revisions were proposed to be made applicable to persons demitting office as CAG after the commencement of the proposed legislation.

Explanation under Section 14 of the Act was proposed to be amended for enhancing the limit from Rs. 5 lakhs to Rs. 25 lakhs and also to provide for undertaking audit of the receipt and expenditure of a body or authority, which was in receipt of Government grant or loan of rupees one crore or more in a year, even if it was less than 75% of the total expenditure of that body or authority with the approval of the President or Governor or Administrator. To ensure some continuity in the audit, provision for continuing the CAG's audit for succeeding two years, even if the grant or loan to the body was less than the limit prescribed was also proposed. Section 19 was proposed to be amended to provide for laying of audit reports of the CAG in relation to the accounts of Government companies or corporations before Parliament or the Legislature of the State concerned.

Shri Satish Agarwal objected to the injustice in the Act, which laid down the ceiling on the pensionary benefits of CAG, obviously to be within the pensionary benefits allowed to the Cabinet Secretary, who was only a Civil servant, whereas the CAG was constitutional authority. The

proposed provision will necessitate further amendment in future, as and when pensionary benefits of civil servant are enhanced, which lowered the status and dignity of CAG's post and position. He drew attention of the House to the delay in presentation of CAG's Report before the State Legislatures, which needed to be eliminated. There were many institutions and organisations, wherein Government investment was heavy, like, nationalised banks, LIC, financial institutions, like, IDBI, IFCI, IFICI, which were outside the purview of CAG's audit and pleaded to bring them under the control of the CAG. The paramount need to create more Committees to look into the PSUs was pointed out by him. Shri Harikesh Bahadur also supported him on the question of the status and position of CAG and audit of financial institutions. Shri G.L. Dogra, while supporting the Bill, stated that the propriety required that CAG's status should be higher than that of other civil servants and the organisation should be expanded and stressed the need to increase the number of Committees to ensure greater scrutiny and control by Parliament. Professor Saifuddin Soz also supported the views of Shri Satish Agarwal regarding the parliamentary control over financial institutions. The Minister, while replying to the debate, stated that Government realised that the office has to be treated with utmost respect and special consideration and the bill sought to remedy the discrepancies of the past and doubted the appropriateness of gauging the importance of a particular office by the yardstick of financial emoluments and promised to persuade and pressurise the State Governments to place the Reports in time before the Legislature. The suggestion to entrust him with audit of financial institutions had already been discussed in the Parliament earlier and decided upon and in view of the expanding work, further load to CAG will have to be looked into with a degree of caution. He concluded by assuring that Government attached the greatest respect to the office of the CAG and realised the special pedestal that the Constitution provided for the office.

Before demitting office, Shri Gian Prakash pointed out to the Finance Secretary the incongruity in limiting CAG's pensionary benefits to the ceiling of Rs. 20,400 per annum, although the law prescribed that he should be equated with a judge of the Supreme Court in the matter of emoluments and equating CAG with Cabinet Secretary was a retrograde step and would affect his position vis-a-vis the Government functionaries and the Act will have to be amended to give comparable benefits of civil servants, as and when revised in future.



Fig. 10.3: Shri Gian Prakash
1978 to 1984

LIST OF ABBREVIATIONS

- | | | | |
|-----|---------|---|--|
| 1. | AGTN | — | Accountant General Tamil Nadu |
| 2. | ASOSAI | — | Asian Organisation of Supreme Audit Institutions |
| 3. | DAA | — | Director of Audit & Accounts |
| 4. | DI | — | Director of Inspection |
| 5. | IDBI | — | Industrial Development Bank of India |
| 6. | IFCI | — | Industrial Finance Corporation of India |
| 7. | INTOSAI | — | International Organisation of Supreme Audit Institutions |
| 8. | O&M | — | Organisation and Methods |
| 9. | SOGE | — | Section Officers Grade Exam |
| 10. | TN | — | Tamil Nadu |
| 11. | UP | — | Uttar Pradesh |

SOURCES AND REFERENCES

1. Classified List of IAAS Officers
2. Agenda Notes and Minutes of AG's Conferences.
3. Manual of Instructions on Restructuring
4. Report of the Committee Constituted in 1979 to suggest improvement in procedures of audit, accounting and entitlements.
5. Report of ADAI(R) on reorganisation and rationalisation of work and personnel, presented in January, 1983.
6. CAG's (DPC) Act, 1971 Amendment Bill 1984 and Lok Sabha Debates thereon.

11 The Present CAG

SHRI T.N. CHATURVEDI



Fig. 11.1: Former President Giani Zail Singh administering the Oath of Office to Shri T.N. Chaturvedi

Shri T.N. Chaturvedi, who was Secretary, Home in the Government of India, was recommended by the Prime Minister of India, Smt. Indira Gandhi, as the new CAG. There were IAAS officers belonging to earlier batches, working as Secretary to Government, who were also on the run for the assignment in different Ministries but the selection by the PM of Shri T.N. Chaturvedi foreclosed his chances of becoming Cabinet Secretary or elevation to any other high gubernatorial post, an officer of his service experience and reputation in IAS could easily expect in the normal course. He joined as OSD from 1st March, 1984. He was sworn in on 27th March, 1984 by the President of India, when the Prime

Minister and her Cabinet colleagues were also present. The new CAG brought over three and quarter decades of varied experience and service in the State and Union Governments to the high office. Shri Chaturvedi joined the Indian Administrative Service in 1950 and was allotted to Rajasthan State Cadre. He held various assignments under the State Government such as District Magistrate, Secretary to the Chief Minister, Director of Industries, Secretary to State Government in the Departments of Mines, Industries, Health, Urban Development, Local Self Government, etc. He was Chairman of the Rajasthan Industrial and Mineral Development Corporation, Jaipur. Besides having worked as Director of Indian Institute of Public Administration, New Delhi, he served under the Government of India as Joint Director, National Academy of Administration, Executive Director, Indian Investment Centre, Chief Secretary, Delhi Administration and Chief Commissioner, Chandigarh. He was Secretary, Ministry of Education and Culture and later Secretary, Ministry of Home Affairs and Secretary, Department of Justice, Ministry of Law, when he was appointed as the Comptroller and Auditor General of India. He has been associated with various institutions of higher learning and organisations concerned with public administration, development economics, development administration and training. He is also the Editor of the Indian Journal of Public Administration. He has widely travelled and participated in seminars and conferences at national and international levels. He was awarded the Fellowship of the Economic Development Institute of the International Bank for Reconstruction and Development, Washington. He has a number of publications, papers and articles to his credit covering different aspects of public administration, economic development, administrative management, development administration and auditing.

HEADQUARTERS SET-UP

On his assumption of charge, Shri B. Maithreyan, DAI proceeded on long leave and Shri R.K. Chandrasekharan, who was ADAI (R) was appointed as DAI from 28th March, 1984, who continued till 31st January, 1985 - except for a two weeks' spell, when Shri B. Maithreyan returned from leave and resumed duty before retirement. Shri S. Sethuraman was DAI from 1st February, 1985 to 30th November, 1986, and the post of DAI was upgraded to the level of Secretary to the Government of India from September 1985 onwards. Shri C.S. Menon was DAI from 1st December, 1986 to 28th February, 1987; Shri D.K. Chakravorty from 1st March, 1987 to 31st March, 1988 and Shri C.P. Mittal from 1st April, 1988 to 30th November, 1989. The post of ADAI (Commercial) was upgraded to the level of Secretary to the

Government of India from September 1985 onwards. The ADAI was given special pay of Rs. 250 over and above the scale of pay. A new post of DAI (Commercial) was created, as a result of the first cadre review on his initiative, which was held by Shri K.N. Row from 11th September, 1985 to 31st December, 1985 and Shri K.S. Murthy from 1st January, 1986 to 30th April, 1986. The post of ADAI (HQs) was kept in abeyance in 1985 and a Director in charge of Accounts and Entitlement was created. The DAA was entrusted with the functions relating to all Audit offices. An ADAI for State Report was newly added and later on a Director. Until 1989, seven officers held the office of DAI/ADAI (Commercial) and Chairman, Audit Board. The charges of ADAI (Report) and ADAI (State Report) were held by six officers each. Smt. Padma became the first lady member of the Service to assume charge as ADAI on 15th June, 1989 and was entrusted with State Reports. She had earlier worked as A.G., Maharashtra, Nagpur, A.G., Andhra Pradesh and MAB and DCA Madras before joining as Director (Commercial). Four officers held the charge of ADAI (Railways) and for nearly two years, the charge was combined with ADAI or DAI. A Director for reporting work on Government of India was also inducted, which provided continuity in Central Report work. The turnover of Audit Report (Central) increased during the period.

EXPANSION AND DIVERSIFICATION OF TRAINING

The Training Division in headquarters was augmented with a view to accelerate the training activities of the Department. The services of Shri S.N. Swaroop, an officer of the Training Division of the Department of Personnel and Training of the Government of India were borrowed. He was appointed, as OSD (Training) on 23rd July, 1985, and worked under the Director (OM and Training). Not only the existing training facilities were fully developed and improved but also additional training facilities were created during the period. A new impetus was given to international training programmes.

Five more RTIs were set up-at Jaipur in May 1985, Allahabad in August 1986, Nagpur in November 1986, Shillong in March 1989 and Jammu in December 1989. Figure 11.2 gives the courses offered by the RTIs and the offices covered by each.

During the period from April 1979 to March 1988, 1078 courses were organised by the RTIs and in all 19,412 officers and staff - 4978 AOs, 8929 AAOs/SOs, 4554 auditors/accountants, 324 stenographers and 627 clerks were trained in different skills and disciplines. The number of programmes organised and officers trained in the five Regional Training Institutes during the last four years are given below :

Year	Programmes organised	Number of participants
1985-86	152	2,801
1986-87	149	2,988
1987-88	187	3,783
1988-89	207	3,996

The Training Division organised eight programmes during 1987-88, including international courses discussed in chapter 30. The expenditure incurred by the RTIs was Rs. 7.79 lakhs in 1983-84, Rs. 10.04 lakhs in 1984-85, Rs. 19.37 lakhs in 1985-86, Rs. 30.50 lakhs in 1986-87, Rs. 21.29 lakhs in 1987-88 and Rs. 49 lakhs in 1988-89. The average annual expenditure was around Rs. 23 lakhs. In order to supplement the training efforts, the Training Division of headquarters organised Seminars/ Workshops for senior level officers and other specialised training programmes for middle level as well as subordinate level officers. 70 such programmes were held during 1978-79 to 1988-89 and in all, 1686, officers and staff participated in these programmes, of which 959 were Group 'A' officers from probationary level to senior administrative grade level, 621 were AOs and AAOs/SOs, and 106 were stenographers. The Division also organised attachment programmes in different fields of accounting and auditing for officers of developing countries on receipt of specific demands from those countries. In all, 27 such programmes were organised during 1979-80 to 1988-89 for 93 officers from 10 different countries - Afghanistan, Bangladesh, Bhutan, China, Ethiopia, Lesotho, Malaysia, Nepal, Pakistan and Sri Lanka. A calendar of training programmes incorporating the programmes planned for each year in RTIs as well as in Headquarters office was published from 1986-87. A monthly training newsletter providing details of training activities and other useful information was brought out from August 1986. An international training centre was set up to promote interaction in the training field amongst developing nations and to effectively organise and run the international training programmes under the auspices of the ASOSAI. A Library with a good collection of books on auditing, accounting, management and computers was set up for use by the international participants and other trainee officers. The various training programmes arranged by the Supreme Audit Institution of India was recognised and accepted as an important Agency for training in various disciplines of auditing and accounting.

For the first time, a fairly well-knit and closely coordinated Training facility was provided in the IAAD, which not only catered to the varying

and diversified special needs of the department but also earned the recognition and approbation for training in different disciplines, auditing, accounting, and allied functions - both in Government receipt and expenditure and PSUs including utilities - for the auditing and accounting personnel of the Developing countries.

COMMITTEE ON TRAINING

The CAG set up in June 1989, a High Level Committee* on Regional Training Institutes to review the functioning of the Training Institutes and suggest measures to galvanise them into effective instruments for training and research in the Department. The Committee presented its report on 23rd November, 1989. The important recommendations were to utilise the IAAS Staff College for identifying training needs of Group A officers at different stages of their service career, to design and conduct need based training programmes for them, and the use of their training material by Regional Training Institutes. All Accounts/Audit officers and Section Officers on promotion from one level to the other were to be given a two week compulsory training and a refresher course every sixth year. A specialised course once every three years was suggested to those working in specialised wings of the Department *viz.*, Commercial, Railways, P&T, Defence and Receipt Audit. Unsuccessful candidates in the Section Officers Grade Examination can be permitted to attend the coaching classes for subsequent examinations. Refresher training courses for senior auditors every sixth year in RTIs, after upgrading them and induction training of auditors and accountants, - not less than three months, were suggested. A good grounding in compilation of accounts from vouchers to consolidated abstracts, maintenance of important broad-sheets, procedures of provident fund accounting and in filing, drafting, referencing and other basic skills, highly practical and training course for maintenance of preliminary accounts and records, namely cash book, bank reconciliation statements, etc., more emphasis on practical aspects of auditing vouchers and compilation of accounts etc., in the training programmes of auditors and removal of existing constraints in imparting induction training to clerks in A & E offices on account of large number of vacancies in these offices and strengthening of induction training in the field offices and providing audio visual aids and other training infrastructure facilities were the other suggestions. One training officer and one or two assistant training officers were recommended as the faculty

* S/Shri U.C. Agarwal (Chairman), S.C. Vajpeyi, Ajoy Bagchi, Dr. K.L. Haṅḁa, R.C. Suri, R. Parmeswar, N.R. Rayalu (Members) and S.N. Swaroop, Member-Secretary.

for imparting induction training. The target for each RTI suggested was 40 training programmes of two weeks each in a year and simultaneous running of two training programmes on different subjects. The training facilities available in other Government training institutes like RTIs of Income Tax, Zonal schools of Railways, the Institutes of Chartered and Cost and Works Accountants were to be gainfully utilised for specialised training of audit and account staff of the department in different areas. Some of the existing RTIs should specialise in audit areas like Commercial Audit, Defence Audit, P&T Audit and Railway Audit and Receipt Audit. The Central Training Institute in Delhi should draw up the design, content and coverage of common training programmes to be conducted by all RTIs. Organising programmes on insurance audit, certification of accounts of public enterprises, sales tax receipts etc. by selected RTIs to meet the regional and local needs was suggested. Training division at Headquarters was to serve as the nodal agency for formulating training policies and coordinating training programmes; setting up of a Central Training Advisory Council in the headquarters office headed by the CAG of India to over-see and monitor all training activities were the other suggestions. There was need to strengthen and expand existing RTIs. A Regional Advisory Committee for each Regional Training Institute headed by the seniormost Accountant General for over seeing and coordinating the training efforts was suggested. Training posts both at the head-quarters and at the Regional Training Institutes should be ex-cadre posts to be filled on deputation basis for a period of three to five years by persons possessing requisite aptitude for training. Incentives to persons holding faculty positions should be those notified by the Department of Personnel and Training, Government of India and the normal deputation allowance should be given to non-faculty positions. Minimum facilities for each Regional Training Institute identified were three lecture halls, Library, Conference hall, Hostel etc. and two to three regular core faculty in basic subjects/ areas to be supplemented by selective core faculty, guest faculty depending on requirements. A Principal in the grade of Rs. 3700-700-5000 and 2-3 core faculty in the grade of Rs. 2200-4000 in each RTI was recommended. The Guest faculty need not necessarily be drafted from the jurisdictional area of the RTI. Need for optimal utilisation of training facilities at the RTI and preparation of training material for the training programmes conducted by RTI, to cover training manuals, individual course material containing selected readings, case studies and research studies were pointed out. Competent serving/retired officers or group of selected trainers could be utilised for preparation of training material. Emphasis on participative method of training rather than only on lecture method and identification of field problems by syndicate/group discussions was stressed. Selection of

training techniques and methodology should be made with greater care and objectivity keeping in view the types of programmes and level of participants. For computer training, the RTIS should be provided with at least three or four personal computers. An annual conference of principals/faculty of RTIs and Staff College to exchange experiences and discuss training and operational problems was proposed. Appropriate planning, selection and involvement in the training programmes, the criteria for selection of trainees for each programmes, to be laid down in terms of work experience etc. to make it relevant for any potential trainee, advance planning for organising training programmes by the RTIs were some other suggestions. The proposed Regional Advisory Committee was required to evaluate training programmes and the performance of the guest faculty. Functional autonomy to RTI directly under the Training Division and promotion of interaction with client organisations were recommended. A Central Training Institute with appropriate infrastructural support, including library, reference and documentation facilities was to be set up at Delhi, which could be a pacesetter as well as a link between RTIs, the IAAS Staff College and the International Training Centre. The Committee did not touch upon the training of departmental personnel to enable them to qualify in the most important departmental examinations, namely the SO grade examination etc. in view of the recurring and increasing deficiencies in working strength and the perspective needs presumably because it was not included in its terms of reference.

NEW STRIDES IN O. & M.

After restructuring of the cadres in IAAD the duties of auditors, senior auditors, section officers and assistant audit officers were redefined. Changes/modifications necessary in the new set up were identified and a new system of preparing separate reports by the members of local audit parties was introduced. A Manual of Instructions on Central Audit was prepared under the guidance of ADAI(H) in May 1984, and issued by the CAG. Technical problems thrown up between the Audit and Accounting offices were examined and solutions hammered out in consultation with connected groups/wings. Certain items of work performed by the combined offices under common standards in vogue in the Department were segregated and revised norms for each distinct item of work falling under different functions in the Accounting and Audit offices were fixed. The format of quarterly demi-official letters to be sent by the As.G. to the CAG were revised in September 1984, and again in March 1988. The Manual of Office Procedure of Headquarters office issued last in 1966 was revised in 1986. The reference book "An Introduction to Indian Government Accounts and Audit" was revised,

restructuring the chapters and introducing new chapters like ECPA and Financial Committees of Parliament. The Director, OM & Training, Shri T.R. Krishnamachari, was instrumental in bringing it out.

After the introduction of 5 days a week and increase in working hours on working day based on the recommendations of 4th Pay Commission, standards for out-turn were refixed in respect of marking of letters, diaring of letters (including registered letters), distribution of dak through transit register, typing, comparison of typed copies, and despatch of letters.

A LOGO AND EMBLEM

The IAAD had all along used the Government of India emblem insignia in its publications. With a view to have a separate identity keeping in view its functions and constitutional obligations, a logo and emblem for the department was finalised in 1988, symbolising the concept of the Audit Eye indicating Alertness, Skill in Investigation, Perception and Communication as under. The motto adopted was 'Lokahitartha Satyanishtha'

लोकहितार्थ सत्यनिष्ठा Dedicated to Truth and Public Interest.



लोकहितार्थ सत्यनिष्ठा

In order to streamline the procedure for maintenance of records a new scheme "Records Maintenance Support Groups" (RMSGs) was introduced from 1988-89. A new Audit Guide series was started from 1988 to update the existing guides as well as to provide a more comprehensive compilation of the rules/procedures governing the sphere of audit. New topics not included in the first phase, namely EDP Audit Guide, Audit of Stores and Stock Accounts, Audit of Loans and Grants, Manpower Audit, Evaluation of Internal Audit and Audit of Autonomous Bodies, were also included.

ACTIVITY REPORT

An Administrative Report for focussing the nature and quantum of the activity of the Department was introduced. The first Report was issued for the year 1984-85. In his foreword, CAG recorded "This

Administrative Report is, however, primarily intended to be in the nature of internal stock-taking and will, I hope, facilitate planning of our future activities leading to a more purposive and qualitative improvement in our working. This report is not meant to be either simply a chronicle of achievements or a dissertation in defence of its shortcomings or inadequacies. It is broadly factual in its orientation and is in the nature of self-audit so that we ourselves comprehend the limits and possibilities of our task in our quest for improved performance." The name of report was modified to Activity Report from 1985-86 onwards. Since then Reports for 1986-87 and 1987-88 have been issued and 1988-89 was under process. In January 1989, each Accountant General and Director of Audit was required to prepare the Activity Report of his office for each year and the Report for 1987-88. The Report was to be brought out before 31st March, 1989 and most of the offices have brought out their reports. Similar Reports are issued by other SAIs in other countries. The Reports of CAG's office as also those of the Principal Audit and Accounting offices have not only filled a growing gap in reporting and accountability of the IAAD but has also helped to disseminate information about the activities of the Department spread over the entire country.

The total strength of the office was 844 comprising of 28 IAAS officers, 2 officers on deputation, Secretary to CAG, 83 AOs, 160 AAOs, 9 SOs, 3 supervisors, 216 auditors/senior auditors, 139 clerks, 12 senior PAs, 54 stenos, 20 record keepers, 18 miscellaneous and 130 group D. The expenditure incurred by the office in 1988-89 was Rs. 4.21 crores.

The organisation of CAG's office in March 1989 is shown in figure 11.3.

In the changing scenario of headquarters office of the IAAD, where most of the senior officers of IAAS came for short spells before retirement and bulk of the Director level officers moved out on transfer or on deputation to higher assignments in Government of India or State Governments and other levels of supervision were limited to group or division, which were also subjected to periodical changes, the Secretary to CAG, though not a higher level officer either in the structure of the IAAD or any of the encadred services, played a pivotal role in day-to-day management of the organisation. He was not only a coordinator but also an integrator and performed his undefined but large functions in a quiet, unassuming and invisible manner. Equity, fairness and promptness are the hall marks of the office. Shri S. Jagannathan, who came along with Shri A. Baksi, in 1972, learned the art of governing the IAAD - both administrative and technical - in his hard school. Shri Gian Prakash continued him as Secretary and made him a Group 'A' officer and by the

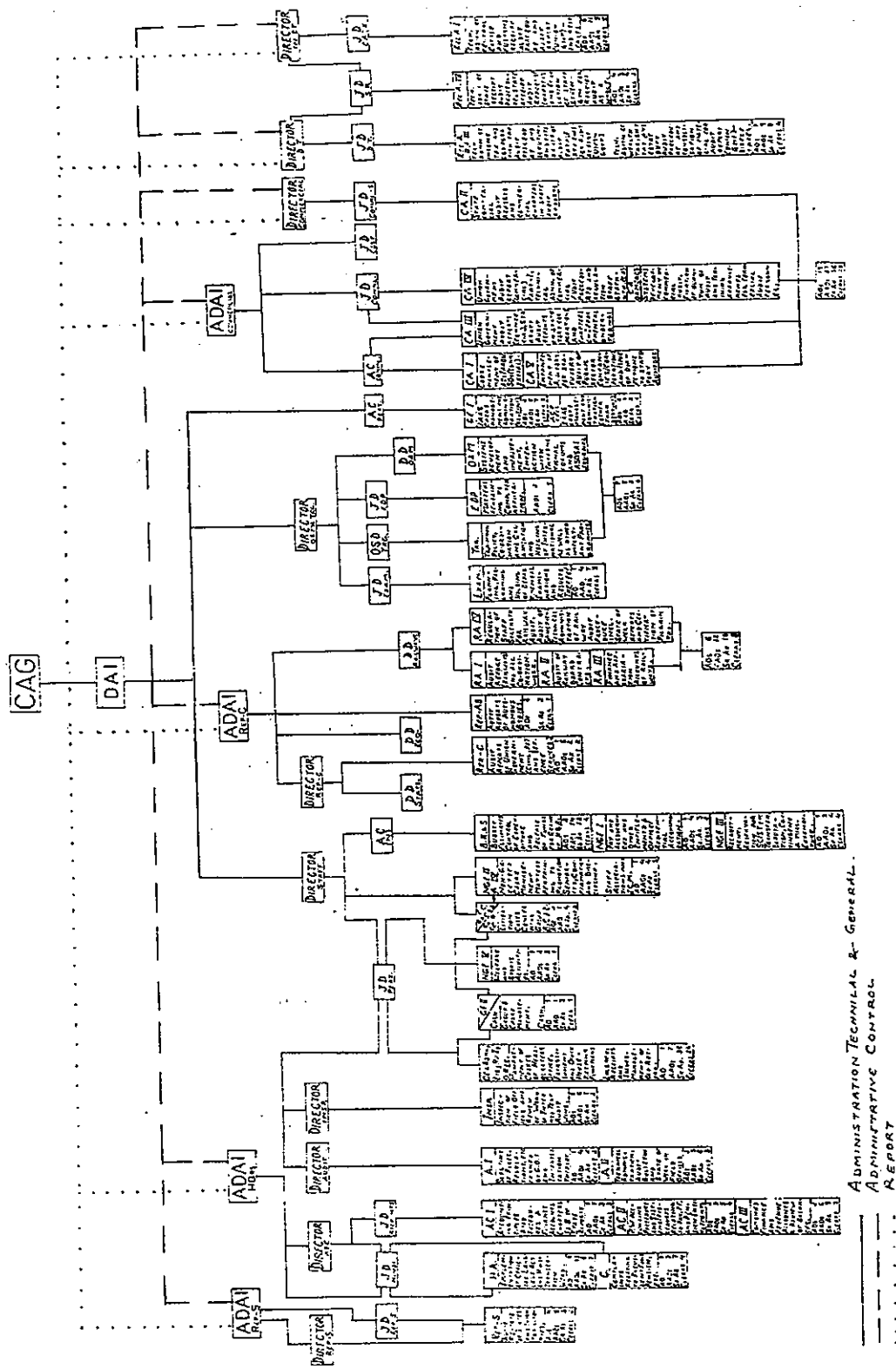


Fig. 11.3: Organisation Head Office March 1989

time he relinquished charge, he had become one of the organisation and yet outside and independent. Shri T.N. Chaturvedi retained him as his Secretary and promoted him to the Junior Administrative grade and encouraged him to function with greater autonomy, authority and fuller satisfaction. Having successfully served three CASG and got used to the senior officers of IAAS, both in the Headquarters and the field, he got on well with all officers, which enabled him to perform the onerous tasks creditably and provided the missing link and the cementing bind for the good of the Department. The importance of this office in a large organisation to provide continuity, stability and strength need hardly be emphasised.

REORGANISATION

The major organisation and functional changes during the period 1984 to 1989 are dealt with in the relevant chapters. Briefly, they were, redistribution of the work among Directors of Commercial Audit on area basis, instead of purely functional basis from 1st May, 1986; rationalisation of the work in the Central Commercial Audit Wing; transfer of the audit of the proforma accounts of the Departmental undertakings of Central Government from the Director of Commercial Audit (Central) AG (Audit); reorganisation of audit of Central Scientific Research organisations and creation of a new office of DACWM II from 1st April, 1986; decentralisation of the work of DACWM and transfer to respective As.G. (Audit) in the states; creation of new offices of DADS II, DACR II, AG(A&E) II, MP, AG (Audit) II, Gujarat in May 1985, and AG (Audit) II, Orissa in July 1985; and declaring the Director of Audit (External Affairs) as the Principal Audit Officer of the Ministry of External Affairs and its field formations with effect from September 1989, and combining the charge with Director of Audit, Northern Railway, Smt. A.P. Ahluwalia being the first officer to hold the combined charge. The Embassy Audit Branch of DACR I functioned under the supervision of the DA(EA) but the staff of the Embassy Audit section of DACR I continued to be on the rolls of DACR I and the budget allocation of the Embassy Audit Branch continued to be included in the budget of DACR I. DA(EA) was required to coordinate with Director of Audit, London and Washington and process audit material received from these offices for submission to the CAG through ADAI (Report). All cases relating to IFS Rules were also dealt with by DA(EA). The tour programmes of local audit parties going abroad from Delhi were processed by DA(EA) for approval of the CAG. A Protocol Division to IAAD formed a part of the new office for obtaining passport, visas, etc. In the chapter on Services, the first ever cadre review of IAAS carried

out in January 1985, as also the consequent changes in the higher echelons of IAAD and the impact of the implementation of Fourth Pay Commission's recommendations are discussed.

TECHNICAL REFORMS

Based on the recommendations of a Committee headed by ADAI, constituted by the CAG in June 1986 to examine measures for qualitative improvement in the audit and to recommend improvements in the content, coverage and quality of ARs relating to the Posts and Telecommunications Department, certain measures were taken, which included introduction of system based man power audit of the Department of Posts. The work of final check and clearance of draft Finance and Appropriation Accounts of states and related chapters of Audit Reports was decentralised from the accounts of 1985-86 to expedite clearance and printing of the accounts and certain guidelines to be observed were issued. Their impact on presentation of Accounts is explained in the chapter on Accounting and Reporting.

The functions in relation to maintenance of accounts of cash balances of the states were partially decentralised from 1st October, 1987 based on the recommendations of a study group consisting of the representatives of Reserve Bank of India, IAAD, Ministry of Finance and certain Public Sector banks. Under the revised scheme, the Central Accounts office, Nagpur accounted for the transactions relating to treasury bills, ways and means transactions and inter-government adjustments and the branch offices of the Reserve Bank of India in the State headquarters (or nearest to the State headquarters) will account in detail the advices affecting the State Government balances received from the agency banks. These branches sent daily advices to the Central Accounts office, Nagpur, which communicated daily, to the branch office concerned, the closing balance of each State Government supported by details of the net adjustments carried out. Based thereon, the Finance Department of the State Government was intimated by the branch office about the total receipts and payments for the day, total receipts and payments reported by each agency bank separately, transactions adjusted by Central Accounts office, Nagpur, and closing balance at the end of the day. These branches were responsible for reconciling the discrepancy between the figures of cash balance shown by them and the figures reflected in the accounts maintained by the AG (A & E) concerned.

AUDIT CERTIFICATES FOR WORLD BANK ASSISTED PROJECTS

The procedures for timely issue of audit certificates in respect of projects

funded by World Bank were revised in 1986 in consultation with the Department of Economic Affairs and World Bank officials. Priority for the local audit of projects, issue of self-contained and composite audit certificates for the annual accounts/expenditure and the statements of expenditure in support of the claims for reimbursement by the Bank, and effective monitoring, in coordination with the Department of Economic Affairs, to ensure certification within nine months of the close of the year were the salient features of the revised procedure. The revised procedures enabled issue of audit certificates for 1986-87 in 96 out of 100 Projects.

IMPROVEMENT IN THE QUALITY OF AUDIT REPORTS

A workshop on 'Improving the quality of Audit Reports' was held in August 1986 where senior officers of the department participated, and certain consensus on inspections, processing of reviews and Reports was arrived at, which was implemented. Detailed planning by and greater involvement of the AG/DAs, preparation of data bank and documentation to facilitate audit probes, utilisation of the experience gained by the officers outside the department for training and educating the staff, proper briefing of the audit parties for local audit and preparation of an audit plan for comprehensive reviews of development programmes/projects, criteria for selection of programmes/projects for review in audit, vertical reviews of the working of departments of government, horizontal reviews of certain functions of government such as manpower and materials management, monitoring and control, computerisation, test check of audit inspection reports to inculcate quality consciousness at all levels of audit personnel and effective interaction with the auditee organisations, were some of the changes introduced. Improvement in the coverage, contents and language in general, improvement in the contents of the Audit, insertion of chapters dealing with the financial position of and control over expenditure by government, recommendations for improving the procedures and practices and positive aspects noticed in audit to be brought out in the Audit Reports, introduction of an 'Overview' of each Audit Report to highlight the contents of the Report, presentation of separate Audit Reports on reviews of programmes/projects, streamlining of the processes connected with the finalization of Audit Reports to cut out delays and to enable presentation of the Reports before the commencement of the budget discussion in Parliament/State legislatures etc. were the other measures taken. They were implemented in succeeding years and their impact is reflected in the recent Reports.

ASSISTANCE FROM SPECIALISTS

The services of specialists in the fields of costing, statistics and economics were obtained by the Department on deputation from the related central services, to assist in the improvement of technical content in the audit activities. In the area of costing, assistance was provided to the Directors of Commercial Audit in the study of costs, costing systems and cost control procedures connected with appraisal of public sector enterprises. In addition, a study of the system of costing, profitability, break-even analysis and viability of a Government company was prepared for their use. Regular training programmes dealing with costing, management accounting and allied topics were arranged in RTIs to improve the skills of Commercial Audit staff. In the area of economics, the work of building up a data bank for the Commercial wing of the headquarters office was taken up. Economic aspects relating to cement industry were analysed as part of the comprehensive audit appraisal of the Cement Corporation of India and comments on economic aspects were also attempted for the Audit Reports on three other public sector enterprises. In the area of statistics, work was taken up on developing statistical sample designs for the selection of vouchers for audit. The expertise in statistics and statistical analysis was also utilised in 14 reviews and for issue of guidelines for audit during the year 1987-88. Some suggestions on the 'Review of Accounts of Government Companies' were also obtained.

COMPUTERISATION

In 1986-87, the Department made a beginning in computerisation of some routine but voluminous jobs to improve the quality and reliability of their outputs. In order to clear the arrears in compilation of accounts of Nagaland due to paucity of skilled personnel, computerisation of the accounts of Nagaland from May 1985 was taken up by using the computer facilities of CMC Ltd. at Calcutta. Top sheets were prepared by the staff of the office of the DAG (A & E), Nagaland for capturing relevant information from the treasury vouchers, Public Works and Forest divisional accounts, settlement accounts and transfer entries, which formed the inputs to the computerised accounting system. Initially the CMC Ltd. created a master file containing information about all the heads of accounts, upto the detailed heads, operated in the Nagaland budget for 1985-86 for the Consolidated Fund, and the related budget provisions, supplemented by all data about the detailed heads of accounts and the balances relating to Public Account, as reflected in the accounts maintained by DAG. After carrying out the usual edit checks on the

monthly transactions file to ensure completeness and correctness of input data, the computer process was tallied with the heads of accounts therein with those on the master file to throw out invalid classifications. The computer then generated compiled figures under each head of account, covering all treasuries, divisional accounts and transfer entries. The software was designed to keep separate account of expenditure from the Contingency Fund. Further, the system developed progressive totals from month to month and, the departmental classified and consolidated abstracts as well as the detail book were maintained through the computer. Errors were thrown up at various control points during processing of the input data; the totals of vouchers compiled under each major head were compared with the corresponding totals shown in the treasury schedules and lists of payments and error lists were printed for corrective action. The differences, if any, between the control and calculated totals were taken to a suspense head for eventual clearance. The system development work was taken up in stages. The first stage involving preparation of monthly reports, was completed and reports for a few months printed. The second stage envisaged preparation of quarterly reports on budgetary control and the final stage included preparation of annual reports viz. Finance Accounts and their supporting statements as well as Appropriation Accounts. The software development work for the second and third stages was taken up by CMC Ltd. and was in progress. As it was the first experience in implementing a large accounting system on the computer and problems encountered were resolved until the system stabilised satisfactorily. The accounts for various months of 1985-86 compiled through the computer became available in 1987-88.

In early 1986, computerisation of the PF accounts from 1985-86, of 27,000 subscribers in Meghalaya and 1,28,000 in Assam was initiated and CMC Ltd., Calcutta was entrusted in June 1986 with the responsibility of software development and implementation of the system. The inputs to the computerised system were the data from the GPF schedules received from treasuries and divisions, and vouchers, challans, suspense slips and adjustment advices connected with PF accounts. Different card codes were assigned to distinguish the types of input. The PF schedules/vouchers/challans were segregated treasury/division-wise and major head-wise, with a covering list for each bundle. The covering list contained data on month of account, major head, treasury/division, drawing and disbursing officer (DDO), totals of individual schedules as well as voucher or document reference and grand totals of all schedules. For processing monthly transactions, PF master file for all the subscribers of each of the two States was initially created with data relating to name, PF account number, major head of account, DDO

concerned, opening balance in account and rate of interest. From this, alphabetical and account number - wise lists of subscribers were printed for use during monthly check of inputs. The software was designed to calculate interest and bonus and print out lists of DDO-wise unposted items, missing credits, accounts with minus balances etc. The monthly transactions file, containing the information from the schedules, vouchers, challans, etc., was processed with the master file to throw up and print mis-matched/duplicate account numbers and edit lists giving treasury/division-wise, major head-wise and lot-wise totals of posted and unposted items. The computer totals were also tallied with the manual totals given on the input documents. The edit lists checking for 1985-86 in respect of Meghalaya had been completed and, after manual linking of residual unposted items and missing credits, the PF account slips for 1985-86 were issued in the middle of June 1987. In the case of Assam, the postings for all the months were reported to have been complete and the edit lists checking in respect of unposted items was in progress.

A new pay roll system was designed and developed with the assistance of RITES, a Government of India enterprise, in July 1986 and pay slips were printed for the month of September 1986 for about 600 staff and officers of the headquarters office. However, continued preparation of pay bills on the computer was given up due to revision of pay scales from October 1986 onwards. The work has been again taken up from March 1987. The system was extended to the office of the Director of Audit, Central Revenues, New Delhi.

Computerisation of the maintenance of the panel of firms of chartered accountants for assistance in recommendation of auditors for Government companies was taken up by the Commercial wing of headquarters office on a personal computer during the year. The job of software development and implementation was awarded to a private firm. It has submitted a software package and tested it with sample live data for a few selected firms. The input forms have been designed and collection of data from all the firms of chartered accountants was in progress.

The results based on marks obtained by candidates taking the Section Officers Grade Examination held in December 1986 were compiled on the computer, on parallel basis alongwith the manual system and found correct and was extended to process results of the subsequent Section Officers Grade Examinations. The application forms received for the direct recruitment of Section Officers (Commercial) through the competitive examination held in December 1986 were also processed on the computer with the assistance of RITES computer centre, which involved initial screening of 24,880 candidates against the

prescribed criteria, processing of marks obtained and declaration of results.

The preparation of consolidated staff proposals by the 63 Civil Accounts and Audit offices was partly computerised during the year. The field offices were supplied with pre-printed coded forms for furnishing the workload statistics for all items of work for which standard norms were prescribed, to serve as computer inputs. The software development and implementation was done with the help of RITES computer centre.

Preparation of the departmental telephone directory issued of the headquarters office and processing of eligibility lists of officers to be considered for promotion to IAAS were the other items of work done on computer. Ten personal computers were procured - two in the headquarters office and one each in the offices of Director of Audit, Central Revenues-I, Director of Audit, Commerce, Works and Miscellaneous II, Director of Audit, Defence Services, Accountant General (Audit), Rajasthan and Accountant General (Audit), Himachal Pradesh and three in the Staff College, Shimla for giving hands-on training to the IAAS probationers. A coordination committee was constituted to review and improve the utilisation of these personal computers.

COMPUTERS AND AUDIT

In order to develop relevant expertise and experience of computer-based systems on which increasing reliance was placed by Government and semi-Government organisations, a new policy was approved by the CAG in June 1987, with regard to computerisation in the areas of audit, accounting, administration and training. The guidelines were proper appreciation of computerisation and its use at the operational level and at the management level through regular training programmes, coordination with those of the State Governments, which have already initiated computerisation of accounts to avoid duplication of efforts and anticipation and planning of changes in the composition of audit parties for taking up audit of computer based systems. Computers were to be productively used in the Department for improving administrative systems, as well as for assisting in audit work. Recognising that computer expertise to handle these activities has to be planned and developed over a period of time, a long term policy was evolved for the Department, to identify application areas, assess resources and training requirements, plan acquisition of computer hardware and software etc. These were implemented from 1987-88 onwards. The policy envisaged development of relevant expertise and experience in computer audit, covering audit of initial setting up of a computer system, association, as a user, at the time

of systems development, audit of systems to appreciate the need for systems improvement before computerisation, and audit of computer-based systems already installed.

An overall work plan to make best use of the limited resources, with greatest impact was drawn up. In order to prepare a basis for deciding and comparing priorities across organisations to be audited and a strategy for making an impact on the management, the Department undertook a preliminary study of auditee organisations to identify the organisations' major systems and the extent of computerisation followed by them, know the organisations' systems development plans; and assess how well managed is each organisation's systems development process. A team of specialists at the headquarters office to complete the above tasks, as well as to take up the audit of a computerised system, as a case study to serve as a model for further such audits, was set up. In the first instance, studies, reviews and audits were confined to those sectors, where computer systems were well established; e.g., the Railways and Defence organisations. With the limited expertise and experience available in auditing computer systems, the Department was attempting audit tasks of a low technical complexity, with a work programme designed to increase knowledge and experience.

Review of computerisation in the Railways to cover procurement of computers, systems development and installation and working of the systems and achievement of objectives was taken up. Audit was associated with systems development in the Defence Organisations. The Defence Ministry constituted a standing committee, on which the Department was also represented, with the responsibility of ensuring that audit (both internal and external) requirements were incorporated in the development of computerised systems by laying down suitable guidelines. Payroll accounting, personnel management, inventory management, and production planning and control systems were the systems selected. It has not only helped to identify systems developed or under development and analysing their internal controls, but also in learning from the user's experiences the types of problems encountered during systems development.

ACCOUNTING AND ENTITLEMENT FUNCTIONS

The work of software development and implementation of computer-based compilation of accounts for Jammu and Kashmir State was entrusted to CMC Ltd., New Delhi, during 1987-88. Initially, unlike in Nagaland, the manual compilation was continued in parallel until the computerised system was fully tested and accepted. By 1987-88 the AG (A & E), Meghalaya successfully completed the computerisation project

for 1985-86 and 1986-87 accounts, issued the accounts slips and substantially reduced the percentage of unposted items and missing credits. The AG (A & E), Assam successfully completed computerisation of provident fund accounts for 1985-86 in respect of approximately 1.5 lakh subscribers.

ASCOTA machine posting used by 5 Accountants General (A & E) for maintaining provident fund accounts were to be gradually replaced by Electronic Ledger Posting Machines. The AG (A & E), Punjab, acquired eight Electronic Ledger Posting Machines in 1987-88. These machines were installed in August 1987 and within eight months that office has completed 15 months' postings and adjustments in respect of 86,000 provident fund accounts. With the help of these machines about 1.15 lakhs missing credits, with a total value of more than Rs. 1.5 crores, have been adjusted. Additional machines were proposed to be acquired during the next year for maintaining the remaining accounts in that office.

COMPUTERS IN AUDIT MANAGEMENT

The National Informatics Centre (NIC), entrusted with responsibility of providing information service to Central and State Governments, Ministries/Departments, was approached in August 1987 for assistance in terms of both hardware and software development for a number of applications identified for computerisation in the Headquarters office. The NIC had undertaken a feasibility study and recommended the installation of a super PC-AT computer system with eight terminals in the Headquarters office. Some application areas proposed to be covered was Audit planning and monitoring, compilation of examination results, word processing for Audit Reports and other publications, indexing and abstraction of Audit Reports paras and PAC recommendations, monitoring of complaints, data base in respect of autonomous bodies, personnel information systems and monitoring progress of processing of audit paras. The NIC has also undertaken a feasibility study in one of the field Audit offices, and recommended installation of a system, initially for the use of four field offices, for developing audit planning and monitoring. computer based information system for audit of sanctions and data base on scheme profiles.

In June 1987, 20 officers from various Railway Audit offices were trained in EDP Audit for a period of 2 weeks. These trained officers were then formed into EDP Audit groups, which were given the responsibility for conducting the audit review on computerisation in the Railways during 1987-88. A seven-week intensive training programme on EDP Audit was organised at Hyderabad in March-April 1988. There were 33 participants in this programme from Civil, Commercial and Railway Audit offices.

Further training was proposed to be organised in the light of the feedback from these training courses. A computer appreciation course of senior IAAS officers was held at Hyderabad from June 30 to July 7, 1987. This was in addition to officers being sponsored for computer appreciation courses being conducted by various agencies, in accordance with the policy to have all staff and officers trained in the first level of expertise, *i.e.*, general acquaintance with computers, their capability and usage.

AMENDMENT OF 1987

The lacunae in the new provision regarding pensionary benefits made in 1984 Amendment to CAG's (DPC) Act, 1971 pointed out by Shri Gian Prakash before he demitted office, surfaced conspicuously after revision of retirement benefits of Central Government employees by the Government of India, and the need to amend the Act, so as to remove the inequity in equation of pension of CAG to that to Cabinet Secretary, and to delete the proviso to Sections 6A and 6B of the Act, introduced in February 1984, and increase the quantum of special additional pension for each year of service, was pointed out to the Finance Secretary in May 1985.

The CAG's (DPC) Amendment Bill was introduced in Lok Sabha by the Minister of State in the Department of Expenditure in the Ministry of Finance, Shri A.K. Gadhvi, on 30th November, 1987, for amending Section 6 to delete the proviso regarding the ceiling on pension from 1st January, 1986, and to insert a new sub-Section to (c) to grant him pension equal to the pension payable to the Judge of Supreme Court, including commutation of pension, family pension and gratuity, deletion of Section 7 and to amend Section 9 to grant him the conditions of service relating to travelling allowance, provision of rent-free residence and exemption from payment of income tax on the valuation of such rent free residence, conveyance facilities, sumptuary allowance, medical facilities and such other conditions of service, as applicable to a Judge of the Supreme Court in Chapter IV of the Supreme Court Judges Act and the rules made thereunder. While speaking on the Bill Shri E. Ayyappu Reddy stated that the importance of the institution of the CAG of India cannot be exaggerated but the various Reports submitted by him and the comments made by the PAC had not received the due attention and the Finance Ministry must devise ways and means of making the audit system very effective. His powers should be enlarged to enable him to obtain fullest cooperation from the various departments. The callousness and indifference shown to the audit paras by various departments and the elusive nature of accountability in the administration must end. The CAG's Reports and the PAC's reports should

be acted upon as quickly as possible so as to ensure that the system became effective to control mis-management and plug loop-holes in the collection of revenues. Shri Girdharilal Vyas supported the Bill but felt that test-check conducted by the CAG's organisation resulted in non-detection of various irregularities and mis-appropriation of funds and there was considerable delay in completing audit of each department and desired the Minister to bring a comprehensive Bill to remove the difficulties in the procedure adopted for the realisation of the revenue. Shri V.S. Krishna Iyer stated that the position occupied by the CAG was a very important one and it was in the fitness of things that the same status, facilities and other conditions of service allowed to a Supreme Court Judge were extended to him. It was necessary that the Government should take the Reports of the CAG seriously and action taken on them must be reported to Parliament. While replying to the debate, the Minister stated that the compliance of the audit paras did take time but whenever any delinquency on the part of any officer was observed by the PAC or by the CAG, it was gone into in depth and appropriate action taken. It was left to the CAG's discretion as to what should be checked and Government have no say in the matter. It was not correct to state that records were not made available to him and instructions had been issued to all the departments that whatever records were asked for by the CAG should be made available to him immediately and according to his information they were made available and it was only on the basis of such records that audit paras were being formulated. Remedial and corrective measures wherever required were taken by the Government. The Bill sought to remove the anomalies which were contrary to the objects enshrined in the Constitution.

In the Rajya Sabha, the Bill was moved in December 1987, by the Minister of State for Finance, Shri Janardhan Poojari. Shri Nirmal Chatterjee stated that audit and accounts have been separated only partially and the CAG continued to be burdened with the accounting work in the States and his organisation should be strengthened with some pruning or some transfers from other departments, and pointed out the need for a review of the functioning of the CAG's Office and also to eliminate the difficulties faced by him in managing accounting work in states, particularly the constraints on the promotional opportunities of the CAG's staff, although he acknowledged that it functioned well, with a view to remove them and improve promotional opportunities within the organisation. He should avail of the facility of specialists in the various fields in order to improve the technical quality of the work. He suggested a Parliamentary Committee to look into the organisation and also to give

directions to the Government and the CAG regarding the lines of their functioning. Shri V. Ramanathan raised the question of selection of CAG from professional sources preferably from a panel given by the CAG and enquired as to whether there was any separate unit to take action on the reports of the Public Accounts Committee. Shri Yellasesi Bhushan Rao wanted more powers to be given to the CAG and desired to know the action taken on audit paras and departments' cooperation to make available files effectively. Shri Ashwini Kumar stated that Government had taken long time to bring forward the Bill and also raised the question of documents being not made available to the CAG by various Government departments and desired prompt action to be taken on the recommendations and audit paras of the CAG. He regretted that in the Bofors and Fairfax cases, Government relied more on foreign agencies and CAG was not taken into confidence nor was the case entrusted to him. While supporting the bill, Shri Sharad Yadav pointed out the continued devaluation of the institution of the CAG, which needed to be strengthened to enable it to effectively check Government's transactions. Shri Satya Prakash Malaviya felt that there should be some conditions regulating appointment of the incumbent of the post, so that he could be kept free from the Government's control. While replying to the debate the Minister of State stated that it was upto the State Governments to take over the accounts and entrust to another authority and Government of India would welcome any initiative from them on this. Government was conscious of the delay in processing of audit findings and appreciated the sentiments of the members. There was no need for a separate review by another Parliamentary Committee in view of what was already being done by the PAC and PUC on CAG's Reports. Instructions already existed to make the records available to him and for expeditious disposal of the reports and the Ministries to send notes on action taken to the PAC. It was upto the Joint Parliamentary Committee to look into the Bofors deal and seek the assistance of the CAG, if required. The Bill was adopted and returned to the Lok Sabha. The amended Act, the CAG's (DPC) Amendment Act 1987 (No. 50 of 1987) received the assent of the President on the 16th December, 1987. Although the Constitution intended that the office of the CAG of India to be accorded the status of the Supreme Court Judge as early as 1950, the conditions of service and pension applicable to the Supreme Court Judge were conferred on the institution only in 1987 *i.e.* after a period of nearly 40 years, despite repeated demand by members of Parliament and successive Comptroller and Auditors General of India.

At the time when the Minister, assured the members that files were made available to CAG, during discussion on the Bill, delaying tactics

were employed by his own Ministry (in Revenue Deptt.) and the Defence Ministry in making available certain files to CAG, which perhaps, either they were probably not aware or preferred to pretend to be unaware for obvious reasons. While members of Parliament have to believe such assurance, CAG reveals non-production of files or documents only as a last resort in the Audit Report in very rare cases. In Canada, the Auditor General had gone even to Court on the issue of non-production of files/documents and succeeded in bending the Executive to make them available to him to enable him perform his constitutional duties. But in India, inspite of the constitutional and mandatory provisions, frequent attempts to deny files or papers by the bureaucracy in union and state governments have occurred, as explained in earlier chapters.

ATTEMPTED NEW NORMS

The question of production of files to Audit was again raised on 20th October, 1984, by the Finance Secretary, in connection with the recommendations of PAC, in its 67th Report, for production of Budget files to Audit, with which Govt. did not agree, and suggested formulation of norms, as advised by the Attorney General, and desired a discussion. This matter is dealt with elaborately in chapter 17. The arguments advanced were similar to those raised on earlier occasions but by a different Attorney General on 13th September, 1985. The CAG pointed out the inappropriateness in consulting the Attorney General without obtaining his views earlier and felt that the issue got clouded due to mixing up with what would be considered appropriate in regard to production of documents to the PAC, which is a Committee of the Legislature and the claim of privilege for non-production of documents before the Court. According to him, the role of CAG was altogether different from that of the judiciary. The Courts were called upon to give answers to specific questions and give judgement on disputed claims or prayers for specific relief and their function was to interpret the law applicable to specific matters placed before them. The CAG's functions were totally different. He was not required to produce final judgement, which was left to the legislature, which functions through the PAC. The CAG's responsibility was to investigate, seek, and secure evidence, form his own judgement on the basis of such evidence as he has collected and report his findings to the Head of the State for being dealt with subsequently by the legislature. No specific question was placed before the CAG of India. Investigation not related to a narrow interest on a specific question cannot obviously be done except with the fullest freedom. The entire Government records constituted the field for the

investigation of the CAG. The paradoxical situation that emerged from the opinion that has surfaced was that the agency whom the CAG has to investigate would have the right to say that some of the areas relate to policy formulation and therefore should not be subject to investigations. The incongruity of vesting powers to withhold production of documents in the same authority, which was being investigated during the process of audit was too obvious to require elaboration. There can be no demarcation line between policy formulation, and execution of policy, as policy was formulated at various levels and translated into orders from top to bottom depending on delegation of authority. The policy formulation plea can insulate any authority from any inconvenient investigation by Audit. The CAG was not an officer of the legislature and the course of action which was appropriate in dealing with the legislature did not therefore appear relevant in dealing with such case. CAG had not complied with informal requests of PAC for documents, in certain cases when the possibility of their being used for extraneous purposes was apprehended. As an officer of the Constitution, his functions are to make an independent audit examination of transactions and make a report to legislature for such action as it might deem appropriate. The utility of CAG's audit was not circumscribed by the action by the PAC on his Reports. His Reports were available to the Press as also members of the Public. CAG's audit work and reports were undoubtedly guarantees against financial irregularities and administrative inadequacies, which can remain hidden and thrive in sheltered secrecy. There is no other agency for the performance of this function essential in a democracy. To make his point, he quoted Dr. Ambedkar on the role of CAG. Any CAG with some ideas of administrative functioning can be relied upon to appreciate the problem judiciously and realistically, if he was approached in a matter involving complexity of the kind referred. In fact, an earlier CAG had expressed similar views in 1960 to counter the move to deny him files on grounds of secrecy. Hence, the suggestion for revival of convention was constitutionally a retrograde step. Relationship of CAG with Govt. was not of an adversary nature. Both really aim at optimisation of resources and fixation of accountability for good administration. He concluded by stating that there was no need to pursue further and the matter ended there for the time being. Whether it was due to change in the Finance Minister and Secretary, Ministry of Finance or any change in Government after the general elections in 1985, and the advent of the new Prime Minister, Shri Rajiv Gandhi is difficult to conjecture. But the Damocle's sword to cut off supply of files or papers to Government Audit was momentarily withdrawn to the Sovereign's sheath.

A RARE HONOUR

The Eastern* Regional Organisation for Public Administration (EROPA) presented, on 23rd day of November 1987, on the occasion of the Twelfth EROPA General Assembly held in Manila, Philippines, a plaque of recognition for distinguished service in public administration to Shri T.N. Chaturvedi. The recognition was for a long and distinguished career as scholar and public administrator, spanning senior positions in local government, national government, public enterprises, state audit and the academic; for valuable contribution to the discipline of public administration through scholarly research writing; for substantive inputs to the field of state audit and active participation in international efforts to promote research training and exchange of technical experience in accounting and audit; for active involvement in the drive for greater public accountability in public service not only in India but also in the international community; and for unstinting support and dedicated service to Asian regional and international organisation dedicated to the field of public administration.

SARKARIA COMMISSION

The Commission\$ on Centre-State Relations, known as Justice Sarkaria Commission, while dealing with expenditure control, mentioned that most of the State Governments found that the functioning of the existing institutions concerned with expenditure control - the Comptroller and Auditor General and PACs of Parliament and State Legislatures have not been very effective. One State Government, complained about delay in audit and finalisation of accounts and drew the attention of the Commission to the provisions of Government of India Act 1935, which empowered a provincial legislature to create the office of an Auditor General for the province. While presenting its case, one State Government chose to ignore the delay in timely submission of accounts by Treasury and PW Divisions under its control, which in turn delayed compilation of accounts by the AG, a fact not known to the Commission. Another State Government suggested evaluation audit should be entrusted to an agency constituted by the State Government itself, which cut at the very root of independent evaluation and ignored the advantage of appraisal by a neutral and independent agency like CAG. The need for a thorough examination of the Union Government's expenditure was emphasized by many states since it had implications on resources available for transfer to the States. Some States suggested constitution of

* Raul P. Guzman, Secretary General, Amara Raksa Satya, Chairman Executive Council.

\$ Commission's Report, 1988 - Chapter on 'Expenditure Control' - Page 258.

an Expenditure Commission, as the existing mechanisms were inadequate for this purpose. According to the Commission, the important instruments of Parliamentary control are the Committees of Parliament, namely, the Public Accounts Committee and the Estimates Committee, and the Committee on Public Undertakings. In a Parliamentary system, the role and authority of the legislature in determining priorities are supreme and cannot be questioned. They alone can set up priorities and ensure adherence to them by proper pre-vote scrutiny of the estimates. It may not be possible for Parliament or a State Legislature to go into the details of all the estimates and a practical way suggested was to constitute small Sub-Committees, which could consider them. It was ultimately for the Parliament and State Legislatures to evolve suitable procedures in this regard. A significant feature of the Constitutional provisions is that the CAG has the authority to audit all expenditure from the revenues of the Centre and the State Governments. He has to ascertain that the amounts shown in the accounts were duly disbursed and the expenditure conformed to the authority, which governed it. The Reports of the CAG were placed in Parliament and the State Legislatures and formed the basis for further discussion by the Public Accounts Committees, with the concerned departments. While the system of audit and expenditure control was quite elaborate, some problems in its working were highlighted to the Commission, like delays in the preparation and submission of Audit Reports and Accounts. The maintenance of accounts in the Treasuries and their reconciliation left much to be desired. There was need for greater evaluation audit. The Commission was informed by the CAG that processes were afoot to bring about qualitative improvements in these respects. While recognising the need for an efficient system of audit and accounts to serve as basis for expenditure control the Commission stressed on the need to expedite processes subsequent to audit, which were important for effective expenditure control. Indeed, the CAG can do little to re-shape priorities and norms in spending. Commission was informed that in several states, Audit Reports did not get the importance they deserved. They were often submitted to the Legislatures towards the fag end of the sessions, leaving little time for a fruitful discussion. Otherwise also, the discussions, it was alleged, were often insufficient and done in a routine manner. The need for the Public Accounts Committee, the Committee on Public Undertakings and the Estimates Committee to pay greater attention to the Audit Reports was emphasised as also to ensure that the Executive responded to them well in time. They observed backlog of arrears in the consideration of the Audit Reports (a particular case of a State, in September 1986, where the last

report on which discussion had been completed related to 1971-72* was cited). Such delays as also non-regularisation of excess expenditure in relation to amounts granted, created a slackening tendency in expenditure-control, which was incompatible with the spirit of the Constitution. The post-audit process, indeed, needed to be further strengthened.

The Commission did not favour the establishment of an Expenditure Commission as a permanent or an *ad hoc* body for one-short operation. A better alternative was to strengthen the existing system itself so as to ensure that the existing institutions themselves played the roles expected of them. This was an area where further institutional mechanisms and safeguards cannot be expected to substitute the conscience, will and responsibility of those on whom a duty in this regard has been appropriately devolved by the system.

The Constitution has done away with the multiplicity of audit authorities and has made the CAG as the sentinel of the country's finances. The merits of the present system in terms of uniformity and economy in the cost of audit was obvious. There was functionally a close interaction between the Union and the State Governments in fiscal and financial matters. Application of uniform principles and procedures in the maintenance of accounts at the two levels of Government, their supervision by a common and independent Constitutional authority, early detection of any irregularities and initiation of timely remedial action were the hall-marks of the audit system in India. The Commission apprehended complications, both in administration and understanding, if multiplicity of authorities came into being and prescribed their own systems of accounting and procedures. There was advantage in the present uniform authority in terms of economy in cost and audit services. The Commission did not support the suggestion to modify Entry 76 of List I to provide for separate Auditors General at the State level. They did not agree with the view-point of a State Government that the present centralisation of audit was the root-cause of the procedural delays. Scope for reducing delay in the finalisation of accounts has to be considered by the CAG who, the Commission was told, was seized of the problem and has over a time brought about improvements. The suggestion made by State Government, to entrust evaluation audit to an agency constituted by the State Government itself was not accepted since a qualitative improvement in the procedures of audit has to be intrinsic to the system. In Commission's view, there was no pressing necessity at present to have separate Federal and State audit services.

* Observations of CAG in his address to the Seventh Conference of Chairmen PACs on September 8, 1986.

While deciding on the Commission's Report, the Governments - both at the Centre and States - could consider the PAC's recommendations on expeditious action on Audit Reports and their own orders from time to time to ensure better use and obtain greater advantage of CAG's Reports on Union and State Governments.

REVIEW OF A&E FUNCTIONS

CAG constituted a Committee* to review the implementation of the scheme of restructuring of the offices of As.G. in March 1989. The Committee submitted its Report in April 1989. The Report brought out the problems which surfaced after restructuring, like depletion in the *de facto* strength of Accounts and Entitlement offices, inadequate number of trained personnel, initial frustration in the staff allotted to the AG (A & E) offices, which affected the regular accounting work and delayed compilation of monthly accounts and created internal arrears in many offices. While promptitude in compiling accounts gradually improved and arrears were overcome in many offices in succeeding years, the overall performance is yet to reach the requisite level either of quality or quantity. The net vacancy position in supervisory level was 89 (about 4%) and clerical level 2076 (10%), which is nothing unusual in the Department. Not many graduates offered themselves for initial recruitment as accounts clerks and entrustment of tasks to clerks who found it difficult to imbibe the essentials of accounting adversely affected the standard of compilation. In order to improve the standard, the Committee recommended increase in the percentage of direct recruitment of accountants from 33-1/3% to 50%. Direct recruitment of section officers in offices, where there were no accountants, who had passed section officers' grade examination to be promoted would relieve the shortage. Some of the suggestions made were employment of CAP sections in the check of processes of compilation, including check of classification, transfer of work of inspection of treasuries to the Accountant General (A & E) to serve the purpose of inspection of treasury and help improvement in the preparation of initial accounts, introduction of computerisation from intermediate stage of accounting in the office - from compilation sheets or from the classified abstracts - which can also generate several information relevant to preparation of accounts, appropriation accounts etc. initiation of measures to clear the back log of reconciliation work, taking into account the difficulties experienced by various drawing and disbursing officers and the

* Shri R. Parameswar (Chairman), S/Shri T.S. Narasimhan, J.S. Mathur, A.N. Mukhopadhyay, D.S. Iyer, V.A. Mahajan and A.P. Sinha (Members).

departments of State Government, systematic tackling of the heavy balances under suspense and remittance heads etc., and feasibility of introducing the selective computerisation of certain broad-sheets. Since monthly accounts sent by the Accountants General to the State Governments have not been made full use of by them, the feasibility of modifying and improving them needed consideration. The syllabus of the SO Grade examination could be reviewed for increasing the inputs of the personnel employed on the work. A research cell for identification and appraisal of the problems in Government accounting and to evolve solution was suggested.

OVERALL PERFORMANCE

AUDIT

In December 1988, there were 35 offices of Principal Audit Officers for auditing the transactions of the Union Government, UTs, including Union Government public sector enterprises - 8 Civil Audit offices, including 2 offices abroad, 1 P&T Audit office, with 7 branch offices, 3 Defence Audit offices, 10 Railway Audit Offices, 13 Commercial Audit offices for auditing Union Government enterprises; 32 As.G. for auditing the receipts and expenditure of 25 State Governments including 2 UTs, and the State-owned public sector undertakings.

The volume of audit conducted by the Department can be gathered from the published data below :

Expenditure Audit

	Vouchers audited	Accounts checked	Audit notes issued	With M.V. (Rs. in lakhs)	Settled with M.V. (in lakhs)	Pending in March 1989 (Rs. in lakhs)	
Civil Audit offices Govt. of India	995080	640	3207	881.99	2216	376.02	7254 1405.10
P&T Audit offices	1261372	893	342	1727.61	132	622.44	396 2418.70
Railway Audit offices	1272963	1346	6763	5733.00	3991	1571.00	9252 7781.00
Defence Audit offices	99768	83	405	1303.55	55	8.88	1294.67

Receipt Audit

	Customs offices	Central taxes	Direct	Total
Number of formations covered by audit	360	28319	3926	32605
Number of formations inspec- ted during the year	202	21084	3557	24843
Number of IRs issued	147	9896	6774	16817
Number of IRs outstanding as on 31st March, 1989	6511	13397	21927	41835

COMMERCIAL AUDIT

Fifteen Audit Boards were constituted to consider appraisals of Central public undertakings, including discussion of draft appraisal of 6 Government companies. ARs on the annual accounts for the year 1987-88 of eight statutory corporations for which CAG is the sole auditor were finalised during 1988-89. Twelve Directors of Commercial Audit reviewed the financial performance of 227 out of 252 public sector enterprises, companies and corporations with a total investment of Rs. 77780.10 crores and 23 companies out of 42 companies in which the Union Government and its companies/corporations held not less than 51 per cent of the paid up share capital with Government investment of Rs. 158.07 crores. On the recommendations of the CAG, the Company Law Board appointed 2208 firms of chartered accountants for audit of central and state government companies and corporations substitute. 13 Directors of Commercial Audit carried out the supplementary audit of the annual accounts of companies certified by the statutory auditors and issued comments in respect of 40 companies and the accounts of 46 companies were revised. Major impact of such reviews on relevant companies accounts were as under :

Sl. No.	Name of the company	Impact
I	Indian Railway Finance Corporation	Over-statement of profit by Rs. 241.81 lakhs
II	Fertilizers and Chemicals Travancore, Limited	Over-statement of profit by Rs. 2,406.89 lakhs
III	Pyrites, Phosphates and Chemicals Limited	Under-statement of loss of Rs. 586.12 lakhs

Sl. No.	Name of the company	Impact
IV	Indian Iron and Steel Company Limited	Under-statement of loss by Rs. 7,418.80 lakhs
V	Hindustan Steel Works Construction Limited	Under-statement of loss by Rs. 1,147.05 lakhs
VI	Steel Authority of India Limited	Decrease in profit by Rs 12,575.12 lakhs
VII	Mahanagar Telephone Nigam Limited	Decrease in profit by Rs. 277.05 lakhs
VIII	Indian Oil Corporation Limited	Decrease in profit by Rs. 11,991.92 lakhs
IX	Fertilizer Corporation of India Limited	Under-statement of loss by Rs 1,737.66 lakhs
X	The Projects and Development India Limited	Under-statement of loss by Rs. 359.80 lakhs
XI	Hindustan Fertilizer Corporation Limited	Under-statement of loss by Rs. 3,555.17 lakhs
XII	Hindustan Insecticides Limited	Under-statement of loss by Rs. 332.08 lakhs
XIII	National Fertilizers Limited	Over-statement of profit by Rs. 1,157.84 lakhs

In addition to the above, a number of companies voluntarily made changes in their annual accounts for the year 1987-88 as a result of preliminary audit observations. The material impact of these changes are given in the table below :

Sl.No.	Name of the company	Impact
I	Western Coalfields Limited	Increase in loss by Rs. 262.59 lakhs
II	South Eastern Coalfields	Decrease in profit by Rs. 466.50 lakhs
III	Indian Road Construction Company	Increase in loss by Rs. 228.85 lakhs
IV	Indian Iron and Steel Corporation Limited	Increase in loss by Rs. 141.34 lakhs
V	Hindustan Steel Works Construction Limited	Increase in loss by Rs. 108.73 lakhs

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Sl.No.	Name of the company	Impact
VI	Steel Authority of India Limited	Decrease in loss by Rs. 576.99 lakhs
VII	Hindustan Cables Limited	Decrease in profit by Rs 165.33 lakhs
VIII	National Textiles Corporation (WBABO) Limited	Increase in loss by Rs. 104.27 lakhs
IX	Coal India Limited	Increase in loss by Rs. 239.99 lakhs
X	Eastern Coalfields Limited	Increase in loss by Rs. 1,129.85 lakhs
XI	Bharat Coking Coal Limited	Increase in loss by Rs. 2,213.00 lakhs
XII	Central Coalfields Limited	Increase in loss by Rs. 3,691.81 lakhs

REPORTING

27 Audit Reports on the Union Government for the year 1987-88 - 7 (Civil), 3 Defence, 2 P&T, 3 Revenue, 1 Railway and 11 Commercial Reports were finalised and except 5 Audit Reports (Commercial), others were presented during February to August 1989. 22 Reports had 748 paras and 73 reviews.

Upto 31 December, 1989, 39 Civil Audit Reports containing 1,959 paragraphs and 376 reviews were presented to the Legislatures. Of these, 1 related to 1983-84, 7 to 1984-85, 12 to 1985-86 and 19 to 1986-87. 22 Revenue Receipt Audit Reports containing 1,691 paragraphs and reviews were presented to the various State Legislatures. Of these 1 related to 1984-85, 2 to 1985-86, 13 to 1986-87 and 6 to 1987-88. Commercial Audit Reports containing 327 paragraphs and 89 reviews were presented to the Legislatures. Of these 7 related to 1985-86, 10 to 1986-87 and 3 to 1987-88.

The volume of work turned out by 32 Audit offices engaged in audit of the transactions of States and Union Territories, Companies and Corporations owned by them and autonomous bodies assisted by them was as given in the table below :

In the state sector, 843 companies with an aggregate investment of Rs. 11219 crores were subjected to audit by As.G.

	Number	Money value (in lakhs of Rupees)
Vouchers audited	10459073	—
Divisional accounts audited	78124	—
Audit notes issued	54780	61,684.78
Audit notes settled	34986	30304.17
Audit notes pending as on 31st March, 1989	70707	1,09,902.56

Primary and Supplementary audits of accounts of 596 Government companies and corporations were conducted on receipt of their annual accounts. The compilation of annual accounts of 552 State public enterprises was in arrears in March 1989.

ACCOUNTING

26 AE offices compiled the accounts of 24 State Governments including Union Territories. The volume of accounts/documents handled by the AE offices was as under :

Sl. No.	Details	Number (in thousands)
1.	Treasury vouchers compiled	51,734
2.	Public Works and Forest Divisional accounts and other compiled accounts handled	139
3.	Transfer entries adjusted in accounts	57
4.	Inward and outward settlement	50
5.	Loan accounts maintained with all details	1023
6.	Broadsheets maintained	18

The compilation of monthly accounts were current in March 1989 in 12 offices (As.G, AP, Bihar Gujarat, Dadra and Nagar Haveli, Haryana, Jammu and Kashmir, Karnataka, Kerala and Lakshadweep, Madhya Pradesh, Maharashtra, Punjab and Chandigarh, Uttar Pradesh and West Bengal). In other offices, they were behind 1 month to 24 months (1 month in Assam, Himachal Pradesh, Manipur, Rajasthan, Sikkim, Tamil Nadu and Tripura; 2 months in Arunachal Pradesh, Meghalaya and Orissa; 4 months in Mizoram; and 24 months in Nagaland). These were attributed to delay in receipt of accounts from Treasuries, Public Works Divisions and other departmental offices who maintained initial accounts and deficiency in working strength in few offices.

The Appropriation Accounts and Finance Accounts of 17 State Governments for the years 1986-87 were finalised during January 1988 to October 1988. Accounts of 3 State Governments were presented, 2 were awaiting presentation and 12 were under print. Accounts of 7 State Governments remained to be finalised in December 1989.

ENTITLEMENT

The entitlement functions relating to gazetted officers of the State Governments were performed in several offices. At the end of March 1989, 44,67,679 provident fund accounts of employees of 18 State Government and three Union Territories' Administrations were maintained by them.

In 18 states and 4 Union Territories pension reporting and issue of authorisation for pensions were carried out by them. The turnover of pension cases was 1,79,001 in 1985-86, 1,95,332 in 1986-87, 2,04,566 in 1987-88 and 2,03,033 in 1988-89. 23040 cases were outstanding in March 1989, of which 64% were pending for want of details and documents to be received from the departmental offices of the State Governments concerned. Revision of pension cases were also reported upon and authorisations issued, where necessitated due to judgement of courts and implementation of fourth Pay Commission; the turnover was about 35896 cases during 1988-89. The Department has a system, procedure and mechanism to receive complaints and grievances on entitlement claims both in the AG's office as well as headquarters office. During 1988-89, 10518 complaints were settled, 3556 complaints were pending in March 1989 - 2708 relating to provident fund accounts and 728 on pension and gratuity payments and revision of pension.

In December 1988, there were 26 offices, which prepared accounts and entitlement functions, with six branch offices, under As.G., Sr.DAG/DAG as the case may be. 24372 officers and staff - 109 IAAS officers, 578 accounts officers, 908 assistant accounts officers, 1210 section officers, 8253 senior accountants, 4161 accountants, 6146 clerks, 184 stenos, 384 record keepers, 110 others and 2329 category D employees were employed in these offices.

The composition coverage and contents of the entitlement work was neither uniform nor common - in 12 offices of As.G. A & E, there was no gazetted entitlement system, in 5 offices there was partial abolition of the system in 8 states the pension authorisation of various categories of employees was performed by the State Government. 44,67,679 provident accounts of the employees of 18 State Government employees and 3 union Territories Administration were maintained, although the maintenance of provident fund accounts of group D employees in 14 offices was performed by the State Government.

PRESENT ORGANISATION

The organisation of the IAAD in 1988 is shown in the figure 11.4.

In December 1989, the Indian Audit and Accounts Department comprised of 144 offices, the office of CAG - the directing, controlling and coordinating office - 12 Audit offices and 21 branches for auditing the transactions of the Union Government including Goa State; 10 Railway audit offices and 4 branches for auditing the Railways; 13 Commercial audit offices and 12 branches for auditing the public sector undertakings owned by Government of India; 32 Audit offices for auditing the transactions of 24 State Governments and 2 UTs; 26 Accounts and Entitlement offices and 6 branch offices for compilation of State accounts and performing the entitlement functions; one Staff College for training IAAS officers, and 7 training institutes on different locations for training other officers and staff. The disposition of the offices in the country is shown in figure. 11.5.

The total strength of IAAD in April 1989 was 60967 - 581 IAAS and 8946 other officers, and 51440 staff. Category-wise distribution of Group B officers and staff was (i) Civil Accounts offices - 21030 Civil Audit offices 31165, P&T 2048 - 439 officers and 1609 staff, Defence 1115 - 263 officers and 852 staff, Railways 3007 - 579 officers and 2428 staff, and Commercial 2298 - 693 officers and 1599 staff, Headquarters office 875 - 36 IAAS officers and 256 other officers and 583 staff.

The total expenditure and receipts audited and the expenditure incurred by the IAAD for the last seven years was as under :

Year	Total Government expenditure and receipts audited (Rs. in crores)	Expenditure of the Department (Rs. in crores)	Percentage of expenditure on the Department to the total value audited
1982-83	119630	91	0.08
1983-84	131270	105	0.08
1984-85	150950	121	0.08
1985-86	187104	139	0.07
1986-87	206765	165	0.08
1987-88	247142	194	0.07
1988-89	279896	218	0.08

The figures excluded the value of transactions of public sector undertakings and autonomous bodies audited by the Department. The aggregate investments in the PSUs owned by Government of India and State Governments was around Rs. 72390 crores.

Detailed analysis of the expenditure and receipts audited by the various branches of Audit/field offices etc. are given in the respective chapters.

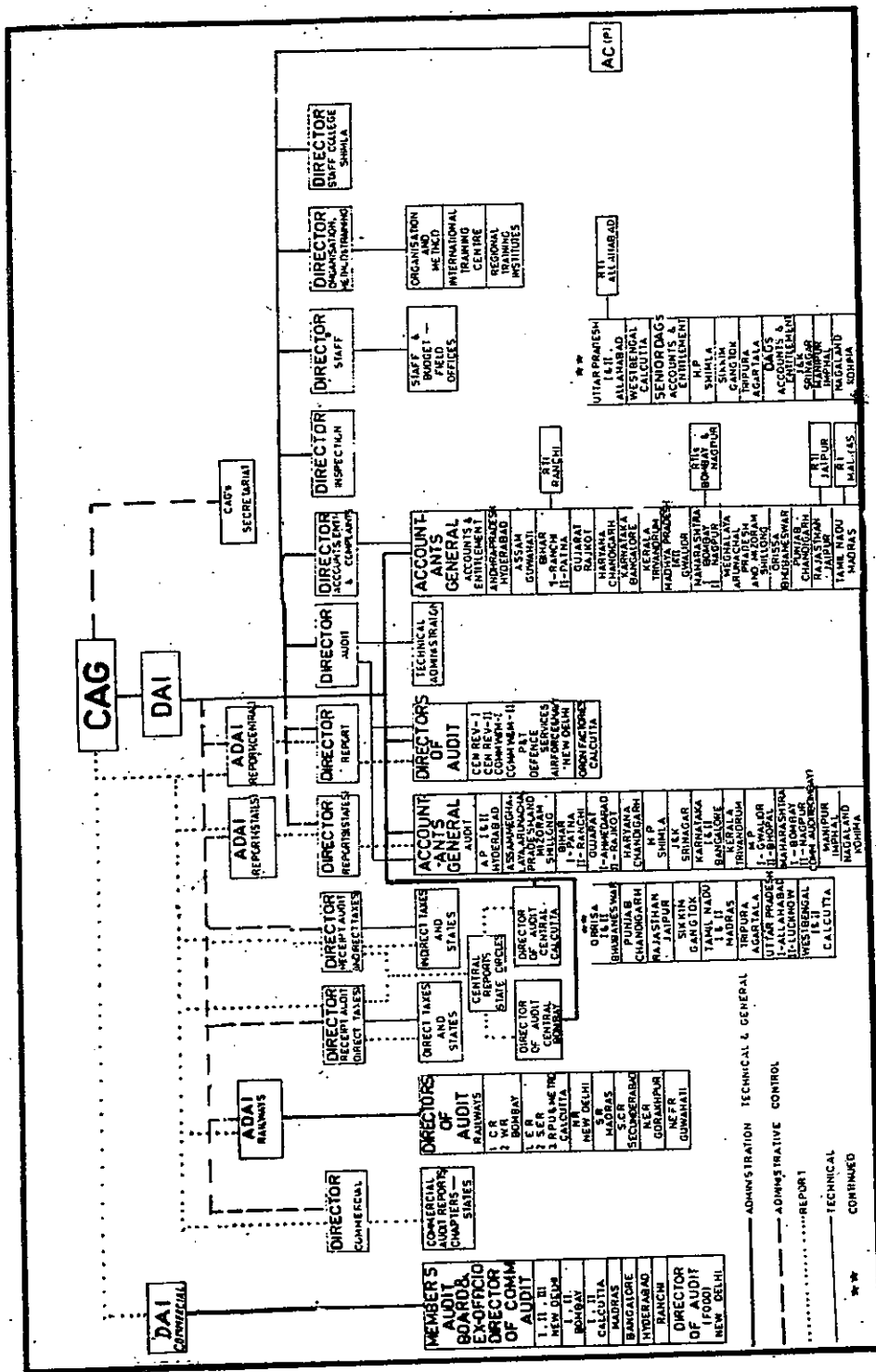


Fig. 11.4: Organisation IA & AD 1988

Please see the attached Map

OFFICE OF THE C.A.G.

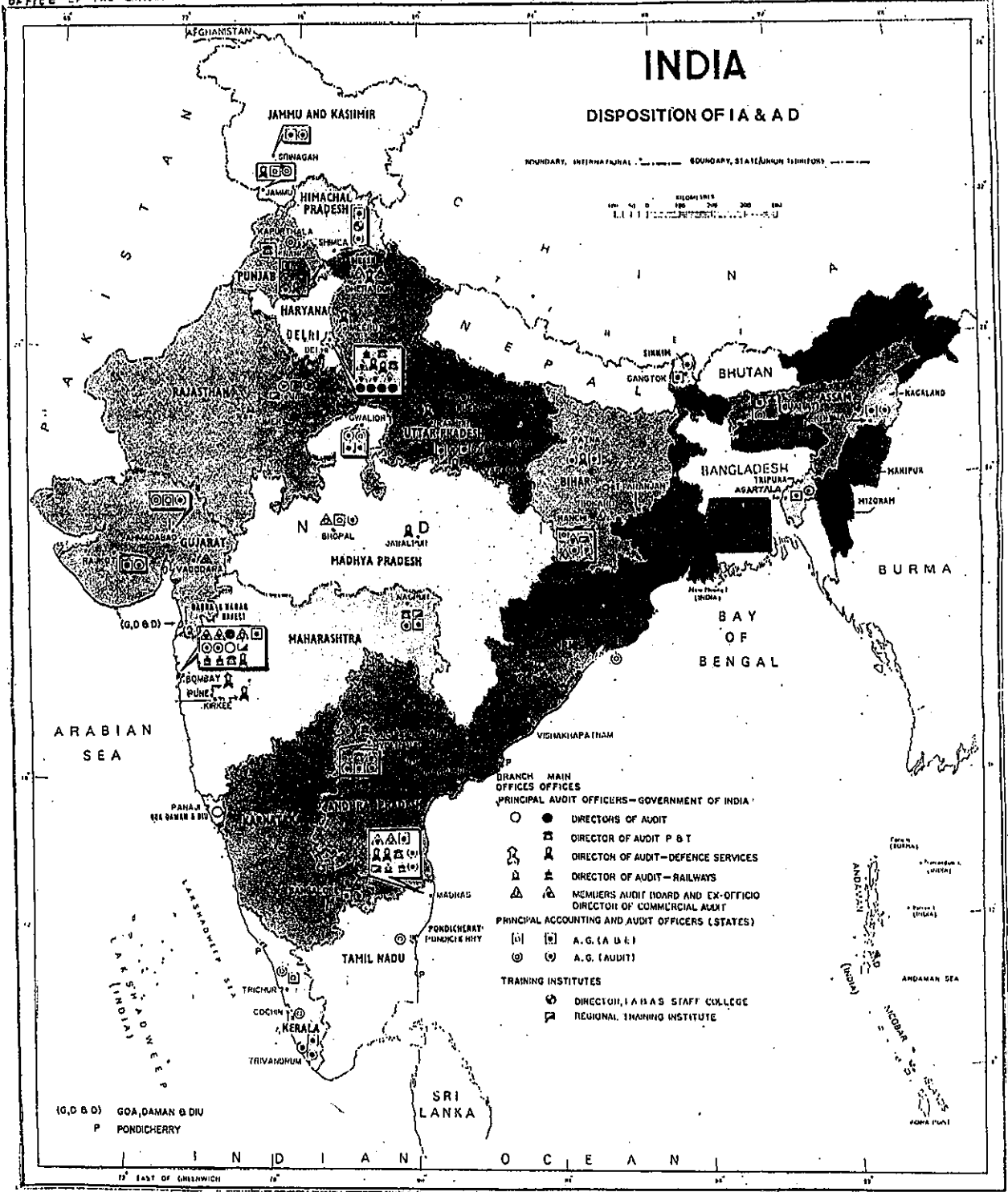
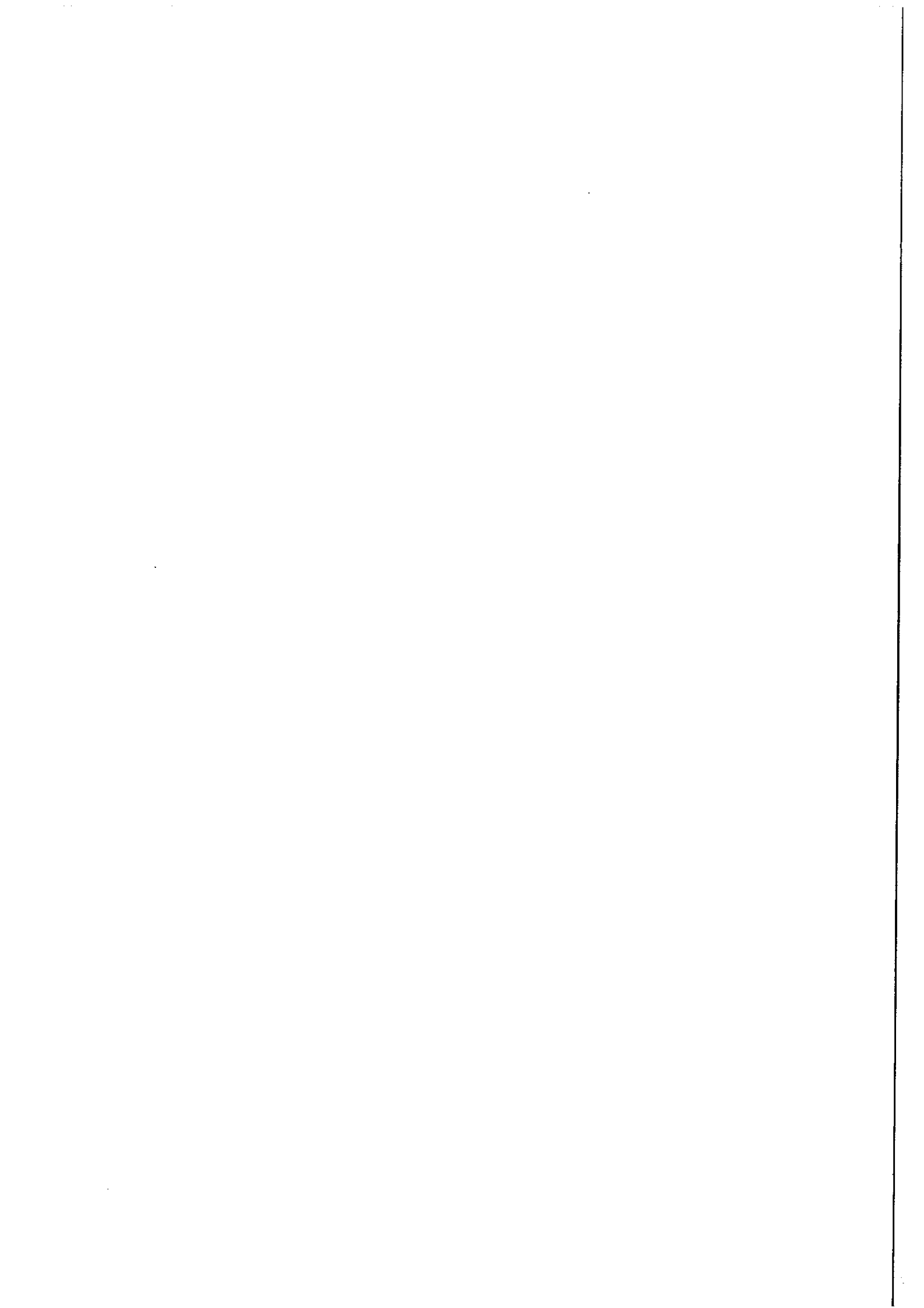


Figure 11.5 : Disposition of Offices of IAAD



Analysis of the expenditure of the Department under broad categories is given below :

Categories	Expenditure (Rs. in crores)				Percentage of the total expenditure				
	1	2	3	4	5	6	7	8	9
	1988-89	1987-88	1986-87	1985-86	1988-89	1987-88	1986-87	1985-86	
Salary and wages	185.88	166.97	142.31	118.42	85.18	86.08	86.00	84.00	
Travel expenses	16.99	15.00	11.64	9.49	7.79	7.74	7.00	7.00	
Office expenses	9.56	8.06	7.48	6.88	4.38	4.10	4.50	5.00	
Rent, rates and taxes	3.17	2.57	2.57	3.92	1.45	1.32	1.50	3.00	
Publications, grants-in-aid and other charges	2.62	1.48	1.30	0.92	1.20	0.76	1.00	1.00	
Total	218.22	194.08	165.30	139.63	100.00	100.00	100.00	100.00	

Functional distribution of the expenditure incurred by the Department for the last four years was as under:

Heads of expenditure	Expenditure (Rs. in crores)				Percentage of the total			
	1988-89	1987-88	1986-87	1985-86	1988-89	1987-88	1986-87	1985-86
Audit offices	140.02	125.90	106.80	88.09	64.16	64.87	64.60	63.00
Accounts & Entitlement offices	73.51	64.47	55.37	48.59	33.69	33.22	33.50	34.80
Coordination and control	4.20	3.48	2.76	2.64	1.93	1.79	1.70	2.00
Training	0.49	0.23	0.37	0.31	0.22	0.12	0.20	0.20
Total	218.22	194.08	165.30	139.63	100.00	100.00	100.00	100.00

THE PUBLICATIONS

Monographs on Role of Auditor General in Public Accountability, Abstract on International Economic scene and its impact on Indian policies, in quest for effective Management and a Compendium of country papers on Audit of Public Works were issued in September 1985

and February 1986. Government Auditing and Internal Management Control System in developing countries and a compendium on country papers on Audit of Public utilities and Social Services were published in 1986-87. The compendium of country papers on Audit of Receipt, Audit of Transport and Audit of Public Enterprises were brought out during 1987-88.

A book dedicated to past Comptroller and Auditors General on Government Auditing with a foreword by Shri T.N. Chaturvedi was published in 1987. It was a collection of nineteen essays on different aspects of Government auditing in the country written by eleven experts in the field during their tenure as members of the IAAS. In his foreword, Shri T.N. Chaturvedi observed "This compilation, perhaps the first of its kind, will meet a long felt need and make a beginning towards dissemination of knowledge on the subject which is of considerable importance to our polity and our economy". The essays were grouped under these broad categories - Principles and role of Government audit; its methodology and techniques; and their practical application in selected areas.

A digest of important observations of CAG on the performance of Electricity Boards of 16 States for the years 1979-80, covering mostly the sixth plan period, was brought out in 1987. The book had 9 sections - introduction, Thermal Project, performance of Thermal Power stations, Hydel Project, Transmission lines, Systems losses, Transformers, collection and accounting of revenues and financial performance and accounts. In his preface, Shri T.N. Chaturvedi observed "This digest, it is hoped will be of practical use to all those who have a responsibility for the generation and distribution of powers with cost consciousness. It will also serve as information hand book to economic consultants, research students and others who may be interested in a scientific study of the working of the Electricity Boards in the country".

A compendium of important paras and reviews in the Audit Reports 1981-82 to 1986-87, titled "State Government Public Enterprises - concept, performance and accountability" was brought out in April 1989. The comments were condensed sector-wise in each chapter. In his preface, Shri T.N. Chaturvedi observed that it aimed at focussing attention to the extent of efficacy of investment in State public enterprises in various sector of activity by putting together the data and observations in the various State Audit Reports laid before the legislature and it would be of help-not only to students and scholars of public administration but to all those activities connected with planning, management and performance of these enterprises. In all, 112 ARs were covered.

MEDIA

The Report of CAG, on both Union and State governments, including PSUs received more media attention than in the past - wider coverage, incisive analysis and few editorial comments. While the news value of the transactions commented upon predominantly determined the extent and frequency of the display, quite a few reports and paras were captioned with sensational headings and provoked animated discussions in the media, not confined to accounting and Audit professionals but also among the general intelligentsia reported in certain leading newspapers. The mood of the people and the temper of times during recent years contributed to this astonishing but encouraging phenomenon in the country. While the policy of CAG to be neutral in reporting audit findings and to let his Reports reach the ultimate destination, the Union Parliament and State Legislatures, imperceptibly and through official channels, the media and the public, did not in any way change at all, there was a slight shift in the earlier conventional self effacing practice - like the ostrich burying its head under the sand, even when attacked virulently by vested interests or affected departments/ministries/governments. With his long and matured experience in Administration, and later Audit, Shri T.N. Chaturvedi, in his own dignified, pragmatic, and suave but firm manner defended the institution and the reports presented by him, which added lustre and goodwill to the SAI. Viewed from all angles, it was a healthy development, which not only helped the CAG to vindicate himself against the blitz of orchestrated propaganda and negative publicity but also added a new dimension to Government Audit, as professed and practiced in India without stooping to seek it. An institution that depends both by statute and convention on the Government of India for its funds and functioning, despite the resplendant constitutional robes worn by the SAI of the Governments in the Union and States, and looked to the Finance Minister or Prime Minister to represent the interests of the Department before the Parliament, has, perforce, at times to go to the elected representatives and people at large to vindicate itself. It became a sheer necessity for survival, when the lines clearly drawn between the political and administrative organs of Government converged indistinguishably and the nexus between the politician and the bureaucrat forged in mutual interests, assumed dangerous proportions to the detriment of a constitutional institution, like the CAG of India, designed and habituated to function in a free, fair and equitable manner. Indian media has greatly contributed to this positive achievement by the end of the year 1989.

ANTI CLIMAX

The President awarded Padma Vibhushan to Shri T.N. Chaturvedi on 26th January 1990, the first CAG to receive the State honour after the awards were instituted, although the Auditors General were knighted, even while in service, by the British Government. Convention of conferring knighthood on the CAG of UK continues even now. That no CAG was awarded any such honours in the past, despite the distinguished performance of each one of them, discussed in the relevant chapters, is an incomprehensible fact of recent history. Whether it was symbolic of the attitude of the bureaucrats, who advised the Prime Minister in recommending the roll of honour to be awarded by the President each year or exhibited the indifference of the great Prime Ministers or their Finance Ministers, to the institution of the CAG and the holders of office for each six year period, who were also the senior most members of the recognised service in the country, is difficult to conjecture. The new Government which came to power after the elections has apparently not inherited the predecessor Governments' pride or prejudice in the matter of national recognitions and its action is a relieving departure from the past. To a certain extent the recognition retrieved the damage done to the institution of Supreme Audit Authority, if it was so easily erasable, but vindicated his stand from no less than the Government of the day and helped to lift the sagging morale of those, who did only their duty without fear or favour. Besides, it has set a new and healthy precedent, for the future. Shri T.N. Chaturvedi felt that the award was "indicative of what was expected of a person rather than what was achieved and accepted it in the spirit of humility",* characteristic of him.

* The Hindu dated 5th February 1990 - Delhi edition.

LIST OF ABBREVIATIONS

- | | | | |
|-----|--------|---|--|
| 1. | A&E | — | Accounts and Entitlement |
| 2. | ARs | — | Audit Reports |
| 3. | CMC | — | Computer Manintenance Corporation |
| 4. | DACR | — | Director of Audit, Central Revenues |
| 5. | DA CWM | — | Director of Audit, Commerce Works and
Miscellaneous |
| 6. | DA(EA) | — | Director of Audit (External Affairs) |
| 7. | DDO | — | Drawing Disbursing Officer |
| 8. | EDP | — | Electronic Data Processing |
| 9. | EROPA | — | Eastern Regional Organisation for Public
Administration |
| 10. | MAB | — | Member Audit Board |
| 11. | MP | — | Madhya Pradesh |
| 12. | NIC | — | National Informatics Centre |
| 13. | O&M | — | Organisation and Methods |
| 14. | OSD | — | Officer as Special Duty |
| 15. | PAC | — | Public Accounts Committee |
| 16. | PC-AT | — | Personal Computer-Advanced Technology |
| 17. | PSUs | — | Public Sector Undertakings |
| 18. | PUC | — | Public Undertakings Committee |
| 19. | RITES | — | Rail India Technical Engineering Services |
| 20. | RTI | — | Regional Training Institute |

SOURCES AND REFERENCES

1. Audit Bulletin
2. Activity Reports 1984-85 to 1987-88
3. Report of High Level Committee on RTIs
4. Report of the Committee constituted in 1986 to examine measures for qualitative improvements in the content, coverage and quality of ARs (P&T)
5. CAG's (DPC) Act, 1971 Amendment Bill 1987 and Lok Sabha/Rajya Sabha Debates thereon.
6. Report of Sarkaria Commission on Centre State Relations, 1988
7. Seventh Conference of Chairman of PACs
8. Shri R. Parameswar Committee Report reviewing the implementation of the Scheme of Restructuring

12 Commercial Audit

ORIGIN

The Commercial audit in the Indian Audit Department was set up in January 1925, when a Chartered Accountant selected by the Secretary of State for India and appointed for a period of five years, joined as Director of Commercial Audit in the Auditor General's Office. In March 1928, a separate Commercial Audit Branch was formed by direct recruitment of Chartered or Incorporated Accountants to the IAAS, and training of some of the officers of IAAS in commercial accounting and auditing. AAOs were appointed either from among CAs or by promotion of subordinates in the IAD, who had been trained in commercial accounting and auditing. SAS (Commercial) examination was instituted for promotion to the Superintendents' cadre in Commercial Audit branch. Several officers were trained in the Commercial system of accounts and training classes were also held for Superintendents and clerks, who were selected for the Commercial Audit branch and for maintaining the accounts of Government Commercial concerns. The branch was made permanent from January 1929 and the existing IAAS officers and AAOs were assimilated in the new Department. The Department was constituted into six circles, later seven circles, with the headquarters office at Calcutta (three circles), Madras, Rangoon, Nasik Road and New Delhi and 120 concerns were subjected to half yearly and annual audit, besides a number of comparatively small concerns controlled by Agriculture and Forest Departments, subjected to biennial or quinquennial audit. A note* for the guidance of the PAC examining the accounts of Government commercial concerns contained in the Commercial Accounts Appendix to the Appropriation Accounts of the Central Government (Civil) and Local Governments was furnished by the DCA on 10th June 1930, which was an exquisite exposition of Commercial audit, as practised then. In 1929, there were, besides the Director, 4 Assistant Directors and 4 Assistant Audit Officers, and one Assistant Director was added in 1930, by upgrading an AAO's post. The financial stringency of 1930 saw abolition of DCA and his headquarter's establishment and in 1931, the audit of commercial accounts of Provincial concerns was fused with the existing local audit, as a measure of permanent economy in the Provinces and the audit of Central Government concerns was carried out by the respective Accountants General on behalf of the A.G.,C.R. or Director of Army Audit. Further

* Reproduced as Appendix XIV to PAC Report for 1928-29.

specialisation of staff or functions was discontinued and Commercial Audit as a separate entity ceased to exist in the IAAD. The Accountants General were left to their own resources to conduct the audit of Commercial enterprises, and to advise the Provincial or Central Administration, as best as they could. Although under para 13 (i) (iii) of the Audit and Accounts Order, 1936, the responsibility for audit of all trading, manufacturing and profit and loss accounts and balance sheets of the departmental concerns vested with the CAG, the *status quo* regarding organisational arrangements and *modus operandi* for conducting audit was continued until 1951.

PRECEPT, PRACTICE AND RESULTS

A number of departmental undertakings of commercial or quasi-commercial nature, where the financial results were required to be expressed in the normal commercial form, so as to ascertain accurately the cost of the service or facility, had come up both under the Federal and Provincial Governments, where the necessity for maintenance of suitable capital, manufacturing, trading and profit and loss accounts on a proforma basis outside Government accounts, which were maintained on a purely cash basis, arose. The actual transactions featuring in the proforma accounts, except those adjusted on a purely liability basis, entered in the regular accounts of the department and commercial accounts were additional, as well as separate. The principles and rules applied for the audit of the subsidiary accounts of Government commercial departments were those laid down in commercial law or practice followed for commercial concerns. The general principles of audit of receipts and expenditure of Government in relation to individual financial transactions of the undertakings were followed to the extent possible. Audit of the commercial accounts went beyond the ordinary practice followed by commercial auditors in the examination of the authority for financial orders, and the regularity and propriety of financial transactions.

The main object of the audit of the accounts of Government commercial departments was to satisfy, that they presented a full and true picture of the financial results of the undertaking in terms of commercial ideas of liability and asset, debit and credit and profit and loss. If the commercial accounts were maintained for the purpose of the accurate ascertainment of the cost of an article or a service, it was the function of Audit to verify that the cost was true. Any failure in complete and accurate presentation of results was commented in audit. Comparison of the relative efficiency of Government trading and manufacturing institutions with one another or with similar institutions not controlled by Government with the help of the subsidiary accounts

was attempted. The correctness of the allocation of expenditure between capital and revenue, the valuation of assets upon a reasonable basis, and the adequacy of provision for depreciation and bad debts were verified in audit. While every practice of commercial audit was not applied meticulously to Government commercial concerns - be they commercial, quasi-commercial or departmental undertakings, due allowance for the fundamental difference between private and Government undertakings, arising out of the primary object of the former to provide income for its owner or dividends for its shareholders was kept in view by the Government auditor. Results of 'internal control' were scrutinised particularly in respect of examination of account books, vouchers and other documents and verification of stock to ensure their adequacy, efficacy and effectiveness. The extent of audit scrutiny depended on the adequacy of the system of 'internal control', and its coverage, promptitude and performance. The quantum and extent of local audit was prescribed by the CAG in his Secret Memorandum of Instructions. The Accountant General advised Government in the maintenance of suitable subsidiary and proforma accounts but it was open to Government to decide on the introduction of subsidiary accounts. Normally the officer entrusted with the work devised not merely a system of accounts, but also formulated a set of standing orders to regulate the working of the concern and a schedule of the powers delegated by Government to authorities subordinate to it in connection with the control and management of the concern, and the submission to Audit for expert scrutiny of the complete system together with the account forms, the standing orders relating to the working of the concern and the schedule of the powers of officers controlling and managing the concerns. The Accountants General ensured that the system adopted conformed to the fundamental principles of accounts and audit from the ordinary and the commercial points of view. In cases where the departmental authorities failed repeatedly to present proforma accounts including stock accounts, efforts were made by the Principal Audit Officers to construct the proforma accounts in as much detail as possible and to obtain some idea about the working of the undertaking and its financial results. Serious delays in preparation of proforma accounts and important conclusions based on such records, as were made available, and such accounts as could be prepared therefrom during audit, were included in the Commercial Appendix to the Appropriation Accounts and Audit Report thereon.

The Commercial Appendix to the Appropriation Accounts (Civil) of the Central Government and the Audit Report incorporated the trading, manufacturing and profit and loss/accounts and balance sheets

of Government commercial and quasi-commercial concerns and audit comments thereon. It was a consolidation of material, as presented and commented upon by the various Principal Audit Officers, and edited by the Accountant General, Central Revenues and was in two parts, spread over 352 to 453 pages and incorporated 400 to 500 paragraphs. The Introductory part discussed the trading, manufacturing and profit and loss accounts and balance sheets, etc. prepared in accordance with the commercial accounting principles, as applied to Government concerns. Part-I contained a general review of the important points in regard to commercial concerns, including a general review of the earnings of the year under report, and a general review of the working of individual concerns dealt with in succeeding part, *i.e.*, comparative statement of profits and losses, turnover and stores transactions of 19 concerns and common comments (classified) applicable to them to be seen Section I the details of which appeared in Part-II, which carried the financial reviews of the concerns prepared by the officer-in-charge and Section II - audit comments along with audit certificate (Ministry-wise was given). The Commercial Appendix to the Appropriation Accounts (Civil) of Provincial Governments carried the final accounts and audit comments on provincial Government concerns, including departmental undertakings. These were examined by the PAC of the Central assembly/provincial legislatures, as the case may be.

PAC'S RECOMMENDATIONS

During the examination of the Accounts, the PAC raised the question of the scope of audit control to be exercised by the CAG over the accounts of the two Corporations set up by the Ministry of Finance *viz.* the Rehabilitation Finance Corporation and the Industrial Finance Corporation and concluded* that "Although the provisions made for their day-to-day audit appeared to be satisfactory, we suggest that in order to enable the CAG to bring to the notice of Parliament certain important matters relating to their working, he should be empowered to conduct a test-audit of their accounts. As regards the audit of other Corporations either financed entirely or partly by the Central Government, we share the views held by the CAG that his functions and responsibilities should be defined in explicit terms in the Statute itself providing for the setting up of a Corporation. We would also recommend that before statutory Corporations involving financial commitments by Government are created, the CAG should be consulted in regard to the provisions for accounting and audit control. In this connection, we also

* Para 8 of the PAC-1950-51 on the accounts of 1947-48 (Post partition).

attach considerable importance to the necessity of safeguarding against any whittling away of Parliamentary control by the participation of Government in Private Companies".

The CAG informed the Committee that the audit of the State undertakings, not formally constituted as Corporations, came automatically under his control. But in the case of undertakings constituted statutorily as Corporations, the audit had to be regulated under the provisions of the Company Law, unless the Act framed by Parliament in respect of a Corporation contained a specific provision to the effect that the audit of the Corporation should be carried out by the CAG. According to him the establishment of private companies involved diversion of large sums of money to be spent in a manner different from the ordinary procedure of spending public money and they did not come within the control of Parliament and he had already taken up these issues with the Government in connection with the Telephone Factory at Bangalore. He assured that necessary information in regard to this matter would be included in Audit Reports in future.

As regards the provision made in the Memorandum and Articles of Association of the Corporations financed entirely by the Central Government, as also in the case of those financed partly by the Government of India and partly by State Governments authorising the CAG to conduct their audit, the CAG stated* that he did not regard it as being in conformity with his constitutional position to be empowered to perform audit functions by virtue of the powers vested in him by the Articles of a Private Company. He pointed out, in this connection, that the present policy of Government appeared to be to establish independent corporations for the management of concerns more or less on business lines untrammelled by day-to-day Government interference and routine. It would be more appropriate, if such corporations were set up under statutes of Parliament, rather than under the executive action of Government, and the extent to which he should be made responsible for this audit, should be defined in such statutes. The Committee shared the views held by the CAG, and recommended that his functions and responsibilities should be defined in specific terms in the statute itself providing for the setting up of a Corporation. As regards the audit of the Reserve Bank, he informed the Committee that it would be a colossal business, and he had not got the requisite machinery to undertake this job at present. It would be worthwhile to know as to what extent the

§ Para 76 of PAC 1950-51 on the accounts of 1947-48 (Post Partition).
Proceedings of the seventh meeting held on 17th January 1951.

* Para 102 of the Report of the PAC 1950-51 on the accounts of 1947-48 (post partition) Proceedings of the tenth meeting held on 19th January, 1951.

CAG in the United Kingdom audited the accounts of the Bank of England.

The CAG brought to the notice of the Committee that the state of accounting and auditing arrangements, as revealed in the Report under consideration - Report on Accounts of 1947-48 (post-partition) - and as also found by him from the report of one of his officers, whom he had deputed to take up examination of the accounts of the various multipurpose projects and State Trading Corporations, was far from satisfactory and some measures should be adopted to tighten up the audit control over the spending of money by these autonomous bodies or the Government Departments managing and executing the projects. The Central Tractor Organisation was cited as an instance in this connection. He suggested that to remedy this state of affairs, an enabling measure should be enacted by Parliament, whereby it should be laid down that the power of audit control of all Corporations set up by Government or undertakings financed by Government should vest in the CAG. In the latter case, the investment of money by Government should be made subject to the express provision that the accounts were audited by the CAG.

GOVERNMENT IN INDUSTRY & COMMERCE

At the time of independence, Government concerns were few and mostly managed by the departments concerned. The Posts and Telegraphs Department, the Government Railways and the Ordnance Factories under the Ministry of Defence, were the most important commercial undertakings of the Government of India. There were a number of Central and State Government concerns like All India Radio, Light Houses and Light Ships, Government presses, Opium factories, etc. that were run largely on the same lines as other Departments of Government and were subject to the same service rules and procedural regulations. Profit making was not their primary object and some of them were deliberately run on a no-profit and no-loss basis *e.g.* State Trading Schemes in food grains and essential commodities. In all there were 25* undertakings of commercial or quasi-commercial character managed by the various departments of Government of India and undertakings run by the Provincial Governments.

In the post-independence period, the character and function of the Government underwent radical changes. Consequent on adoption of a socialistic pattern of society as the object of social and economic policy of Government, it became essential to accelerate the rate of economic

* Commercial Appendix to the Appropriation Accounts (Civil) 1945-46.

growth and to speed up industrialisation and, in particular, to develop heavy industries, to expand the public sector and to build up a large and growing cooperative sector. Because of the need to reduce disparities in income and wealth and to prevent private monopolies and the concentration of economic power in different fields in the hands of small number of individuals, the State assumed a predominant role in development of State undertakings, developing transport facilities and undertaking State trading on an increasing scale. The need for planned and rapid development required that all industries of basic utility services and other industries, which were essential and required investment on a scale, which, only the State could provide, were earmarked for public sector. On broad considerations of national interest, certain industries e.g. manufacture of arms and ammunitions, production and control of atomic energy and the ownership and management of Railways and air transport were made the exclusive monopoly of the Government of India. Certain basic industries were earmarked for the Union and State Governments for setting up the establishment of new undertakings except where, in the national interest, the State found it necessary to secure the co-operation of private enterprises, in which case the State was to ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertakings. They were, iron and steel, heavy castings and forgings for iron and steel, heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries, as may be prescribed by the Central Government, heavy electrical plant including large hydraulic and steam turbines, coal and lignite, mineral oils, mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond, mining and processing of copper, lead, zinc, tin, molybdenum and wolfram, minerals specified in the schedule to the Atomic Energy (Control of Production and Use) Order, 1953, aircraft, ship building, telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets) and generation and distribution of electricity.

With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumed considerable importance. The *sine qua non* for success of the enterprises was speedy decisions and willingness to assume responsibility, which necessitated decentralisation of authority and autonomy in management on business lines. The departmental management was considered to be neither adequate to cope with the increasing responsibility nor flexible to take quick decisions,

except in case of those concerns which catered to purely departmental needs and new forms of suitable organisations were developed. A number of autonomous statutory Corporations were formed by Act of Parliament e.g. the Damodar Valley Corporation (1948), the Rehabilitation Finance Corporation (1948), the Industrial Finance Corporation (1948), the Indian Airlines Corporation and the Air India International (1953). The passing of the Electricity (Supply) Act of 1948 enabled the formation of autonomous Electricity Boards in each State and the Road Transport Corporations Act of 1950 and the State Financial Corporations Act of 1951 similarly enabled State Governments to form Road Transport and State Financial Corporations respectively. These Companies/Corporations and other forms of organisations were entrusted with greater delegation of power and authority and exercised larger autonomy in day to day management which was run on business principles and not on the lines of Government departments.

REVIVAL OF COMMERCIAL AUDIT

As the offices of Accountants General were ill equipped to deal with the special problems of commercial and business accounts and audit, despite the statutory responsibility for auditing and certifying the accounts, Shri V. Narahari Rao revived commercial audit in 1951 by inducting a Controller of Commercial Audit in his Office ostensibly to establish commercial audit wings in the offices of Accountants General with reference to the requirements of each region. While reviewing commercial audit, he declared that the prevailing deficiencies were not proposed to be removed by copying too closely the organisation, which existed in the past on a centralised basis for all India and the responsibility of the Principal Civil and P&T Auditors for auditing and bringing on their books the accounts of Government Commercial enterprises was to be continued, even after the formation of CCA's unit in Head quarter's Office. As they did not have a regularly organised and trained staff, they were dependent on makeshift arrangements and since it became imperative to build up, in each civil audit and accounts office, a suitable and adequate Commercial Audit Wing, the CCA's organisation was to provide the special assistance required for organising such a wing. He envisaged centralisation from headquarters only to the extent necessary for general control of policy, establishing standards and for organisational purposes. He drew attention of all Accountants General, Comptrollers, Director of Audit, Defence Services and Director of Railway Audit and offices subordinate to them to the increasing expenditure on industrial enterprises and state trading either wholly owned by them or in partnership with private parties, by the Government

of India as well as the State Governments on complex activities like securing adequate supply of food and other essentials of life to the people, the concomitant measures of state trading, and variety of industrial and public utility concerns, which had resulted in Government bearing large scale financial responsibilities of a kind and magnitude unknown in the past, and to the need for efficient management control, for which it was a *sine qua non* that each enterprise should maintain a proper system of accounts and establish adequate internal checks in the accounting machinery including up-to-date costing arrangements, where necessary. While each undertaking had its own special accounting problems, an effective and efficient audit of these concerns required specialised knowledge. A Commercial Audit Wing in each Civil and P&T office under the charge of a selected officer and adequate staff with due regard to the requirements of each State was set up. Each Accountant General was required to take stock of the commercially qualified audit staff available under him for providing at least a foundation and explore the possibility of selecting some of the staff engaged on local audit/inspection. Recruitment of commercially qualified persons, such as M.Com., B.Com. and G.D.A., for raising the specialised branch to full standard was proposed to be initiated. The proposed organisation was to be worked out in consultation with the Controller of Commercial Audit and finally approved by the CAG. Accountant General was required to prepare an up-to-date list in consultation with the administrative authorities, of all industrial and commercial concerns. A separate Manual describing its objects, organisational set up and the financial and accounting arrangements in each of these undertakings was to be got prepared by the Government/Administration of each of the undertakings in collaboration with the Audit Department. Separate Audit Manuals for such undertakings were to be prepared for one or more undertakings, to be treated as confidential for the guidance of auditors. The Commercial SAS examination was revived and was thrown open to the staff in all the offices in March 1953. During the next few years three types of Government undertakings emerged, viz., Departmental undertakings (both Commercial and quasi-commercial), statutory corporations and Government companies, with varying degrees of autonomy and accountability. The procedure and pattern of commercial audit suited for audit of different types of public sector undertakings was also developed. Sanctioned strength of the commercial audit wing was 581 - 6 IAAS officers, 37 AAOs, 134 SAS accountants, 404 UDCs distributed over the offices of CCA, Accountants General, Central Revenues, FR & S and CA, DVC and SF and the Accountants General in 18 States (10 Part A States, 7 Part B States and 1 Part C State).

By the end of 1954, there were 759 Commercial Undertakings - 259 Commercial concerns declared as commercial (12 Central and 247 State), 467 Commercial concerns not declared as commercial (13 Central and 454 State of which 212 were in Bombay State), 15 Statutory Corporations - 8 fully owned and 7 partly owned (6 Central and 9 State) and 18 limited companies sponsored by Central Government (12 fully owned and 6 partly owned).

NEW COMPANIES

The Government of India decided to organise industrial undertakings as private limited companies, to be managed by Boards of Directors constituted by Government under the Indian Companies Act, or by duly constituted statutory corporations, or by Boards of Management working directly under the Ministry or Department concerned, the particular form of organisation depending upon the nature of the undertaking, as well as the manner in which the concern was financed. The Fertilizer Factory at Sindri was one of the earliest companies to be set up. The CAG pointed out to the Government of India that 'Industries' being a State subject, vide entry 24 of List II subject to entry 52 of List I of the Seventh Schedule of the Constitution, except in the case of an industry, which was an ancillary to any of the entries in the Union List (e.g. manufacture of arms, ammunition, etc., which may be treated as ancillary to entries 1 and 2, locomotives, etc., as ancillary to entry 22 and so on), special legislation of Parliament was necessary under entry 7 or 52 of List I, Seventh Schedule, before the Union Government undertook, participated in, or controlled an industry. While entry 7 of the Union List could not be considered as necessitating Parliamentary legislation before the Union Government could undertake the production of armaments, etc., which were directly connected with entries 1 and 2, it enabled the Union Government, under a Union law, to establish or regulate any industry necessary for defence or war purposes, which was not covered directly by entry 1 or 2. The general position was very similar even under the Government of India Act, 1935. Such a conclusion held good to whatever form of organisation Government decided to set up, or participate in any industry, i.e., whether the undertaking was managed purely as a Government concern, or was organised as a Company. The Industries (Development & Regulation) Act, 1951 had not conferred upon Government absolute powers in respect of fertilisers and other industries mentioned in the First Schedule of that Act, but had clearly defined the scope of the various acts which could be done, vide Section 6(4), and the Second Schedule of the Industries (Development and Regulation) Act, 1951. In terms of the Act, the production of fertilisers by Government

and the setting up of a factory did not fall within the scope of the powers of the Government of India, and the withdrawal of moneys from the Consolidated Fund for the purpose was not constitutional, and this difficulty needed to be removed at the earliest opportunity by further legislation. The Sindri Fertiliser Project, which was connected with the development of agriculture required both before and after the commencement of the present Constitution, a law of the Central Legislature or the Union Parliament to give a legal entity. The formation of private companies under the Indian Companies Act for the management of Governmental industrial undertakings financed from the Consolidated Fund whittled away Parliamentary control over public money. Private companies would not be subject to the same degree of Parliamentary control, even though they were financed by Government out of funds released from the Consolidated Fund and not by private share capital. The CAG would not have any automatic right to audit such a company, and it would be scarcely in accordance with the Constitution, that large sums of public money should be taken out of Parliamentary control, a substantial part of which was exercised on its behalf by the CAG. Any request of the company to the CAG to be the Auditor, if necessary, by incorporating suitable provisions in its Articles of Association would be neither proper nor binding as the CAG's duties and functions were prescribed by Parliament, and cannot be regulated by the Articles of Association of a company. Furthermore, even if he undertook audit on a consent basis, on payment of fees, he can only submit his Audit Report to the company, and not to Parliament through the President. Parliament cannot watch through the PAC the regularity of the operations and the financial results of any such company. These observations applied equally to concerns of the nature of private companies in which Government took substantial share capital or guaranteed them against losses. Conversion of the Sindri factory into a private company in the manner proposed was not, therefore, considered to be constitutionally proper without specific Parliamentary legislation.

The PAC of the Union Parliament had also expressed definite views in this matter*. Both in the USA and in the UK the constitution of private companies utilising Government moneys, as has been done in the case of the Hindustan Aircraft Factory or the Sindri Fertiliser Factory, was not permissible. Indeed, this was expressly prohibited in the USA unless the Congress specifically legislated.

* Paragraphs 8, 76 and 104 of the Report 1950-51 on the accounts of 1947-48 (post partition).

These objections applied equally to other companies that had been set up, namely the Hindustan Aircraft. The Comptroller and Auditor General felt, that while it may be necessary to see that funds so diverted in the past in ignorance or oversight of the legal and constitutional position were utilised properly, and to the best advantage of the State, and that the industries should continue pending consideration of the position by Parliament, this should not form a precedent for further similar diversions without proper authority. Insofar as the Sindri Fertiliser Factory was concerned, Indian revenues had already been expended unconstitutionally on the project which should not be further worsened by the formation of a Private Limited company at this stage. The Attorney General of India was, however of the opinion that the provisions of Company law were not infringed by the Constitution of these companies.

INTERIM ARRANGEMENTS

While the Ministry of Works, Industries and Supply were examining the views of CAG and Attorney General for considering suitable legislation in order to regularise the past legislation for removing the difficulty in the Industries (Regulation and Development) Act, 1951, and since the establishment of certain undertakings as private or statutory corporations would take some time in view of the elections and the formation of a new Parliament, practical considerations had made it extremely urgent for Government to go ahead with the conversion of the Sindri undertaking into a private company though financed by Government as otherwise production and distribution would suffer greatly. The Ministry enquired of the CAG as to whether he would be prepared to acquiesce in this and continue the audit of the factory as a private company, as its formation could not be delayed. The CAG did not feel that the company had any authority to ask him to audit its accounts, and his objections to the whittling away of Parliamentary control would remain. Still, taking a wider view of his own responsibilities under the Constitution, he felt that where there had been an unconstitutional diversion of money from the Consolidated Fund, he might be within his rights in continuing to demand the right to audit the Sindri accounts even after its formation into a private limited company, whether the diverted funds were administered by a department of Government or by a so called private limited company or any other means, but he could not acquiesce in his jurisdiction being ousted in the matter of audit by such unconstitutional acts. The Ministry felt that even on this basis, the Government's purposes would be served admirably, as they would welcome the continuance of audit by the CAG of Sindri factory after its conversion

into a company, since it provided a temporary solution to one of the objections to the formation of the private company at once. Government would ensure that the CAG was fully enabled to audit the accounts of the Company and, in fact, they would even, in the matter of appointment of an Auditor under the Company Law, act on his advice. Further, Government also sought his advice in the matter of the accounting procedure etc., to be internally prescribed and followed by the Controller of Accounts for the Sindri Factory, who will act as the Internal Auditor and Accountant.

While the CAG did not consider the investment in Sindri constitutional and felt further legislation was necessary, and stuck to his view that the formation of a Private Company Limited without a specific statute authorising it was contrary to the Constitution, he agreed to conduct the audit of the accounts of the factory on the consideration that by an improper diversion of funds it should not escape his audit scrutiny. On the analogy of Article 108 of the Articles of Association in Sindri Fertilisers and Chemicals Ltd., provisions were made in Article 112 of Bharat Electronics Ltd., Article 108 of the Hindustan Machine Tools and Article 108 of Hindustan Insecticides Ltd., empowering the CAG to conduct the audit of respective undertakings. Shri S. Ranganathan, who was at that time in the Ministry of Industry and Supply, played a dominant role in reaching this interim solution. Later, when he became the CAG, the Commercial audit was completely overhauled by him.

FRAUD ON STATUTE

Shri V. Narahari Rao informed the Public Accounts Committee in December 1952 that the formation of private companies under the Indian Companies Act for the management of government industrial undertakings from the Consolidated Fund were, in his opinion, a fraud on the Companies Act and also on the Constitution, because money cannot be taken away from the Consolidated Fund for the establishment and transformation of certain concerns into private companies in the name of the President and Secretary to the Government. Conversion of a government concern into a private company solely by executive action was unconstitutional. While recognising that the management of industrial and business concerns differed from the normal day-to-day duties of administration, and that special organisation and delegation of authority, more in accordance with speedier business practices, was necessary, the Government should have the backing of suitable Parliamentary enactment for the setting up of Corporations. Another important point involved in the procedure of creating a private company under the Companies Act was that they were subject to audit by auditors nominated by the Board of Directors, and the CAG would not, therefore,

have any automatic right to audit such a company, which can request him to be the auditor, if necessary, by incorporating suitable provisions in its Articles of Association, but this would be neither proper nor binding, as the Comptroller and Auditor General's duties and functions were prescribed by Parliament and cannot be regulated by the Articles of Association of a company. Even if he undertook audit on a consent basis on payment of fees, he can only submit his audit reports to the company and not to the Parliament through the President. The Parliament cannot watch through the Public Accounts Committee the regularity of the operations and the financial results of such company. The PAC supported* him strongly by recommending that the CAG should have the unquestioned right to audit the expenditure of these concerns, by whatever name they may be called, because they were financed from the Consolidated Fund of India.

AUDIT OF FINANCIAL CORPORATIONS

The State Financial Corporation Bill, 1950 intended to provide for the establishment of financial corporations in States, introduced in Parliament in November 1950 was referred to the Select Committee, which wanted the Finance Ministry to ascertain the views of the Auditor General, as to whether the bill itself should provide for a test audit of the accounts of State financial corporations by the CAG, in view of the recommendations contained in para 8 of the Report of the Public Accounts Committee, 1950-51. While seeking the views of the CAG, the Finance Ministry suggested that it was not necessary to make a mandatory provision in the bill making it compulsory for the CAG to undertake the audit and it would be sufficient if the provision was made in the bill similar to that contained in Section 51 of the Reserve Bank of India Act by which the State Government could be empowered at any time to appoint the CAG to examine and report upon the accounts of the State Financial Corporation. Shri Narahari Rao felt that it was wrong to leave to the pleasure of a State Government the audit of these corporations which involve considerable liabilities and obligations of the State. The CAG should be empowered at his own discretion to undertake audit of these corporations. It was impracticable and quite unnecessary to do away with private audit but certain safeguards were necessary. He suggested various amendments on the proposed Act to the Finance Ministry as under :

"Having regard to the fact that considerable investments of Government money are involved and the Bill also contemplates the

* Third Report (1952-53) First Lok Sabha.

imposition on the State of further obligations in respect of repayment of the principal and dividend, I am of the opinion that the audit of these Corporations by the CAG should not be a matter left wholly to the discretion of any State Government. The establishment of this and various other State Corporations in this country, will result in the acceptance of new types of obligations and responsibilities by the State and the diversion of considerable sums of money from the Exchequer to be spent or utilised in a manner different from what we are accustomed in this country. Parliamentary control which is normally exercised through the government machinery, as in the case of ordinary government expenditure will also necessarily be considerably restricted in the case of such Corporations. Parliament would, therefore, be well-advised to provide for efficient and independent audit. The audit of day to day government transactions is not dependent on delegation by Government, but is the sole responsibility of the CAG, which may, at times, have to be discharged even against the wishes of the Government. In the light of all that I have said above, it would be more consistent with sound democratic practice that it should be left to the judgment of the CAG to determine the extent and frequency of the audit to be conducted by him in respect of the proposed Financial Corporation in question, than to leave it to Government to invoke him. Indeed the need for this becomes all the greater in the circumstances stated by me. The manner in which the administration of finances by some of the State Governments now being conducted is, in my opinion an additional reason for being cautious, quite apart from the intrinsic necessity and wisdom of making the provision. I think, therefore that a model of the provision contained in the Reserve Bank of India Act would not do in future in such cases.

At the same time, I do not consider it either necessary or practicable for the CAG to accept the entire responsibility for the audit of such Corporations. I have not got the necessary machinery at my disposal and I see no reason why qualified private Auditors should not be utilised, subject to the safeguards which are already provided for in the Bill, and subject also to the additional safeguard of periodical audit by the CAG at his discretion, provision for consultation with him in respect of certain matters, and the submission to him of the private Auditor's report etc.

In the light of what I have said above, I enclose a statement suggesting certain amendments to the Bill before the Select Committee. I have also indicated in the Statement the reasons for the suggested amendments".

The suggestions were accepted by the Government of India and the State Financial Corporations Act, 1951, LXIII of 1951 *inter alia* made provisions for audit, vide Section 37 of the Act, for audit of the affairs of the State Corporations by not less than two auditors, duly qualified to act

as auditors of companies, one of whom was to be appointed by the State Government, in consultation with the CAG, and the other elected in the prescribed manner; the scope of issue, at any time, of directions by the State Government, in consultation with the CAG to the auditors on matters, was prescribed in detail in the Section of the Act itself; submission to the CAG, a copy of the auditors' report every year, at least one month before it was placed before the shareholders was required; provision for the CAG, either at his own discretion or on a request received in this behalf from a State Government to undertake such audit and at such times, as may be considered necessary, was included; and the submission of the Audit Report of the CAG by the State Government to the Legislature of the State was provided. While the CAG greatly appreciated the action of the Government of India for making necessary provisions passed in pursuance of his advice, he suggested to the Secretary to the Government of India, Ministry of Finance, Economic Affairs Department that in connection with the establishment, in the Union, of any form of State Corporation, a provision should be made for audit on lines similar to those provided in the State Financial Corporations Act. The communication was endorsed to the Finance Secretaries, of all State Governments, Accountants General and Comptrollers of Part A and Part B States, Accountant General, Central Revenues, and Comptroller, Vindhya Pradesh for necessary action. Notwithstanding the statutory mandate for audit given to the CAG, hurdles were placed by few State Governments in processing the audit reports on State Financial Corporations.

HURDLES IN REPORTING

The West Bengal Government objected to inclusion of the draft paras on the accounts of the West Bengal Financial Corporation in the Audit Report on the Appropriation Accounts of the Government of West Bengal for 1954-55 on the basis of a ruling from the Superintendent and Legal Remembrancer to the State Government obtained under the orders of the Chief Minister of the State, Dr. B.C. Roy that the State Financial Corporations Act did not require that the Audit Report relating to it should be included in the Appropriation and Finance Accounts of the State Government. Section 37(6) and (7) provided for audit and submission of an audit report to the State Government to be placed before the Legislature. The Report on the accounts of the State Government was required to be submitted by the CAG under Article 151 of the Constitution. The draft para in such cases was not to be included in the Appropriation Accounts of the State but was to be presented separately through a Report to the State Government. The Government

was agreeable to make an exception of the draft para already included in the Appropriation Accounts for the year 1954-55. The CAG advised the AG, West Bengal to inform the State Government that the practice of forwarding audit report to the Government of West Bengal along with the Audit Report on the Appropriation Accounts of the West Bengal Government, which had, in turn, been laying it before the State Legislature, involved no departure of substance from the provisions of the State Financial Corporations Act vide Section 37(6) of the State Financial Corporations Act (Central Act LXIII of 1951). The present practice was uniformly followed in regard to the audit reports on the State Financial Corporations of all those States, which had established them under the Act of Parliament. Even in regard to the Industrial Financial Corporation, which was regulated by similar Central Act with similar provisions, the audit report of the Corporation was included in the Civil Audit Report on the Appropriation Accounts of the Union Government. A multiplicity of reports of the CAG on several undertakings of each State was not convenient or desirable from the point of view of record or documentation and it would facilitate the work of the PAC if all the audit comments requiring its consideration were brought together in CAG's Report. A similar question arose in connection with the Auditor General's responsibilities in relation to the audit of Government companies and it was agreed in discussion with the Finance Ministry that the audit comments on these accounts should form part of CAG's annual Audit Report on the accounts of Union or State as the case may be.

The Kerala Government objected to inclusion of the results of the audit of the accounts of State Financial Corporation conducted with reference to Section 37(6) of the State Financial Corporation Act, 1951 in 'Other Topics of Interest' in the Audit Report on the Appropriation Accounts of the State Government for 1955-56 - after lapse of 15 months - after the draft para for 1955-56 Report was sent, although similar paras for 1953-54 Reports were not objected to on the ground that the audit report on the accounts of the State Financial Corporations should be forwarded separately to the Government, which would be laid before the Legislature. Neither the Public Accounts Committee nor the Government had raised any objection, while examining the Audit Report on the Appropriation Accounts of 1953-54 and 1954-55. Comptroller, Kerala was advised to take up the matter with the Kerala Government on the lines on which the West Bengal Government was told earlier, but the Kerala Government took up the issue with the Government of India, Ministry of Finance. The Special Secretary, Ministry of Finance found some merit on the stand taken by the Kerala Government and practical advantages in keeping the audit reports of Government Companies and

other statutory Corporations outside the Audit Report on Government Accounts. While it could be held that these reports did not strictly relate to the accounts of the Union or the State within the meaning of Article 151(2) of the Constitution, it might be misleading to include in the Audit Report, irregularities committed within the statutory corporations and companies, as this might create a misleading impression that the irregularities were committed by the Government concerned. The procedure in regard to the laying down of these audit reports was not uniform between the various corporations. He, therefore, suggested that CAG might reconsider the present practice of including audit comments on autonomous corporations, Government companies, etc. in the report made by him in accordance with the provisions of Article 149 of the Constitution. The then CAG held that there was nothing under Section 37(7) of the State Financial Corporations Act, 1951 which militated against the present practice of the AG sending a separate report to the Corporation on the audit conducted on behalf of the CAG and including in the conventional Audit Report all important criticisms arising out of the supplementary or special audit conducted by him on behalf of the CAG. The present practice was not based on mere convention but on the discretion vested in the CAG in choosing the form and venue for publishing his views on the financial health of these institutions. While separate audit reports were sent for the information of the Corporations, important comments were included in the conventional Audit Reports, so as to serve the intended purposes. In essence, the provisions in the State Financial Corporation Act and in the Constitution were strictly comparable, and the Public Accounts Committee and the Legislature dealt with the audit report on the corporations accounts in the same manner, as the Reports of the Government's own accounts. No misleading impression was created as it was feasible to distinguish in these comments between the responsibility of Government and that of the corporation and the audit comments were usually so worded as not to blur these distinctions. The inclusion of the comments in the conventional Audit Reports helped to emphasise the fact that the ultimate responsibility for the safety and good conduct of these institutions rested solely on Government's shoulders. The distinction sought to be drawn between the State Finance Corporations and Industrial Finance Corporations was more accidental than substantial. The Special Secretary's attention was also drawn to the decision taken earlier regarding the presentation of Reports on Government Companies which applied to State owned or State aided Corporations also. The Special Secretary agreed and Kerala Government was informed not to press for a change in the procedure adopted by the CAG.

The Government of Andhra Pradesh contended in May 1959 that there was no provision in the Companies Act, 1956 empowering the CAG to include the results of supplementary audit, conducted with reference to Section 619(3)(b) of the Act in the conventional Audit Reports and objected to the inclusion of certain paras on Nizam Sugar Factory Limited, in the Audit Report of Andhra Pradesh Government for 1959. Their attention was drawn (27th December, 1956) to the decision conveyed by the Government of India, Ministry of Commerce and Industries to the Lok Sabha Secretariat, which made a distinction between the CAG's comments on the company auditor's report under Section 619(4) of the Companies Act 1956 and his observations on the discretionary test audit under Section 619(3)(b) of the Act. The former were to be dealt with under 619(5) and 639 of the Act, while the latter were to be brought to the notice of Parliament/State Legislature through the conventional Audit Report and, therefore, the inclusion of the paras relating to Nizam Sugar Factory by the AG, Andhra Pradesh in his conventional Audit Report was in order.

STATUTORY CORPORATIONS

Provisions for audit of statutory corporations were made in the specific acts governing such corporations. The Air Corporations Act, 1953 specifically provided for the audit of Air India and Indian Airlines Corporation by the CAG. The Statutory Corporations set up by the State Governments under the respective acts, namely, the State Financial Corporations Act, 1951, the Electricity Supply Act, 1948, Road Transport Corporation Act, 1950 provided for audit by CAG of these corporations in the States concerned. The local audit of statutory corporations set up by the Governments of West Bengal, Mysore, Maharashtra and Gujarat were audited by the regional office of the Director of Commercial Audit. In other States, the commercial audit wing of the respective Accountants General continued the audit of the corporations set up in the States. The relevant Act empowered the State Governments to frame rules under them, which were placed before both the Houses of Parliament or the State Legislatures, as the case may be. Government's power to frame rules was not restricted to any particular matter but normally covered only important matters, like preparation of annual budget estimates and their submission to Government, submission of periodical reports and statistics to Government, establishment of rate/price committees or Advisory Councils to watch consumers' interests, labour relations, terms and conditions of service of the general managers and a few other top posts and maintenance of various reserve funds, etc. The Acts also empowered the Government to give directions to the managements in the discharge of their functions. The corporations were empowered to

make their own regulations with the prior approval of Government by notification in the Gazette. These regulations broadly covered such matters as allotment of shares and conditions for their transfer, service conditions of employees, authentication of orders and decisions of the corporations and the instruments executed by it, delegation of powers and general conduct of all its functions. All corporations were required to submit to Government annually their accounts as certified by the CAG or any other person authorised by him. These reports were laid by the Government before both Houses of Parliament and also State Legislatures. The form of accounts including the profit and loss account and balance sheet was prescribed by the Central Government in consultation with the CAG under the relevant Act. Government also prescribed other returns and statements to be furnished by the corporations as considered necessary by them to discharge their overall control on the corporations. The Director of Commercial Audit became the Principal Audit Officer for Indian Airlines Corporation, Air India and Oil and Natural Gas Commission. The State Financial Corporations Act and later the Warehousing Corporations Act provided for the audit of the accounts by not less than two qualified professional auditors, one elected by the shareholders and the other nominated by the Central Government in consultation with the CAG. The CAG was left with discretion to audit the Warehousing Corporations or the State Financial Corporations. In the case of State Financial Corporations such audit was obligatory where Government had to make any payment on account of guarantees given by it on the shares or bonds issued or loans taken by them. The form for Audit Reports on the accounts of the State Financial Corporations was laid down by the CAG from 1966-67 onwards. The statutory Acts conferred on the CAG or his representative the same rights, privileges and authority in connection with the audit of Government accounts and, in particular, the right to demand the production of books of accounts, connected vouchers and other documents or papers and to inspect any office of the corporation. Where the CAG was the sole auditor, the entire area of corporation's operation was subjected to audit by him. The accounts certified by the CAG along with the Audit Reports were forwarded annually to the Central Government for being laid before each House of Parliament.

NEW APPROACH

Shri A.K. Chanda, did not fully share the views of his predecessor regarding the legality of the company form of management and preferred to accept the opinion of the Attorney General, who held it intravires of the provisions of Company Law. At the time of making

initial allocations for the share capital of these enterprises, the members of Parliament did get an opportunity for discussing the investment. The annual reports of these enterprises placed before Parliament, alongwith company audit report, and Report of CAG made out in accordance with the provisions of Articles of Association of the enterprise - provided adequate means to ensure Parliamentary control over these undertakings. However, he suggested during a meeting with the Secretaries, Ministry of Finance (EA) and (R&E) on 27th July, 1955 that in view of the past recommendations of the PAC, it was desirable to obtain the backing of suitable Parliamentary enactment for the adoption of the company form of management, either by incorporating a suitable clause in the draft chapter in the proposed Company Law Amendment Bill or alternatively, enacting a separate Act for Government Companies. According to him, the definition of Government Company should be broadbased to include all financial interests of the Government, including loans and the system should provide flexibility to the CAG in placing the reports before the Parliament but he should ordinarily report the results of his audit to Government, which may bring them to the notice of the Board of Directors and should have discretion to comment on serious irregularities, etc. in his conventional Audit Report. To a suggestion made by the Secretary to Government that instead of amending the Reserve Bank Act so as to bring the Bank under the audit purview of the IAAD, the Bank should allow informal access from time to time to the CAG to the accounts of the Bank so that he might satisfy himself that the audit applied to it was sufficient, suggest improvements, if any, and advise the Government and the Bank in regard to any matters, which he felt in the public interest required their attention, the CAG was prepared to give this a trial. The Finance Minister's agreement to incorporate provisions relating to audit and Audit Reports in the Amendment Bill was conveyed by the Secretary, Ministry of Finance (Department of Company Law Administration) to the CAG. The issue was raised in the Lok Sabha on 10th/11th December, 1953, when the Finance Minister indicated Government's intention to bring before Parliament proposals for legislation which would cover industrial undertakings of Government and also to provide for making audit of the CAG compulsory and presentation of reports to Parliament in the usual way for scrutiny by the PAC.

COMMITTEE'S RECOMMENDATIONS

The Estimate Committee recommended* that it would be in line with

* Para 16, 17 and 18 of the Ninth Report (1953-54) laid on the table of Parliament on 30th September, 1954.

the spirit of the Constitution and sound financial propriety, if Commercial Auditors were appointed by the CAG to audit State Undertakings and the Audit Report was submitted by them to the CAG who should cause the Audit Report to be laid before Parliament along with the Balance Sheet and Profit and Loss Accounts of the Undertakings. The Committee drew attention of the Government to the views of the CAG which were incorporated in the Third Report of the Public Accounts Committee, and suggested that early steps should be taken to lay down a clear procedure in regard to the canalising of monies through the Consolidated Fund. It should be the duty of the CAG to see that every Public Undertaking maintained accounts in the prescribed manner and he should draw pointed attention to any defects in procedure and also make a report on the appraisal of the work done by the Undertaking on the basis of the conclusion drawn from the Accounts and Audit Report. Such reports of the CAG should be presented to Parliament and the Government promptly so that the progress of the Undertakings might be taken stock of in proper time and appropriate action taken to set right any defects. He should among other things suggest the directions in which improvements be necessary or desirable in order that maximum benefit accrues from the operation of the Undertakings.

The Government replied that provision existed for independent audit by or on behalf of the CAG. Even appointments of Commercial Auditors were made by Government after prior consultation with the CAG to give directions to the Auditors, to conduct a supplementary or test audit, to receive a copy of the Auditor's Report, to comment or supplement such Audit Report and for the laying of such comments before the annual general meeting and for laying the accounts and reports before Parliament. The provision of capital initially and later additions and payments of subsidies were in fact canalised through the Consolidated Fund and any further venture beyond this, would militate against the autonomy of the Undertaking recommended by the Committee. The vote of Parliament on the initial or additional investment and the discussions on the annual report on the working of the Underakings and on the reports of the CAG furnished adequate and appropriate occasion for Parliamentary review. The CAG was usually consulted about the form in which the accounts should be kept. Whether each Undertaking should pay interest on capital outlay, Income tax and a percentage of profit must depend on the nature of the Undertaking, quantum of profits, and the arrangements between government and the Undertaking. The comments and suggestion of the CAG would be part of the report mentioned earlier. Action taken note of Government on

PAC's recommendations indicated that necessary provision for audit would be made in the Company Law Amendment Bill.

NEW POLICY

The new policy in regard to audit of State undertakings and other organisations, where Government had substantial financial stake, was enunciated by the new CAG in November 1954. The past practice of performing audit functions, conducting comprehensive review, which covered the fields already audited by the company auditors', and often prevented him from taking up audit of new institutions was modified. Where company auditors functioned, there was no necessity, except in special circumstances, for the CAG's organisation to re-do the whole or a part of the work done by them, despite the limitations, under which the commercial auditors functioned and the non-comparability of the functions performed by Chartered Accountants and Government auditors. Government audit was to be directed towards review of the decisions taken by the Board of Directors to ascertain as to what extent their powers had been exercised in the best interest of the undertakings and in accordance with the accepted principles of financial propriety and the exercise of delegated powers by the Chief Executives to ensure that they were exercised properly, the examination of accounting systems and procedures, including cost accounts, for ascertaining whether the unit was administered efficiently and economically. In sum, Government audit was to be re-oriented to perform an efficiency-cum-propriety audit, which would facilitate taking up audit of existing institutions and such others as may be established in future. At the same time, the need to introduce the U.K. system was suggested in regard to the relationship between the Chief Accounting Officers and the Ministries, where the Chief Accounting Officer (the Secretary of the Ministry) if overruled in a matter having financial implications, was required to reduce it in writing and endorse the disagreement to the Finance Ministry and the CAG of India also so as to permit reporting any disagreement between the FA & CAOs and the executive authorities of the enterprises, *intra* departmental organisations to the Finance Ministry and the CAG. He summed up the policy in a speech delivered on the 15th January, 1955, that on an objective analysis, there was need for re-orientation of audit, since in the past, the Audit and Administration had functioned in water-tight compartments and there was little inclination to get together to understand each others' point of view and to clarify issues and take remedial measures, which compelled Audit to incorporate in its Report many matters susceptible of satisfactory explanation and consequential settlement. The impression left was that the purpose of audit was to

show up the administration. Objections were raised, technical in character, even in respect of schemes and projects, which were executed with competence and experience ignoring the more important aspect like the purpose of a plant or project and the manner in which it was implemented. If the rules and regulations framed under different sets of circumstances long ago for the then set purpose were found unsuitable to the prevailing situations, suggestions were to be made for their modifications, rather than directing criticism against deviations from them. Since Audit received massive support from Parliament/State Legislatures, the press and the Public it was imperative that Audit should be circumspect in the presentation of its conclusions, more particularly those that implied moral turpitude. Differences of opinion in regard to the implementation of a scheme, errors of judgment, negligence and dishonesty were not to be given the same treatment. It took some time for the new vigour and thrust sought to be given by him to fully permeate down the line, on account of the rigidity and assertiveness exhibited by an Administration that gave greater emphasis to execution at any cost on the one hand and on the other, an equally unrelenting attitude for independence of Audit weighed by the hoary tradition of regularity and accountancy audit. However, unexpected and unfair criticism of government audit in companies, inadequate defence by the establishment despite support from Members of Parliament, particularly Members of Financial Committees, and lack of response from Government and Departments to his innovative moves compelled him to modify his views by the end of his tenure.

The Estimate Committee recommended* that each State undertaking should publish a detailed annual report giving a record of its activity during the past year, the progress made during the year, comparative statistics of previous years relating to expenditure, production etc., the balance sheet and profit and loss accounts, administrative changes and matters relating to the staff and their amenities, outstanding events and any other matters of importance that happened during the year and finally an indication of the work during the following year and should be presented to Parliament every year, before the budget of the Ministry concerned was taken up for consideration.

THE INDIAN COMPANIES ACT, 1956

While introducing the motion for referring the Companies Bill to the Joint Committee, the Finance Minister mentioned about the discussions between his Ministry and the CAG in regard to audit of Government

* Para 30 of the 16th Report (1954-55) of the Estimate Committee.

Companies and proposed at the appropriate stage to move some amendments to the existing provisions of the Bill relating to the Government companies in order to ensure more effective control over the audit of such companies by the CAG and to make available the results of such audit to Parliament. During discussion, several members of Parliament pointed out the omission to incorporate provisions requiring the Government to place the accounts and audit report of Government companies before the Parliament or the State Legislatures, contrary to the declaration made by Government from time to time in the Parliament and the assurance given by the Finance Minister on 11th December, 1953 that in case of limited companies, audit by the CAG should be obligatory and his report would, in the usual way, be submitted to the Parliament, which could be scrutinised by the Public Accounts Committee and that the budgets of these companies would also be placed before Parliament and if so desired by Government, by providing a suitable clause in the companies Bill etc. which the CAG had brought to the notice of PAC earlier. Also, the desirability of making the definition of Government companies flexible and comprehensive enough to include loans and advances and other financial assistance given by Government was stressed. The Finance Minister felt that the argument for inclusion of loans in the total investment for reckoning the government companies was reduction *ad absurdum* of the theory of Parliamentary control, but whatever methods were open to Government they must make the executive to adopt, whether it was an annual report or a report by the CAG or any other special report and in cases where Government had predominant interest, it was difficult to make any stipulation for the CAG's audit. He moved certain amendments purported to be on the advice of the CAG. The most important ones were substitution of "after consultation with" by "on the advice of", appointment or reappointment of the Auditor of a Government company by the Central Government on the advice of the CAG, "and for the purposes of such audit, to require information or additional information to be furnished to any person or persons so authorised, on such matters, and in such form, as the CAG may, by general or special order, direct" and placement of the auditor's report together with the comments of the CAG before Parliament. Provisions relating to government companies as finally incorporated in the Act were as under :—

"S.617. Definition of 'Government Company' - For the purposes of this Act Government Company means any company in which not less

* Substituted by Act 65 of 1960 for section 619 and 620.

than fifty one per cent of the {paid up share capital}\$ is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, {and includes a company which is a subsidiary of a Government Company as thus defined}**.

S.619 Application of sections 224 to 233 to Government companies— (1) In the case of a Government company, the following provisions shall apply notwithstanding anything contained in sections 224 to 233.

- (2) The auditor of a Government company shall be appointed or reappointed by the Central Government on the advice of the CAG of India :
[Provided that the limits specified in sub-section (1-B) and (1-C) of section 224 shall apply in relation to the appointment or re-appointment of the auditor under this sub-section]@.
- (3) The Comptroller and Auditor General of India shall have power —
 - (a) to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;
 - (b) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to any person or persons, and in such form, as the CAG may, by general or special order, direct.
- (4) The auditor aforesaid shall submit a copy of his audit report to the CAG of India who shall have the right to comment upon, or supplement, the audit report in such manner as he may think fit.
- (5) Any such comments upon or supplement, to the audit report shall be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

\$ Substituted by Act 65 of 1960 for "Share Capital".

** Inserted by Act 65 of 1960.

@ Proviso omitted after the abolition of Managing Agencies by the Act of XVII of 1969.

S.619A* Annual reports on Government Companies - (1) Where the Central Government is a member of a Government Company, the Central Government shall cause an annual report on the working and affairs of that Company to be —

- (a) Prepared within three months of its annual general meeting before which the audit report is placed under the sub-section (5) of section 619; and (b) as soon as may be after such preparation, laid before both Houses of Parliament together with a copy of the audit report and any comments upon, or supplement to, the audit report, made by the CAG of India.
- (2) Where in addition to the Central Government, any State Government is also a member of a Government company, that State Government shall cause a copy of the annual report prepared under sub-section (1) to be laid before the House or both Houses of the State Legislature together with a copy of the audit report and the comments or supplement referred to in sub-section(1).
- (3) Where the Central Government is not a member of a Government company, every State Government which is a member of that company, or where only one State Government is a member of the company, that State Government shall cause an annual report on the working and affairs of the company to be - (a) prepared within the time specified in sub-section (1); and (b) as soon as may be after such preparation laid before the House or both Houses of the State Legislature with a copy of the audit report and comments or supplement referred to in sub-section (1).

Section 619-A which was redraft of section 639 sought to put it in its proper place and avoided a constitutional difficulty about placing before Parliament report on government Companies in which the Central Government hold no shares but State Governments were concerned.

SECTION 619(B) OF THE ACT

Based on the suggestion of the PAC for subjecting companies, where more than fifty-one per cent shares were held jointly by Government and Government companies or by public financial corporations either by themselves or along with Government or Government companies, to the same audit arrangements as were adopted for Government companies, a new section - 619(B) - was introduced in 1974 by the Companies

* Inserted by Act 65 of 1960.

(Amendment) Act*. A company in which not less than fifty-one per cent of the paid-up share capital is held by one or more of the following or any combination thereof, as if it were a Government company, namely, (a) the Central Government and one or more Government companies, (b) any State Government or Governments and one or more Government companies, (c) the Central Government, one or more State Governments and one or more Government Companies, (d) the Central Government and one or more corporation owned or controlled by the Central Government, (e) the Central Government, one or more State Governments and one or more corporations owned or controlled by the Central Government, (f) one or more corporations owned or controlled by the Central Government or the State Government, and (g) more than one Government company is treated as government company for purposes of audit by the CAG.

Thus, the Public Sector enterprises were clothed with the requisite legal robes in the form of Government companies and distinct arrangements for audit of and reporting on the accounts were provided. The Auditor of Government company was appointed or re-appointed by the Central Government on the advice of the CAG, and no firm of auditors including partners of firms was permitted to hold appointment as auditor of more than 20 companies at any time. The auditor was required to submit a copy of audit report to the CAG who, had the right to comment upon or supplement the report in such manner, as he might deem fit. Section 619(3) of the Companies Act empowered the CAG, (a) to direct the manner in which the company's accounts should be audited by the Auditor appointed in pursuance of sub-section (2) and to give such auditor instructions in regard to any matter relating to the performance of his functions as such, (b) to conduct a supplementary or test audit of the company's accounts by such person or persons as he might authorise in this behalf; and for the purpose of such audit, to require information or additional information to be furnished to any person or persons so authorised, on such matters, by such person or persons, and in such form, as the CAG might, by general or special orders, direct. Any such comments upon or supplement to, the audit report was to be placed before the annual general meeting of the company at the same time and in the same manner as the audit report. The scope of the provisions of Section 619(4) of the Companies Act was not confined to criticism only of the work done by the statutory auditors but extended beyond the scope of the statutory auditors' work and the review was not confined merely to an assessment of the efficiency of the audit.

* Act XLI of 1974.

Government companies were thus subjected to audit by chartered accountants, appointed by the Government of India on the advice of CAG, who issued direction to them regarding the manner in which audit should be conducted and who also conducted supplementary audit and issued comments on audited accounts, which were placed before the Annual General Body meeting. As Government companies developed from construction phase to commissioning and operation phases, suitable internal audit systems were also developed.

DIRECTOR OF COMMERCIAL AUDIT

The Controller of Commercial Audit was separated from the office of the CAG of India with effect from 1st October, 1955, and was designated as the Director of Commercial Audit with headquarters at New Delhi and was declared as Principal Auditor and was made responsible for the local audit work of all Commercial undertakings of Central Government, which were till then under the audit of State Accountants General, Accountant General, Central Revenues, Chief Audit Officer, Food Rehabilitation and Supply and the Deputy Accountant General, Production, Commerce and Industry. The regional offices, each under a Deputy Director of Commercial Audit formed at New Delhi, Bombay, Bangalore and Calcutta and later at Ranchi also, were entrusted with the local audit of the undertakings assigned to them. The central audit and accounting of transactions appearing in Government accounts continued with the State Accountants General but the local audit of all the Commercial concerns in States, where regional offices had been set up, was carried out by the regional offices on behalf of the local As.G., who were supplied all relevant original documents and vouchers required for local audit by the As.G. concerned. The audit of 125 undertakings (41 Departmental Undertakings, Corporations and Government of India Companies/84 State Undertakings, Corporations and Government Companies) was assigned to the DCA. The State Accountants General were entrusted with the audit of 480 undertakings (58 Government of India undertakings and 422 State Government enterprises). The total strength of the office of the DCA was 353 (6 IAAS officers, 24 AAOs, 60 SAS Accountants, 158 UDCs, 33 LDCs and 72 Class IVs employees). The distribution of the work entrusted to the DCA and regional offices along with the officers and staff employed on the work are shown in Fig. 12.1.

DUTIES AND FUNCTIONS

The main function of the newly formed Commercial Audit organisation was to carry out the local audit of Government Commercial concerns, which was conducted by field parties consisting mainly of an Accountant

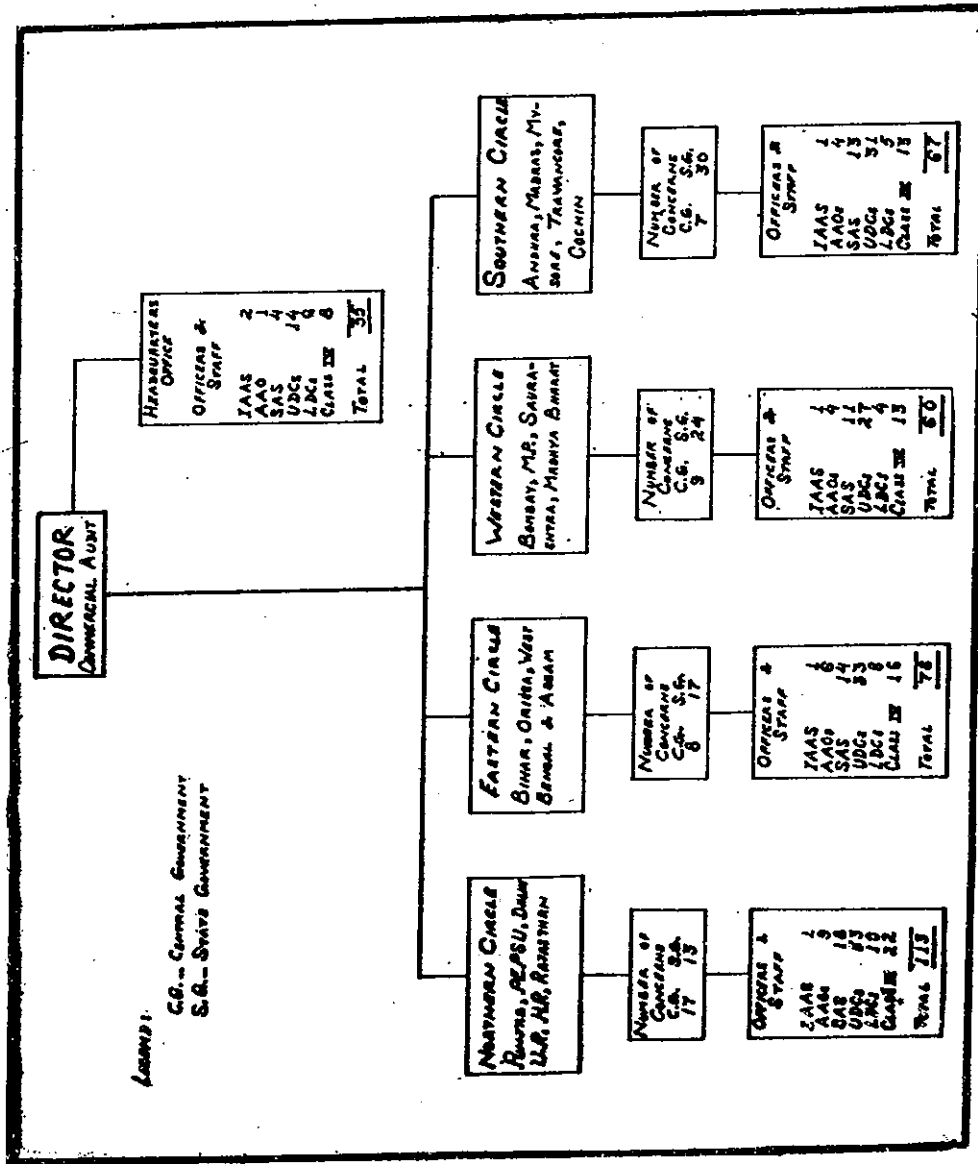


Fig. 12.1: Distribution of the Work Entrusted to the DCA and Regional Offices

and two UDCs under the supervision of an Assistant Audit Officer and, in respect of certain large concerns, Resident Audit Offices were formed. During local audit, the efficiency-cum-propriety audit of all Government departmental undertakings, check of proforma accounts of departmental undertakings and of accounts of Statutory Corporations and Government Companies and finalisation of comments under Section 619(4) of the Companies Act, 1956 were carried out. Detailed instructions to local audit parties for checking proforma accounts, processing of comments on proforma accounts, and for audit of departmental undertakings were issued. The draft Audit Reports were prepared in duplicate by the Deputy Director, who sent one copy thereof to the AG and the other to the Director of Commercial Audit, who was to intimate comments, if any, to the AG within a fortnight. The AG gave final shape to such reports and took further necessary action. The role of the DCA was reduced to that of an advisory function, but complete liaison between his regional offices and the As.G was maintained for successful processing and completion of the work. The regional offices processed the local inspection reports upto finality. The heads of regional offices at Bombay, Bangalore and Ranchi were designated as Sr. Deputy Directors.

The headquarters office of the DCA was organised into various sections on a functional basis. Five Sections were engaged in scrutiny of statements and important objections raised by the regional Deputy Directors of Commercial Audit, giving directions regarding pursuit of the more important objections, issuing extracts from inspection reports of important irregularities received from the regional offices to the concerned Administrative Ministries of the Government of India, processing and finalising draft paras for the Audit Report with the Ministry, issuing the comments on the accounts of the Central Government companies under Section 619(4) of the Indian Companies Act, 1956, processing of reviews on the working of selected undertakings for inclusion in the Audit Report of each year, consolidating, editing and printing of the proforma accounts of the departmental undertakings wherever required and scrutiny of the balance sheets, profit and loss accounts of non-Government companies in which Government had invested capital of either Rs. 5 lakhs or 25 per cent of the total paid up capital. The Technical Audit Section rendered advice on technical matters pertaining to the accounts of a Company based on references received from the Commercial Audit Wings of the various As.G. and the regional offices, the headquarters office and liaised with the Company Law Board and dealt with all references relating to technical matters pertaining to accounts of departmental undertakings, stores procedure,

quantum of audit and other accounting matters. It also maintained statistics relating to commercial and quasi-commercial undertakings, industrial concerns, dealt with amendments to Audit manuals, Account Code, etc. and other orders of the Government of India, scrutinised and approved the forms of final accounts of Government commercial undertakings and consolidated the arrear reports for transmission to the CAG. The Higher Audit Section dealt with all matters involving interpretation of Companies Act and propriety audit of transactions in commercial undertakings. The Administration section looked after the administration of the commercial audit organisation including the regional offices and managed the SAS (Commercial) cadre. The audit sections, apart from maintaining a panel of auditors for Government companies for advising the Company Law Board on behalf of and with the approval of the CAG, catalogued interesting articles, useful information from various periodicals and dailies, collected material for audit bulletin and digest of important and interesting cases, scrutinised the balance sheets and profit and loss accounts of non-Government Companies in which the Government of India alone had invested capital of either Rs. 5 lakhs or 25 per cent of the total paid up capital, scrutinised the Memorandum and Articles of Association of Government Companies and maintained the Manual of Commercial Audit Procedure.

REVIEWS

In the beginning of the year, the DCA selected certain concerns *i.e.* Government Companies, Corporations and departmental undertakings for the preparation of detailed reviews for inclusion in the Audit Report. The reviews generally covered matters of interest selected after study of different aspects of the working of the concerns like, important changes introduced in the working of the concerns during the year under report, important agreements concluded by the concerns with foreign collaboration, targets of production and actual achievements, cost of production of the article manufactured as compared to the market prices, the pricing policy of the concerns, the borrowing policy of the concerns, and the financial results of the working of the concerns together with the comments on the efficiency of the concerns etc.

Review under Section 619(3)(b) of the Companies Act was conducted every year in respect of Government Companies since November 1961, and Resident Audit parties were formed in large undertakings for conducting more effective and fruitful audit. The audit of the balance sheet, profit and loss accounts, etc. including comments upon or supplement to, the audit report by the company auditors (under Section 619 (4) of the Companies Act, 1956) was conducted annually in

respect of Central Government Companies with paid up capital of Rs. 5 crores and above and companies in the process of construction or operation for one or two years after construction or operation. The financial limit for State Government Companies was fixed at Rs. 50 lakhs. The cycle of audit of companies, both in the Central and State sectors, was fixed in such a manner as to cover them in a period of three years. Selection was made by the Principal Audit Officers sometime before or as soon as accounts with the Auditors reports were received for comments and no advance intimation of audit was sent to the companies so as to keep the element of surprise in such audit. The DCA helped initially the Public Accounts Committee and later the Committee on Public Undertakings in carrying out their work of examination of Audit Reports. The DCA maintained a panel of Chartered Accountants to enable the CAG to advise the Central Government (Company Law Administration) for appointment of auditors to the Government Companies. On the basis of the applications received from the firms of CAs, selection was made with reference to the location of the head office and the branches of the undertakings, their nature, location of the CA's firms, their organisational strength, fee for audit and past performance for empanelment so as to ensure that the provisions of sub-section 1(B) and 1(C) of Section 224 of the Companies Act, 1956 restricting the number of audits to a firm or its partners were strictly complied with.

EFFICIENCY-CUM-PERFORMANCE AUDIT

Under the new system of efficiency-cum-propriety audit, it was not necessary to go over *de novo* the grounds already covered by the company auditors in minute details and attention was focussed on major aspects of the formation, construction and operation of the concern, attainment of the major objectives, lacuna, if any, in the procedure followed in the acquisition and disposal of stores, marketing of its products and generally on the efficiency as reflected in the financial results obtained by the management from time to time. More important specific points on which attention was to be concentrated were spelt out. The Memorandum and Articles of Association were to be scrutinised in the prescribed manner. Major points to be seen during scrutiny of the Articles were, whether they provided for adequate directive control in the hands of Government, whether they contained an over-riding provision for the issue of directives by the Government in regard to the working of the company, which the Board would be bound to give effect, whether they advisedly contained certain provisions regarding the appointment of certain top management officials in the company or with the approval of Government, and whether prior approval of Government

for certain specific transactions of the company like the sale, lease or disposal otherwise of the whole or substantially the whole of the undertaking of the company, the formation of a subsidiary company and the division of capital into different classes of shares was specifically provided for. The examination of systems, procedures and their operation in the company was to be carried out with a view to seeing, whether an adequate accounting system existed for the realisation of revenue and control over expenditure, whether a proper system of internal check and of internal audit existed, and whether the service regulations governing the conditions of service of the employees had been framed. Scrutiny of the agenda and minutes of the meetings of the Board of Directors/Committees and of the General Meetings of shareholders was to be carried out. Major contract agreements relating to projects, construction works, supply of machinery, equipment, stores and services including agency agreements were to be examined. Scrutiny of adjustments and journal entries was to be made. Bigger items of bad and doubtful debts, which had been outstanding for a long time were to be scrutinised. Reasonability of the method of charging depreciation on the capital asset was to be looked into. Allocation of expenditure between capital and revenue and preparation of capital and revenue budgets were to be seen. The Audit Report of the professional auditors to the share holders and also their report to the Board of Directors, if any, were to be scrutinised. Existence of secret reserves, if any, and the reasons for creation of such reserves were to be looked into. The balance sheet and the profit and loss accounts were to be examined from a higher audit point of view. Specifically, whether a large block of share capital had been called up and paid up by Government much in excess of the actual requirement of the company, whether there was proper balance between the amount of paid-up capital and the long-term loans taken from Government, whether the company availed of the credit allowed in every case, whether the rate of interest for loans charged was not less than the borrowing rates of Government, whether debts due from trade debtors were realised regularly and evenly, especially from Government departments, were to be seen. In the case of a manufacturing concern involving initially a heavy capital outlay, whether the construction work of the company was proceeding according to the time schedule and the expenditure during construction was being booked systematically, so that the cost of a particular unit of construction could be readily ascertained, whether the administrative charges and over-heads were being correctly allocated during the period of construction, whether the unit cost of the output of a factory compared favourably with the cost of similar products in the industry, including the landed cost of imported products, and

whether the company followed declared policies of Government regarding purchases, pricing and payment of its works, were to be looked into. The policy and practice of investment by Government in the companies, the mix of investment, the debt and equity ratio, and the financing of the long term and short term capital requirements, etc. were to be looked into in the overall interest of Government, keeping in view the objectives of each undertaking and its general performance from time to time. The funding of the capital owned by the companies, particularly its banking arrangements were to be looked into to see that it conformed to the overall policy of the Government. Control of cash and stores were to be looked into, particularly the systems and procedures, custody and upkeep and whether there was accumulation of surplus and/or unserviceable stores and finished goods, whether there was any waste, extravagance or nugatory expenditure or loss of cash or stores due to inadequate safeguards, whether regulations made for purposes of control over stores were adequate and duly enforced, were to be seen. The administrative set-up was to be examined with a view to ascertain, whether the growth of expenditure on administration was reasonable in relation to the turnover and total expenditure, whether the financial powers of various categories of officers had been clearly laid down, whether such powers were properly delegated and whether they had been exceeded, and whether any unusual concessions or extra amenities were being provided to the staff or the officers without the sanction of the competent authority. In the case of manufacturing concerns or units, it was to be ascertained, whether adequate costing system and cost specialists existed for working out the unit cost of the product, whether primary records provided for correct booking of the prime cost, whether administrative, selling and distribution costs were booked separately, whether there was adequate control over time, labour and machinery, whether the parts replaced were properly accounted for until final disposal and whether there was proper reconciliation between cost and financial accounts. The Principal Auditors were required to draw detailed audit procedure for each undertaking for the guidance of local audit parties.

THE COMMERCIAL CADRE

As a result of the measures taken earlier to encourage more and more clerks to take SAS (Commercial) examination, the availability of SAS (Commercial) personnel exceeded the requirements of Commercial Audit Wing - both in DCA's organisation and in AGs' offices, which necessitated adoption of certain restrictive measures to regulate the inflow to the cadre just to meet the requirements. From September 1957,

a candidate who had not already passed the SAS examination of some branch or other was not allowed to take the SAS examination of any branch other than the one appropriate to the establishment in which he was serving and a person who had not passed the SAS examination appropriate to the establishment in which he was serving, was declared ineligible for promotion to an SAS post in that establishment, even if he had passed the SAS examination appropriate to some other establishment and even where a person of another establishment who had passed the SAS Commercial examination and had been officiating in a SAS post was not confirmed unless he had passed the SAS examination appropriate to the establishment in which he was serving. The candidates who had passed the final examination of the Institute of Chartered Accountants or the Institute of Cost and Works Accountants were not exempted from appearing in any of the subjects of Part I or Part II of the SAS Commercial examination. The prevailing practice of filling available vacancies with SAS Commercial personnel belonging to the organisation of the DCA initially and filling up the remaining vacancies with SAS Commercial men from outside offices was continued when the SAS (Commercial) accountants from the civil audit offices were taken over by the DCA. Their seniority was determined with reference to their relative seniority in the Upper Division Clerk's Cadre, as amongst the personnel of the same batch. At the same time, an All India Seniority List of SAS (Commercial) was required to be maintained by the DCA so as to regulate the absorption of those who had not been promoted as Accountants in the Commercial Audit Wings of the various Offices of the As.G. Also, all the SAS (Commercial) accountants of a particular examination were to be absorbed before the accountants of the next batch in the DCA's organisation.

MANAGEMENT

The scheme for regulating the cadre management of SAS (Commercial) accountants, including SAS (Commercial) passed clerks was modified in February 1961. The cadre was regionalised under the control of the DCA/Sr. DDCA/DDCA. The Northern region, Delhi covered 14 offices (5 Civil Audit offices, 3 P&T Audit offices, 1 Railway Audit office, 4 Defence Audit offices and 1 Director of Audit, FR & SCM); Eastern region Calcutta including the office of the Sr. Deputy DCA, Ranchi covered 13 offices (4 Civil Audit offices, 3 P&T Audit offices, 3 Railway Audit offices, 2 Defence Audit offices and 1 Dy. DA FR & SCM), Western region, Bombay, covered 10 Audit offices (4 Civil Audit offices, 1 P&T Audit offices, 2 Railway Audit offices, 2 Defence Audit offices and 1 Dy. DA FR & CSM) and Southern region covered 7 offices (4 Civil Audit offices, 2 P&T Audit offices and 1 Railway Audit office). The

promotions to the SAS (Commercial) cadre were regulated on a regional basis. The DCA was designated as the appointing authority for the purpose of CCS(CCA) Rules, 1957. Vacancies in the SAS (Commercial) cadre in a region were filled by posting SAS (Commercial) passed clerks available in the region. Each AG sent a list of commercially qualified clerks arranged in the order of seniority to the Senior Dy. DCA/Dy. DCA who maintained a regional seniority list comprising of all the SAS Commercial passed clerks of the region and the Senior DDCA/DDCA posted men from the regional seniority list to fill up the vacancies in the region including those in the AG's offices. The SAS (Commercial) accountants posted to the AG's offices were placed on the cadre of SAS (Commercial) in all the offices to which they were posted and were also shown separately in the gradation list of the AG's office. The SAS (Commercial) passed clerks were ordinarily transferable within their respective regions but transferability to other regions of headquarter's office was conditional for appointment to the cadre. Upper division clerks/lower division clerks, who possessed necessary qualification of commerce degree or three years service in the commercial side and who were willing to accept the regional liability of transfer in the event of their passing the SAS (Commercial) examination were permitted to sit for the examination and on passing the SAS (Commercial) examination they were promoted only in the commercial wing. The DCA constituted a regional Departmental Promotion Committee to prepare the panel from amongst the SAS passed clerks in each region for promotion to each 3rd vacancy in the SAS cadre. Those who had passed both Civil and Commercial SAS examination were given the option for the branch of their choice and option once exercised was final and their seniority was fixed with reference to the date of passing the particular branch of the examination for deciding their seniority in the wing to which they opted. SAS (Commercial) posts were normally filled by SAS commercially qualified personnel. Non-commercial SAS accountants, who occupied SAS commercial posts were eased out as and when SAS (Commercial) accountants became available. The SAS (Commercial) accountants in the Commercial Audit Wings/DCA's organisation prior to the introduction of the scheme were considered for confirmation against the vacancies available until then in the respective Commercial Audit Wing/DCA/Dy. DCA's office and remaining permanent vacancies were utilised for confirmation of other SAS (Commercial) accountants. The SAS (Commercial) accountants working in the regional cadre were confirmed in the order of their seniority in that cadre. The DCA maintained an All India seniority list in respect of all SAS (Commercial) accountants working in the AG's offices and in his own organisation. All SAS (Commercial)

accountants with more than 5 years service were categorised by the DCA on the advice of a Departmental Promotion Committee and the panel of SAS (Commercial) accountants eligible for promotion was maintained by him for filling the posts of AOs both in the DCA's Organisation and in the Accountants General's offices, where the Commercial Audit wings existed. While the SAS (Commercial) accountants and AOs (Commercial) in the Commercial Audit wings of Civil Audit offices were under the immediate control of the AG for all practical purposes, others were controlled by the DCA's organisation.

AUDIT RESULTS

The Audit Report 1960 had a separate section-II, which dealt with state enterprises and contained 7 paras on 14 pages. The comments were - short recoveries of by-products and shortages of gypsum in Sindri Fertilizers and Chemicals Ltd., loss in manufacturing a machinery (Rs. 43,566) by Nahan Foundry Ltd., delay in construction and consequent expenditure on hired accommodation by Warehousing Corporation, loss of coal by pilferage in Delhi Electricity Board, loss of coal despatched from a colliery, unsatisfactory maintenance of accounts, outstanding book debts, and avoidable payment of interest of Rs. 1,43,288 in National Coal Development Corporation of India, non-maintenance of proper system of commercial accounts, increase in costs due to changes in design and payment of demurrage charges, irregularities in the emergent local purchase of stores, irregular retention of project money, loss of cash amounting to Rs. 10,000, loss of Rs. 16,800 in the purchase of cast iron, cement, short landing of stores, loss of stores in transit, loss of stores worth Rs. 2.40 lakhs, non-completion of contract deeds in respect of important major contracts, extra expenditure on account of manufacture of 'inserts' amounting to Rs. 2.50 lakhs, extra expenditure of Rs. 3 crores on purchase of bricks, infructuous expenditure of Rs. 1.20 lakhs on the construction of railway siding unnecessary expenditure of Rs. 22 lakhs on construction of a road, extra expenditure of Rs. 1.06 lakhs in supplying and fixing of window shutters, defective piling foundations, and loss of Rs. 4.25 lakhs in setting up jetties in HSL, purchase of hotel furniture, payment of sales tax, purchase of defective silver plated wares in Ashoka Hotels Limited.

The Audit Report 1962 had a distinct chapter, VIII, on statutory corporations (3 paras on 10 pages), Government companies (14 paras on 11 pages) and departmentally managed Government commercial undertakings (8 paras on 15 pages) and carried a summary of interesting points relating to selected units. Summarised financial results of 1960-61 of 42 undertakings were given in an annexure. The manner of working

out of the Government capital in the proforma annual accounts was explained. There were comments on Government opium factories at Ghazipur and Neemuch, forest department, Andamans, quick freezing plant, cold storage and ice Factory, Bombay, Himachal Resin and Turpentine Factory, Nahan, lighthouses and lightships department, the overseas communications service, and Mandi salt sources. The comments were not merely on accounts but also on other aspects of the working of the concerns. In four years' accounts, 38 paras were included and these were finalised in 12 to 13 months after the close of the financial year.

INNOVATIONS IN REPORTING

Until 1962, Audit observations on Government Companies, Statutory Corporations and departmentally managed commercial undertakings formed part of the Central Government Audit Report (Civil). With the increase in the number of undertakings, volume of investment and the complex nature of these organisations, the audit comments on them were issued in a separate volume known as Central Government Audit Report (Commercial) from the year 1963 onwards. AR 1963 related to the financial year 1961-62.

The first Audit Report (Commercial), 1963 contained five chapters, Chapter I gave a general idea about the commercial audit conducted by the CAG, Chapter II dealt with 5 statutory corporations, Chapter III dealt with 46 Government Companies, Chapter IV incorporated observations of the Company auditors in compliance with the directives given to them by the CAG in 1962 under section 619(3)(a) of the Companies Act and Chapter V dealt with 41 departmentally managed Government Commercial undertakings. The observations of the Company auditors were reported briefly indicating the deficiencies noticed under each category of the four broad categories of directives issued to them and most of the companies had deficiencies under one or other category. There were 14 reviews spread over 68 pages - on one Statutory Corporation (3 pages) six Government Companies (3 pages) and relevant annexure and seven departmentally managed Government undertakings (35 pages) and relevant annexures. Four cases of losses amounting to Rs. 57.88 lakhs in one Statutory Corporation, three Government companies, and one Departmental undertaking were commented upon under major irregularities.

AR, 1964 had three chapters on Statutory Corporations, Government Companies (incorporating also the reports of Company Auditors) and departmentally managed Government Commercial and quasi-commercial undertakings and contained 33 paras and 19 reviews.

Comments on 8 cases of losses amounting to Rs. 66.45 lakhs, 4 cases of avoidable expenditure of Rs. 27.81 lakhs, 3 cases of unnecessary expenditure, 3 cases of extra expenditure of Rs. 5.17 lakhs and one case of infructuous expenditure of Rs. 0.70 lakh and misappropriation of Rs. 0.19 lakh were included in the Report. There were ten reviews on Statutory Corporations, seven on Government Companies and two on departmentally managed undertakings. Deficiencies reported by 42 of the 46 company auditors were mentioned under each category of the CAG's directives issued to them.

AR, 1968 contained a general review of all 70 Government Companies, 4 Statutory Corporations and 31 departmentally managed undertakings, which was followed by a more comprehensive review of 4 Government Companies (20 paras). Certain important points relating to cases of irregularities, losses, etc. in respect of undertakings for which a comprehensive review was not made were mentioned. In all, there were 23 paras - 20 on Government companies and 3 on departmental undertakings and the important comments covered 4 cases of avoidable expenditure (Rs. 7.19 lakhs), 3 cases of excess expenditure (Rs. 10.67 lakhs), instances of unnecessary expenditure (Rs. 7.83 lakhs), 4 cases of losses (Rs. 27.73 lakhs), 1 case of loss of revenue (Rs. 4.51 lakhs) and one extra contractual payment (Rs. 85.94 lakhs). The important points contained in the reports of company auditors were highlighted company-wise under broad categories of directives issued by the CAG. Non-introduction of proper system of internal audit, absence of accounting manual laying down the procedure for the compilation and maintenance of accounts and manual outlining the scope and programme of work for internal audit, wide variations between the budget estimates and the actuals, absence of proforma accounts for service units for the benefit of staff, absence of any system for ascertaining and recording idle time for labour and machinery specifying reasons therefor were the broad categories of observations of Company auditors.

The AR 1969 contained summarised financial results of 75 Government companies and 4 statutory corporations for 1967-68 in one chapter containing twenty sections. 40 Government Companies incurred a net loss of Rs. 42.79 crores; 32 companies earned a profit of Rs. 48.05 crores, which represented 17.5 per cent of the paid-up capital of Rs. 274.31 crores invested on them and 21 Companies declared dividends amounting to Rs. 937.67 lakhs *i.e.* 6.6% of the paid-up capital of Rs. 142.63 crores. Of these Companies, 27 Companies with a paid up capital of Rs. 1038.83 crores incurred a total loss of Rs. 90.54 crores, of which Rs. 80.32 crores pertained to 6 Companies (HEC, MAMC, HEC, BHEL, NLC & HSL). Four Corporations earned profit of Rs. 23.03 crores, which constituted 7.5

per cent of the total investment of Rs. 306.21 crores on them. There was delay in execution of Namrup Fertiliser Unit and Tunghabhadra Steel Plant. There were 9 reviews (20 paras on 156 pages) and 22 paras on Government Companies and Statutory Corporations. The comprehensive reviews were on Mining and Allied Machinery Corporation Limited, Hindustan Steel Works Construction Limited, State Trading Corporation of India Limited, Bharat Earth Movers Limited, Central Road Transport Corporation Limited, Minerals and Metals Trading Corporation of India Limited, Hindustan Aeronautics Limited (Bangalore Division), Bharat Electronic Limited and the Handicrafts and Handlooms Export Corporation of India Limited spread over XI to XIX sections. Important irregularities commented in 19 paras included one case of loss amounting to Rs. 37.20 lakhs, two cases of infructuous expenditure of Rs. 24.37 lakhs, excess expenditure of Rs. 3.16 lakhs, one case each of avoidable loss of Rs. 1.28 lakhs and Rs. 18.97 lakhs and unnecessary expenditure of Rs. 2.56 lakhs. Chapter II on Statutory Corporations had two sections and included a major irregularity committed by Oil and Natural Gas Commission. The important points contained in 70 reports received from company auditors under the directives issued by the CAG on the accounts for the year 1967-68 were incorporated in the Report.

Audit Reports 1963 to 1969 contained 507 paras and 91 reviews and were finalised during 13 to 12 months after the close of the financial year. The minimum number of pages was 99 and the maximum 251, the average being 200 pages.

Audit Reports, 1962 and 1963 were examined by the PAC and their recommendations were contained in their 7th and 23rd Reports (IIIrd Lok Sabha) and Action taken on them was incorporated in their 26th and 40th Reports (IIIrd Lok Sabha). The COPU, constituted in 1964, examined 14 Audit Reports upto March 1973, during their examination of the undertakings concerned, and presented 14 Reports incorporating 638 recommendations.

CRITICISM OF GOVERNMENT AUDIT

The management mostly drawn from the services complained that the public sector undertakings were subjected to triple audit - internal audit, statutory audit and Government audit - which took heavy toll of the time and skills and cramped their initiative, enterprise and even style of functioning, while managing for results. A large number of financial and accounting personnel were drawn from IAAS, IDAS, IRAS and IRS. The chartered accountants, who were professional monopolists of audit of companies under the Company Law doubted the wisdom and propriety of the accounts audited and certified by them to be reopened

by the Government auditors and felt irritated by the system and procedures drawn by the CAG under the Company's Act both in regard to their work and also in regard to their statutory function. The Government auditors traditionally accustomed to regularity audit focussed their attention on the regularity and propriety audit of individual transactions of large financial dimensions, which made news at the expense of the Managers of the undertakings and amply demonstrated their skill and expertise in accountancy audit. A system of Parliamentary control for public enterprises was struggling to evolve but in the process, questions and discussions raised in the Parliament quite often interfered with the day-to-day management of the public sector undertakings in their search to assert their overall sovereign control. The media picked up what was thrown up in the internal discussions in Government and debates in the Parliament, and few prosperous Public Sector enterprises even hired expert foreign consultants, whose opportunistic counsel, often blessed by ambitious ministers added fuel to fire.

The most virulent and scathing attack came from a Ford Foundation Consultant in Public Administration, Dr. Paul Appleby, who gave two reports to the Government of India on India's administrative system, which were laid on the table of both Houses of Parliament and received wide attention in the Press. Not only did he question the competence of the CAG to do an efficiency-cum-propriety audit in general and of Public enterprises in particular but also considered auditing as a necessary but pedestrian function with a narrow perspective and very limited usefulness. He felt that any Deputy Secretary knew vastly more about significant problems in his Ministry, than what the entire staff of the CAG could discover by auditing and condemned propriety audit of decisions taken by the Board of Directors and also of the exercise of delegated powers by the Chief Executives. According to him, the function of the CAG was an inheritance from colonial rule and went on denigrating the role and function, as also the importance given to the CAG of India by painting a gruesome picture of Government of, by, and for auditors. He was critical of the greatly exaggerated importance attached by Members of Parliament to the function of the CAG, which increased the timidity of public servants at all levels making them unwilling to take responsibility for decisions, forcing decisions to be made by a slow and cumbersome process of reference and conference. In his view, the CAG's function was not really a very important one. Auditors did not know and could not be expected to know very much about good administration, their prestige was highest with others, who did not know much about administration. Auditors know only auditing

and functioned negatively whereas the Parliament's most important concern should be with positive attainment of programme objectives it had exposed. Audit Reports focussed Parliamentary attention on little things and demeaned Parliament. The CAG was otherwise oriented and too independent, and therefore too little enabled to adjust his approach to many different kinds of operations involved in a Government operated industrial and commercial enterprise, to abide by the directions of the Board of Directors and the principles and methods set forth by it from time to time. The CAG had also no special competence to provide an independent appraisal of the assets and liabilities of the organisation and certified to the overall financial status of the undertaking. In short, it was an outright condemnation of the system of audit and accountability built up in the last decade or so in a form and style of a foreign consultant of a developed country sermonising to an ignorant management in a backward country. The reports received large media attention and his views were shared by a section of the bureaucracy, who had never reconciled to Government audit in public sector undertakings and few ambitious politicians who endeavoured to be original and modern in their approach to the management of Public Sector enterprises. They were subjected to critical examination in the Parliament, academic circles and the media.

REACTIONS

Few of the comments and reactions on Dr. Appleby's reports, which appeared in the media, will help to re-capture the temper of the climate generated by the Counsel.

Shri S.A. Vaneswar, a retired Accountant General remarked* on Dr. Appleby's observations that. "It is no reproach to the Auditor General that he knows only about financial administration and not other aspects and problems of administration, which do not come within the purview of his statutory duties. Likewise, it is no reproach to a technical expert that he does not know the ABC of accounting and audit. But an administrator should be well-versed in financial administration also, so that he may be efficient all-round. Likewise, the Auditor General and his staff are conversant with the structure, functions and powers of the departments and the concerns of Government, whose accounts they audit..... Audit is the watch-dog of the finances of the nation. In a welfare State like India, under a democratic system of Government based on adult franchise in spite of the high illiteracy, it is essential in the interests of the tax-payer that the scope and functions of audit including

* The Hindu, Madras dated 21st, August 1956.

concurrent audit, should be widened and intensified, especially in regard to big projects and nationalised trading concerns of the productive nature financed from borrowed capital under the Five Year Plans."

The problem\$ is not so desperate as Dr. Appleby seems to think. It would be better for the Government of India to invite experts from other countries, particularly Britain, to speak to us in the language, which we can understand. Dr. Appleby is rather too prodigiously American and reckless in his accounting for a poor country like India.

Dr. Appleby** seems to be keen on further bureaucratization of the Indian administration but he should not hereafter be allowed to enjoy in this country an importance, which he does not enjoy in his own.

It* is a brief for a government of public servants for public servants by public servants.... It is the weakness of Dr. Appleby's conclusions that they have been reached in obvious disregard of considerations other than an exalted zeal for speed in administration..... If nevertheless, a suspicion remains that Dr. Appleby may have exaggerated both the evil and the remedy, it is not only because of the exuberant "American idiom" of his report but its very patent onesidedness.

It@ is marked by a characteristically American impatience of everything that makes for delay.

He\$ is an expert bred in the American tradition, which, so far as "Treasury Control" is concerned, is markedly different in many ways from traditional British practice. Our Constitution and administrative framework being largely modelled on the British system, the suggestions Mr. Appleby makes may, if adopted, seem revolutionary here. They need not on that account be necessarily objected to. After all, even in Britain, spending departments have always complained of a too meticulous and detailed control by the Treasury - the opposite number of our Finance Department. And, in actual fact, the British Treasury has also had, in the course of a hectic half-century of wars and general upsets, to make its control much less detailed. In particular, a major reform of the inter-war years was to make the Permanent Secretary of each Department also its Accounting Officer. This was in substance what free India's first Comptroller and Auditor General recommended, when he put forward proposals for separating Accounts from Audit. That is a proposal which Mr. Appleby strongly supports.

\$ National Herald, 16th August, 1956.

** National Herald, 18th August, 1956.

* The Hindu 17th August, 1956.

@* The Hindustan Times, 15th August, 1956.

\$ The Hindu, 17th August, 1956.

His*\$ criticism can be appropriately and fairly summed up as amounting to the charge that Parliament interferes too much in public administration.

Nowhere\$\$ is delay more dangerous than when the Government knows its mind and the stage is set for action. For then delay stops little short of sabotage. It is doubtful how far the glances from over the shoulder of the Auditor General contributes to this delay. But Mr. Appleby seems to have exaggerated his direct and indirect influence. Indeed, if a full inventory were available of the cases of misappropriation and waste of public funds, there would be a strong case for a more vigorous check on the spending methods of Government departments. The remedy lies not in removing the checks altogether but in making them less rigid and more sensible.

He* (Dr. Appleby) holds that auditing can have only two legitimate purposes. One is to "insure propriety in the sense of quite precise adherence to established practices and standards in monetary transactions", and the other is to "provide an independent appraisal of the assets and liabilities of the organisation which can certify to the overall financial status of the undertaking". He contends that "auditing can be done in ways to satisfy both requirements, in the case of industrial and commercial enterprises operated by the Government, by private auditing firms". That, it will be noticed, was the stand taken by the ex-Finance Minister of the Union government, against the Auditor General's claim to jurisdiction, in the matter of auditing arrangements for the new Insurance Corporation. But the reasoning by which Mr. Appleby supports his proposal is, to say the least, doubtful. He says : "Since the administrator of an enterprise has more at stake in a record of defensible propriety than anybody else, where the operations altogether are large and diversified, auditing in each enterprise must be done in a fashion as to fit the nature of its operation. This means that for this purpose auditing should be done at the direction of the Board of Directors according to the principles and methods set forth from time to time by the board". The argument seems perilously like Humpty Dumpty's saying that word shall mean what he chose it should mean. The Auditor General is an independent authority under the Constitution with the duty to keep Parliament posted, through the Public Accounts Committee, with data which would enable it to check extravagance..... In Britain and in America, for that matter, the legislature devotes little attention to the

*\$ National Herald 15th August, 1956.

\$\$ The Times of India, Delhi 15th August, 1956.

* The Hindu 17th August, 1956.

Audit Report - much less than what, according to Mr. Appleby, is accorded by the Indian Parliament to the niggling criticisms of the Auditor General and the Public Accounts Committee. But that is because the spending Departments and the new agencies controlling State controlled industries have long been schooled in the strict traditions of Treasury control. And, in Britain, the Treasury does make the fullest use of the material provided by Audit..... Mr. Appleby does concede that much of the fault finding by Audit is due to the fact that budgeting is not done in a scientific and thorough way by the spending Departments. He thinks it is at this stage that the Finance Department can play a much more effective role. But the need for the existing checks on extravagance represented by both the Finance Department and the Auditor General will long remain.

In* a historic dispute, which nearly led to the resignation of Shri Chintaman Deshmukh in 1955, Mr. Chanda did fight for a reduction of "financial" control. His recommendations in this matter, which were obviously sound, were to the effect that financial sanction, once having been given in general, should not have to be repeated by the Finance Ministry for every detail. It is good that a major departure is now being made in accordance with the lines of what has come appropriately to be known, although it had not been published, as the Chanda Report. What is unusual about Mr. Chanda's present complaint with Dr. Appleby's recommendations is that, while he definitely wishes the Finance Ministry to abate its powers and interference in the conduct of day-to-day administration, he certainly does not wish to reduce his own, which are parallel and spring from the same source, namely, the desire to enforce strictly control on expenditure of public money, this is a legitimate view in general theory, and it might be even arguable that, to the extent that financial controls in the Finance Ministry are reduced, it would be "safer" to raise post-mortem enquiries in audit offices. India, however, is not seeking either "safety" or a nice balance between presanction and post-sanction control. The essence of India's problems in the Plan is to get the job done. It happens that at the present time, both prior and subsequent checking are reducing initiative. It is necessary therefore, notwithstanding the general risks that this will entail - and Mr. Chanda is quite right to emphasise the risks - that there should be reduction of controls, both financial and audit wise.

The* present Auditor General is certainly no administrative diehard; he had himself suggested some time ago much greater

* The Eastern Economist 17th August, 1956.

* The Statesman, Delhi 23rd August, 1956.

devolution of departmental accounting, as Mr. Appleby mentions; it is possible that adjustments may still require to be made in the degree of audit control over State-sponsored undertakings (though experience suggests that, if audit does not watch these closely, Parliament will). However, to suppose that such control "is to-day a primary cause of widespread and paralysing unwillingness to decide and act" may underate the danger of more "vivid" abuses, such as those recorded "in the first flush of independence" but allegedly now "fully corrected", or at the very least of serious and avoidable waste.

Shri A.K. Chanda**, in the course of a Press interview, was reported to have asked whether Dr. Appleby know "how many incompetent officers or officers afraid to take responsibility have urged in extenuation that they were afraid of what the audit would say".

One\$ can understand Dr. Appleby's inability to appreciate the fact that Parliamentary control and statutory audit are basic features of the Constitution and that their rigor must be kept intact over the entire machinery of the Government. But the need to relax them for specific purposes and in well-defined areas is unquestionable. There is no sense in perpetuating barriers which seem to have been erected to delay if not "prevent the accomplishment of that which it has been determined should be done".

It@ seems from Mr. Chanda's statement that Dr. Appleby had neither any understanding of the place of audit in the administration nor any knowledge of it. If Dr. Appleby has criticised the functions of the Auditor General without studying all relevant details, his Report must be treated as valueless. In saying that the function of the Comptroller and Auditor General in India is in a large measure an inheritance from colonial rule, Dr. Appleby is showing his ignorance.

Sad* experience has taught them that the only safeguard against public money going down the drain is greater control of the Administration by Parliament, by the Finance Ministry and the Comptroller and Auditor General of India. To scrap these checks and devices in favour of a Plan Expenditure with both his feet on the accelerator is a proposition suited more to totalitarian regimes than to a democratic climate..... Neither Parliamentary nor public opinion will reconcile itself to making the spending Ministries independent of Treasury control.

** Commerce, 18th August, 1956.

\$ The Indian Express, Delhi, 16th August, 1956.

@\$ National Herald, 18th August, 1956.

* Pioneer, 17th August, 1956.

Shri A.K. Chanda[§] has answered the Appleby thesis that the expert is "allergic to auditing". Administrators love hush-hush and many of them in high offices are positively audit-shy.

RAISON D'ETRE OF AUDIT

While offering advice to the Government of India, Dr. Appleby ignored the status given to Comptroller General of America and his role in audit of the limited public sector undertakings in the United States of America, particularly, evaluation of programmes, projects etc. He could not have been unaware of the concern expressed by Mr. Lindsay C. Warren, Comptroller General in USA, of the multitudinous complex of Government corporations in that country, before budgetary and audit controls were applied to them, who had warned the Congress, that if the trend towards creation of these agencies was not halted, it would lead to "Government by Corporations". In fact, the Government Corporation Control Act 1945, which specifically provided for the audit of the nationalised industries by the U.S. Comptroller General, had radically changed the duties and functions of the Comptroller General of USA, who was entrusted with review of programmes, projects of federal government, which in the next 25 years completely transformed the character, competence and effectiveness of the Comptroller General of USA in federal administration. Sir Frank Tribe, Comptroller and Auditor General of United Kingdom, when asked by the Select Committee on Nationalised Industries constituted in 1952, whether he could undertake audit of these undertakings, replied that he could but did not want to, as it would involve a large expansion of his department, as had become necessary in USA and apprehended that audit by him might limit the scope of the employment of professional auditors and lead to great dislocation both in government service and in the profession. But his successor Sir Edmond Compton told the Select Committee on Nationalised Industries in 1959, that in cases like the Sugar Board, where the accounts were audited by Commercial Auditors, but whose affairs came to the notice of the Public Accounts Committee, the CAG had the right of inspection over and above the Commercial Audit which would be confined to sporting cases of *prima facie* evidence of inefficiency, waste or deviation from sound financial principles. At that time, as explained earlier, the CAG of India was struggling to establish his right to audit the government undertakings, despite the organisational deficiencies of the Department inherited by him.

[§] The Decan Herald 18th August, 1956.

The distinction between highly developed countries and developing countries was drawn by Prof. Hanson of Leeds University in his *Public Enterprises and Economic Development* - "In a country where people are not distinguished for their financial reliability, where respect of public property is not highly developed and where there is an accepted tradition of meticulous expenditure controls, the absence of which would be regarded as a Chapter not of liberty but of licence, the freedom to spend accorded to public enterprises in countries such as Britain, France and America might lead to grave abuses".

Shri S.S. Khera* observed that "the Auditor General's complaint has now been squarely met by providing for a double audit of these companies which enabled the Public Accounts committee to investigate the working of the companies in the event of malpractices".

The role of the CAG in regard to audit of public enterprises was keenly debated during the discussions of the Life Insurance Corporation Bill in 1956. Whereas the Finance Minister declared that he was totally opposed to saddling the CAG with the responsibility of auditing financial enterprises, as that would kill the nationalised Life Insurance Corporation, and cited Appleby's finding to support his view, he was supported by Shri Morarka§ and few others. Some eminent members of Parliament, Shri Asoka Mehta, N.C. Chatterjee, H.N. Mukherjee argued for the CAG's audit of insurance companies. Government's decision to exclude the nationalised insurance companies from the purview of the CAG's audit prevailed but the heat and dust generated during the deliberations left permanent scars on future legislations, as reflected in subsequent statutory enactments creating certain corporations, which kept the CAG at arm's length.

Shri A.K. Roy described Government Audit in commercial Undertakings as under :—

"He sees whether it is necessary to incur the expenditure which has actually been incurred, whether the same purpose could not have been served by spending less and whether the amounts have been spent in the wisest manner possible. He sees whether the undertakings have fulfilled the expectations for which they had been established, whether the targets have been achieved as scheduled for, whether avoidable delays either in the construction or production have occurred and whether infructuous or nugatory expenditures have been incurred. This involves a review of the decisions taken by the Board of Directors to ascertain to what extent their powers have been exercised in the best interest of the Undertaking

* Former Cabinet Secretary in his book "Government in Business".

§ Who later became Chairman, PAC.

and in accordance with the accepted principles of financial propriety. Similarly a review will have to be undertaken to see whether the powers delegated to the Chief Executives have been exercised properly. The cost accounts will have to be examined to ensure that the unit is being administered efficiently and economically. It is in these matters that Parliament is vitally interested. The professional auditors are neither competent nor properly equipped to conduct such an examination. If Parliamentary control has to be adequate and effective, it is essential that the accounts of the Statutory Corporations and Government companies are subjected to a supplementary or test-audit by the Comptroller and Auditor General". The progress towards a more satisfying and comprehensive system of efficiency-cum-propriety audit of Government companies by the CAG to provide basic tools for evolving Parliamentary control to ensure public accountability continued in the next decade.

REPORT ON STATUTORY CORPORATIONS AND AUTONOMOUS BODIES

Till February 1960, when the CAG was the sole and exclusive auditor, the relevant Acts of the Statutory Corporations and Autonomous Bodies provided for the laying of Annual Accounts, as certified by the CAG and/or other persons appointed by him in his behalf, together with the Audit Report thereon before the Parliament or State Legislature. In the case of Statutory Corporations and Autonomous Bodies, where the CAG functioned, in addition to professional auditors, the relevant Acts provided for the submission of Audit Reports to the Parliament or the State Legislature concerned based on the Accounts certified by the professional auditors. Important irregularities, if any, noticed during audit of these institutions were included in the Conventional Audit Reports, alongwith the certified accounts in the case of the former category, wherever possible. The separate audit report on the accounts of the bodies, which fell under former category duly cleared by the Headquarters office was signed by the respective Principal Audit officer and forwarded to Government for necessary action. The reports of latter category were signed by the Principal Audit officer and countersigned by the CAG. In the case of statutory bodies where the audit by the CAG was only supplementary audit, the report was included only in the Conventional Audit Report.

From February 1960 onwards, submission of a separate audit report under the provisions of the various Acts alongwith the certified annual accounts to the Government was introduced. It contained really important points, arising as a result of the audit of the annual accounts of the undertaking selected from the inspection report, which were

considered essential to be brought to the notice of the Government and the Legislature, which was distinct from the Conventional Audit Report. It, *inter alia*, included such material as a result of propriety audit, as was considered necessary to be brought to the notice of Legislature. The irregularities included in the Conventional Audit Report were not confined to the transactions/accounts of a particular year. Certain overlapping of audit comments appearing along with the annual accounts and those included in the Conventional Audit Report became inevitable.

Comments were normally confined to a brief factual mention of accounting or other irregularities, the facts of which were beyond dispute and in regard to which no controversy was likely to be raised by the Administration. Any important matter in regard to which Audit considered it necessary to express a view, which would amount to criticising the management was included in the Conventional Report. Audit was not precluded from including in the separate audit reports any comments relating to the accounts of previous years, if there was any important point on which adequate action was not taken. So far as the Conventional Audit Report was concerned, only important financial irregularities considered necessary to be brought promptly to the notice of the Public Accounts Committee were included.

From May 1963, a separate Audit Report on Financial Corporations was issued, where the Government had to pay subvention to enable the Corporation to declare the guaranteed dividend and the audit by the CAG or any person/persons authorised by him was obligatory under the provisions of the respective Acts. But in all such cases where the audit report was 'NIL' the Accountant General concerned issued a suitable certificate over his signature after obtaining prior approval of the Headquarters office. In the case of Corporations, where the CAG's audit was not obligatory but was taken up on his own motion under the provisions of the respective Acts, the practice of issuing 'NIL' report was discontinued. Substantial comments offered in separate audit reports were got cleared for approval and countersignature by Headquarter's office, wherever necessary. In December 1963, the countersignature by the CAG was dispensed with, except in cases where the Acts or the rules made thereunder specifically provided for CAG's signature.

SUPPLEMENTARY AUDIT

Initially, when the supplementary audit was conducted under Section 619(4) of the Companies Act, 1956, the comments upon or supplement to the Company Auditors' Report were shown informally to the management of the Company concerned in draft for their comments, if any, before they were forwarded in final form to the headquarters office

for approval. After clearance from DCA, they were formally communicated to the Chief Executive of the Government Company. Major irregularities having substantial financial significance arising out of the supplementary test audit, conducted under Section 619(3)(b) of the Act, were included in the comments offered on the report of the Company Auditors under Section 619(4) from early 1958. While objections of a tentative or unfinalised character and/or not pertaining to matters of special interest to the shareholders, as distinct from the tax payers of the country represented by the Parliament, were not included, all steps were taken to finalise all major comments on irregularities, etc., arising out of the statutory test audit with a view to including them in the supplementary comments offered on the report submitted by the Company's Auditors. Paragraphs for the conventional Audit Report on items considered important enough to be brought to the notice of Parliament were prepared later in the light of the final action taken by the Companies following the shareholders meeting. The DCA was entrusted with the Supplementary or test audit of all Central Government Companies from May 1961 and the Dy. Director of each region carried out the audit and obtained approval of the DCA for the comments and issued to the Chief Executive of the Company. While the A.G. under whose audit jurisdiction the Company fell, conducted the Supplementary or test audit of State Government Companies and commented upon or supplemented the audit report of the Company Auditors under the Act, the Deputy Director of Commercial Audit, where set up, conducted the supplementary or test audit for the AG and forwarded the draft audit report, as well as the comments upon or supplement to the Company Auditors' Report to the AG concerned for further action. Technical consultation of the DCA was left to the discretion of the AG.

On receipt of audited accounts from the Company Auditors, if they were not subjected to check under Section 619(4) of the Companies Act, 1956, a statement to that effect was issued to the Company. The Chartered Accountants were to complete their audits, which were checked by the respective Chief Auditors and the preliminary comments were framed by the Director of Commercial Audit/Chief Auditors who issued them to the Company as also to the Chartered Accountants, who had certified the accounts. On receipt of the replies from the Companies and, if possible, from the Chartered Accountants, they were got approved by the CAG, where necessary and the accounts together with the comments so finalised, were then placed before the annual general meeting. As this procedure led to delay in holding the annual general meeting, the desirability of modifying it to make available the comments of the CAG more or less simultaneously with the audit certificate given

by the Chartered Accountants was suggested. In late 1966, it was decided to conduct the audit more or less simultaneously alongwith that of the Chartered Accountants at a later phase before they certified the accounts, so as to facilitate the framing of comments and obtaining replies of the Chartered Accountants before they finalised their audit certificate. Major differences of opinion, if any, between Government Audit and the Company Auditors became subjects of comment, which provided the Company and the Chartered Accountants with ample opportunities to consider preliminary comments so that necessary amendments in the accounts could be made before final certification of the accounts by the Chartered Accountants and finalisation of the comments under Section 619(4) of the Companies Act. From the accounts for the year 1966-67 and onwards, the procedure was also extended to State Government Companies.

DIRECTIONS TO THE COMPANY AUDITORS

The directions under Section 619(3)(a) of the Companies Act were issued first to the Company Auditors in March 1962, effective from the accounts of 1962-63 onwards, requiring them to audit the Company's accounts in such a manner as to enable them to answer the questions in the form of a report to be submitted to the Company, alongwith the certified copy of the Balance Sheet and Profit and Loss Accounts, or as soon as possible thereafter within a period not exceeding two months, and to send two copies of replies to the questionnaire to the CAG, while sending reports on the accounts of 1961-62.

The Statutory Auditors of State Government Companies having a paid-up capital of Rs. 1 crore and above (Statutory Auditors of eight Companies in four States, three in Hyderabad, two each in Kerala and West Bengal and one in Madras) were issued the directions in December, 1962. The directions were in the form of questions - in all 21 - arranged under seven broad headings *viz.* (i) System of accounts and book keeping, (ii) Internal Control, (iii) Manufacturing and Production Accounts, (iv) Profit and Loss Accounts, (v) Balance Sheet, (vi) General Review and (vii) General. At the instance of the CAG, the Government of India, Ministry of Commerce and Industry (Department of Company Law Administration) impressed on the managements of Central Government Companies to afford necessary assistance to the Statutory Auditors. The directions were revised in February 1966, and 33 directions and sub-questions were issued, which in effect, amplified the earlier questions under the broad categories and also added new sections covering new concept and questions. Under the system of Accounts and Book-Keeping, enquiries were made as to whether the accounting system

and manuals facilitated 'auditing in depth', accuracy, promptness and efficiency of reconciliation of books, control accounts and subsidiary accounts, asset registers and correctness of allocation; under profit and loss account, questions were added on depreciation, valuation of stock and special features affecting results; under Manufacturing and Production accounts, new sub-sections on Cost Accounts with two questions were added; Under Balance Sheet questions were modified and amplified under distinct heads like Sundry Debtors, Plant and Machinery, Inventory procedure and control, working capital and under General Review, questions on proforma accounts maintained for service units for the benefit of staff, ratios on capital assets and sales, and a new section - under the heading 'Township - was added with two extra questions and General, was amplified and modified to bring out the working and growth of the company for the last four years in a tabular form indicating liabilities and assets, income and profits, profit ratios, other ratios and another table showing source and application of funds. The directions covered not only the progress in accounting and management of the industrial concern, during the last six years but also recognised the graduation of professional auditors in the public sector auditing. Except for the additional directions to the Statutory Auditors in regard to the Accounting policies followed by the Companies and disclosures in Financial Notes were issued in January 1969, these directions have remained unchanged for nearly two decades.

CHANGES IN SYSTEMS AND PROCEDURE

The procedure for conducting commercial audit work was modified with effect from December, 1962. The Deputy Directors of Commercial Audit were authorised to issue the reports after completing the local inspection to the local management of Government Companies, Statutory Corporations and local authorities of the departmental concerns and pursue them upto finality. They were empowered to issue the draft paras for the Audit Report to the management of the company/corporation concerned and simultaneously supply a copy to DCA with all key and supporting documents to enable him to examine the para for eventual incorporation in the Report and for further processing them to Ministries concerned and also to the CAG for approval. The DCA consolidated material relating to corporations with multiple units. In the case of State Commercial Undertakings/Companies/Corporations which were audited by the regional offices of the DCA for the State AG, identical procedure was continued except that they were to be sent to the AG for finalisation and for obtaining the approval of the CAG for inclusion of the para in the Audit Report.

The comments on the Central Government Companies were drafted by the Regional Deputy Directors, after obtaining the views of the management and the company auditors and sent along with an aide-memoire, relevant papers and his further remarks, if any, to the DCA, who finalised them in consultation with the office of the CAG of India and issued to the management concerned. Comments in respect of State Government Companies/Corporations audited by the Dy. Director of Commercial Audit were finalised by them and sent to the AG for issue to the Company concerned. While the AG was empowered to issue comments in respect of the companies having a paid-up capital of less than Rs. 5 lakhs, after obtaining Headquarters' office approval, the comments in respect of the State Government Companies having paid-up capital of over Rs. 5 lakhs were sent through the regional Dy. Directors to the CAG for approval and returned to the AG for issue. Comments in respect of companies having paid-up capital of Rs. 5 lakhs or more were required to be sent by the regional Dy. Director of Commercial Audit to the AG concerned, who obtained the approval of the Headquarters office before issuing them to the company.

The review on Central Government Companies was published as an annexure to the Director's Report by the company from 1965. A review on the accounts of the Hindustan Machine Tools prepared by the DCA was held to be the model of the review to be prepared. The State Governments were requested to issue necessary instructions to the management of the State Government Companies for preparing similar reviews in respect of State Government Companies (who have completed at least three years of their working) from the accounts for the year 1965-66 in respect of companies, which were selected for review under Section 619(4) of the Companies Act, to be published as an annexure to the Director's Report.

AUDIT CERTIFICATE

The legality of the procedure adopted by the CAG in issuing the audit certificate, containing a clause to the effect that the results of the supplementary or test audit conducted under Section 619(3)(b) of the Companies Act, would be intimated to the company in due course, which was appended to the annual report presented to the Parliament in pursuance of Section 639(1) of the Act, but the results of such audit were neither placed before the annual general meeting of the company nor were they submitted to the Parliament along with the annual report, was raised by the Lok Sabha. The Company Law Administration pointed out the distinction between the right of the CAG under Section 619(3)(b) of the Companies Act and the right to comment on the Company Auditor's

report under Section 619(4) *ibid*; only the report under the latter section was required to be placed before the annual general meeting of the company under Section 619(5). As regards the report under Section 619(3)(b), there was no statutory obligation to place the report before the Company in general meeting or before the Parliament, although the CAG brought major irregularities to the notice of the Government and the Parliament through the Conventional Audit Report. The Company Law Administration enquired, whether, in any case, where the CAG wanted to reserve the right to conduct such a separate supplementary or test audit, he might make a stipulation to the effect in a separate letter to the Company concerned, rather than in the audit certificate under Section 619(4): While communicating the comments on the Company Auditor's report to the Company, the CAG decided that it was not necessary to indicate that the results of supplementary or test audit under Section 619(3)(b) of the Companies Act would be communicated later. Since comments under Section 619(3) *ibid* would be separately communicated to the Company and to the Government before they were included in the Conventional Audit Report, an advance intimation in a separate letter to the Company that the comments under this Section would be communicated later as was done at that time was not called for.

CHANGES IN JURISDICTION

The audit of the State undertakings was transferred from the regional offices of the DCA to the Accountants General with effect from 1st April, 1967, who was free to consult the DCA or later the ADAI (Commercial). To ensure necessary coordination in the audit of undertakings both in the Central and State spheres, the ADAI (Comml.) continued to deal with the ARs - Central and State Governments Reports. The procedure for the appointment of auditors was reviewed in June 1967, with a view to eliminate all possible delays in the appointment of auditors, and to ensure that the advice of the CAG was tendered to the Department of Company Affairs (Company Law Board) or to the State Government as the case may be soon after the accounts were reviewed by the DCA/AG concerned. The DCA initiated action for obtaining the advice of the CAG regarding the appointment of auditors of Central Government Companies, as soon as he finalised the comments in respect of each company or after issuing the certificate in the case of Companies not reviewed by him and communicated to the Department of Company Affairs (Company Law Board). He ensured that the CAG's advice was obtained and communicated to the Department of Company Affairs (Company Law Board) by the 7th month after the close of the accounting year. Proposals regarding

appointment of auditors in the case of Companies, the accounts of which were not closed and audited within the prescribed time limit, were sent as soon as possible, after the receipt of the audited accounts of the Company by the DCA. The Accountants General were also advised to adopt similar procedure in respect of State Government Companies and send their proposals to the DCA, who obtained the advice of the CAG in the same manner and communicated to the Department of Company Affairs (Company Law Board) under intimation to the Headquarters Office and the State A.G. concerned.

In the case of the Central as well as State Government Companies incorporated during the course of a year, the Company wrote to the Company Law Board, who approached the DCA, who communicated the CAG's advice to the Company Law Board. In the case of State Financial and State Warehousing Corporations established during the course of a year the advice of the CAG regarding appointment of auditors for the first financial year was communicated by the Headquarters office to the State Governments on request. For the next subsequent accounting years necessary action was indicated by the A.G. After abolition of the office of DCA, the work was transferred to ADAI (Commercial) in the headquarters office. By 1970, a panel of nearly 325 firms of auditors was maintained by the ADAI(C) for appointment of auditors to 349 Companies. The proforma for initiating the case for appointment of auditors of Government Companies/Corporation was revised in January 1979, wherein the A.G./DCA were required to indicate clearly as to what extent they would be held responsible for the deficiencies thrown up in Government audit and in February 1980 it was further revised to indicate whether the auditors should be cautioned/denied appointment or considered for other audits.

ADMINISTRATIVE REFORMS COMMISSION

The Administrative Reforms Commission, constituted by Government of India in* January 1966 under the Chairmanship of Shri K. Hanumanthaiah**, had formed in May 1966 a study team on public sector undertakings under the Chairmanship of Shri Ravindra Varma\$* for examining the problem relating to public sector undertakings in the Central Sector.

The study team surveyed the entire area of public sector including audit and accountability and recognised that audit of public expenditure

* Resolution No.40/3/65-AE(P) dated 5.1.66.

** The other Members of ARC were Sriyuths H.C. Mathur, H.V. Kamath, Debrata Mukherjee, V. Shankar, ICS(Retd.) and V.V. Chari (Secretary).

\$* See next page.

was no longer restricted to "regularity audit" but extended to "efficiency-cum-propriety audit" or mere "efficiency audit", when the execution of the various programmes taken up by the undertakings and their operations were examined to ascertain as to whether they were producing the results expected of them. There was however dissatisfaction with the prevailing system. The existence of multiplicity of external audits led to considerable waste of time and effort for the management, since it had to reply to the detailed questions and objections raised in successive examinations by the professional auditors and the government auditors. Government auditors, particularly the lower staff did not have sufficient appreciation of the commercial nature of the public enterprises and often raised questions and objections of a nature that might have some value in the case of the administrative ministries, but appeared trivial and inconsequential in the case of commercial undertakings. Undue importance was attached to the audit function as a whole and to the observations made by the auditors after the event with the advantage of hind-sight. Too detailed and continuous audit dampened the initiative of enterprising managers forcing them to adopt a more cautious approach and restricting the scope of delegation of powers. At present, the auditors did not have the necessary expertise or experience to undertake an adequate and systematic appraisal of the managerial efficiency. The team went into the manner in which the audit was being conducted by the different agencies to determine how best the existing multiplicity of audit in the case of the government Companies could be reduced and how the whole approach to audit could be reoriented to bring it in line with the special requirements of the public enterprises. Of the undertakings reviewed by the DCA, it found the review of Hindustan Steel Limited included in the Audit Report (Commercial) 1966 was fairly comprehensive and included most of the important aspects of operation in each of the units of the company, which showed how much useful information about the working of the public undertakings could be given to Parliament by the CAG, provided he was able to make a comprehensive review for the purpose. But the turn over of the reviews of the CAG was inadequate compared to the spread of the public sector (only 11 companies out of 56 were taken up for annual review in 1965 and in 1966 Reports. When the Hindustan Steel Limited was reviewed, only two of the companies could be reviewed).

* The other members of the Study Team were Sriyuths P.R. Ramakrishnan, P. Venkatasubbiah, M.P., Kripal Singh, R.C. Dutt, ICS, Major General Sardanand Singh (Retd.), Prakash L. Tandon, S.T. Rajah and Naresh Chandra, IAS.

While they found general agreement about the prevailing multiplicity of audit and the need to eliminate duplication of efforts, there was divergence of views in regard to the modus operandi to be adopted. The Chief Executives and General Managers suggested that Government Companies should be treated as joint stock companies and their accounts should not be subject to audit by the CAG. Some others felt the legal right to give directives to professional auditors by the CAG should be used to get the entire work done through the Commercial Auditors. But the CAG and his senior officers were of the view that the private firms of the Chartered Accountants did not have the requisite expertise or experience to undertake the efficiency-cum-propriety audit conducted by the IAAD. Some argued that the entire audit of the public enterprises should be entrusted to the CAG as a sole responsibility, as was done in the case of certain corporations. Since the Government companies were financed wholly or mainly from public funds, their accounts should be subject to efficiency-cum-propriety audit by an agency acceptable to Parliament.

The study team considered the position prevailing in U.K., U.S.A., Canada and Italy and did not find any instance where the accounts of public undertakings were subject to audit both by Government auditors as well as private professional auditors. After considering the various alternatives for reducing the existing multiplicity of audit and the duplication of work, the Commission felt that it would not be advisable to do away with the CAG's audit altogether, both on consideration of the public accountability and to avoid wastage of skill and expertise acquired by the Directorate of Commercial Audit in conducting the efficiency-cum-propriety audit. Entrusting the whole work to the CAG was not feasible, as it would necessitate large scale expansion of the Commercial Audit branch of CAG's organisation at considerable cost. Further, it would neither be proper nor possible to curtail the business of the private firms of Chartered Accountants in public sector undertakings, who performed this work and acquired some experience and expertise in the process. Even reduction in the quantum of work done by the CAG and increase in the quantum of work assigned to professional auditors would not bring significant reduction either in the existing multiplicity or overlapping of audit since the CAG would be inclined to test the work done even by the professional auditors. More important than reduction of avoidable multiplicity was the need to revise and reorient the attitude of government auditors to conform to the special requirements of public enterprises.

The team concluded that it would not be proper to confine the audit of public enterprises to mere financial audit by the professional auditors. If public accountability was to be effectively discharged, it appeared

necessary, that there should be an external agency entrusted with the task of conducting propriety audit. According to them, it was not possible to effect the required degree of requirement without radical change in the existing system and concluded that with suitable modifications the systems prevailing in France and Italy could be adopted for the audit of the public enterprises. The French System was explained as under :

"In France, a statutory body called the 'Commission de Verification des Comptes' (Commission of Verification of Accounts) has been set up for work relating to the verification of accounts and the appraisal of performance of public enterprises. The work of the Commission is divided into five sections, each section covering a different area of enterprise, namely fuel and power, credit and insurance, transport and communication, engineering, chemical and miscellaneous industries. Each section consists of three magistrates of Cour des Comptes (Audit Court) and two other members appointed by the Minister of Finance and Economic Affairs. The Commission has its own staff for verification work but includes a large number of officers, deputed from the Audit Court. It also utilises the services of part-time Investigators (rapporteurs) taken for the purpose from different Ministries. The aim of the verification is not only to check the correctness and proper maintenance of the balance-sheets, inventories, etc., but also to bring out the financial position of the undertaking and its future prospects. The Commission also examines the Commercial and financial management of the enterprises and suggests improvements including the changes required to be made in the organisation and structure of the enterprises..... The discussions in the sections of the Commission are also attended by representatives each of the administrative Ministry concerned and the Planning Commission. The individual reports containing the findings, observations and suggestions of the Commission are adopted by the sections after hearing the representatives of the enterprises. These reports are confidential documents intended for the Minister of Finance and Economic Affairs, the Minister concerned with the enterprise and the Audit Court. They are, however, placed at the disposal of the Member of Parliament appointed to the various permanent commissions of the French Parliament concerned with the examination of the working of public enterprises. The Commission also presents a consolidated report on the activities of the concerns, and its findings, to the Parliament and to other high State organs".

Advantages likely to accrue by adopting the system of audit prevailing in France with certain modifications were highlighted by the Study team. The radical re-orientation in the attitude of the auditors so

as to conform the outlook and methods to the special requirements of the commercial and industrial enterprises in the public sector can be accelerated, if a Board was entrusted with efficiency-cum-propriety audit of these enterprises and two eminent outsiders with the experience of working of public enterprises were also nominated to serve as members of this Board. The Audit Department was to be reorganised along functional lines and a Board on the French pattern constituted at the top to provide directions and guidance to the lower levels. The work that was being done by the Director of Commercial Audit was to be divided among four or five Audit Boards for various types of industries. Each of these Boards should have five members including three senior auditors as common permanent members. ADAI should be designated as the Common Chairman of these Boards and the other common permanent members should be of the rank of Accountants General. The two part-time members of each Board should be appointed by the Minister responsible for the development of that particular industry to be selected from amongst very senior persons having experience of the public enterprises or experts in commercial or financial matters. The existing departmental set-up of the Director of Commercial Audit should be utilised for providing the secretariat and investigating staff to the Audit Boards. The existing staff was to be given re-orientation and training. Specialists and experts like statisticians, economists and cost and chartered accountants were to be recruited. An organisation looking for efficiency-cum-propriety audit, should at least resemble in expertise and specialisation the management organisation of the enterprise concerned. The reports relating to individual undertakings should be discussed in the Audit Board in the presence of the representative of the Ministry concerned and the public enterprise under examination. These reports should be treated as confidential but should be presented through the controlling Ministry to the Parliament. It should not be necessary for the Audit Boards to undertake a comprehensive review of the working of each undertaking every year. In fact, such a comprehensive review which would entail a corresponding amount of examination would not even be desirable. The Audit Boards could so phase their programme that they undertake this comprehensive review in respect of each undertaking once in every five to seven years. This periodical review should be systematic appraisal of managerial performance along the lines prescribed by the study team. The work of annual verification of accounts and the balance sheet need not be delayed on account of any comprehensive review.

The study team also recommended that a large portion of the work, mainly relating to regularity audit might be got done by the Audit Boards through the professional auditors, which was expected to effectively

minimise the chances of duplication. According to the study team, the Audit Boards could be really beneficial to the undertakings, only when they function more for the constructive purpose of suggesting improvements than for focussing attention on the efficiency of the management; but they should guard themselves against the temptation to prefer their own judgment to that of the management boards, to highlight transactions, which only involved a different opinion and to make observations, which were based purely on fortuitous hindsight. The study team felt that within such a frame-work an investigation by a body having professional competence with experts from outside would not only indicate the true financial status and prospects of an enterprise but would also inform management of the areas of possible improvement. The Audit Boards should deem the task of appraisal of managerial performance as far more important than that of the verification of accounts and audit.

In the sphere of audit and appraisal of performance of the undertakings the Study Team made 15 recommendations. Four or five Audit Boards were to be formed, each Board dealing with specified sectors of public enterprise, which should function under the general supervision of the CAG. Membership of the Boards should be five - three permanent members common to all the Boards, who should be senior officers belonging to the organisation of the CAG, of which one should be of the rank of an Additional Deputy CAG, who should be the Chairman of all the Boards, and two part-time members to be appointed by the Government in consultation with the CAG, keeping in view the area of enterprise to be apprised, from the ranks of senior experienced persons working in public enterprises or from among experts in commercial or financial matters. The staff required for the Audit Boards should be recruited through the Union Public Service Commission and until the new recruits took over the work, the existing departmental set-up of the Directorate of Commercial Audit should be utilised. The combined audit parties comprising the staff of the Audit Boards and the professional auditors should be formed for carrying out their work in an undertaking concurrently and collectively. The report on an individual undertaking should be finalised by Audit Board after discussion in the presence of the representatives of the public undertaking and the Ministry concerned. The report of the Audit Boards with such comments as the CAG may wish to make should be placed before Parliament. While recommending systematic appraisal of the performance of public undertakings to be entrusted to the Audit Boards, the need to augment the expertise of the auditors under the Audit Boards by employing economists, management engineers, statisticians etc., and also those who have had the experience of working in public undertakings was felt by the

team. The Commission, in its report on public sector undertakings submitted to the Prime Minister on 17th October, 1967, fully endorsed the study team's recommendations and the Chairman drew particular attention to the recommendation breaking new ground relating to the constitution of several Audit Boards - each Audit Board dealing with certain specified areas of enterprise - for conducting efficiency audit as well as for making appraisal of performance. In order to make the control and supervision of Parliament more effective and purposeful, the Commission had even suggested setting apart specific time for discussion by Parliament of the working of the public undertakings.

DECISION OF GOVERNMENT

Government accepted* the recommendations of the Administrative Reforms Commission subject to the condition that two part-time members would be appointed in consultation with and concurrence of the CAG by the Administrative Ministry responsible for the undertaking under review by the Audit Board and the Audit Boards would be under the jurisdiction and control of the CAG and would be part of the CAG's organisation. The new arrangement would not retract the CAG from his right to undertake any special or supplementary audit, if he considers it necessary. The comments of the Audit Boards on the audit of public enterprises would be incorporated in the Audit Report (Commercial) placed before the Parliament. The recommendation regarding combined audit parties comprising staff of the Audit Boards and the professional auditors for carrying their work in the undertaking concurrently and collectively was also accepted. Both the regularity and propriety-cum-efficiency audit of public enterprises would be conducted through the instrumentality of Audit Boards. The CAG was empowered to give directives and issue guidelines on the conduct of both such audits and the powers of the CAG in this regard should continue even after the Audit Board was set up and in the case of propriety audit he could, if necessary, use his own staff in coordination with the Board's. The comprehensive appraisal of audit of public enterprises might have to be conducted oftener than at intervals of five years as suggested by the Administrative Reforms Commission.

REORGANISATION

The Commercial Audit Department was reorganised in April 1969 and the existing office of the DCA was abolished on the 31st March, 1969. The Audit Board was formed with effect from 1st April, 1969 for conducting the review of Central Government Companies and

* GOI (MOF) O.M. No. 2(9)/68-BEP(GM) dated 19th December 1968.

Corporations and making a Comprehensive appraisal of their performance and it consisted of a Chairman, two whole-time members and two part-time members. The Chairman and two whole-time members were officers of the IAAD and appointed by the CAG. The two part-time members were appointed by the Government of India in consultation and with the concurrence of the CAG. The Secretary to the Audit Board was an officer of the IAAD appointed by the CAG. The Audit Board was a part and parcel of the CAG's organisation. The Chairman was designated as the Chairman, Audit Board and *ex-officio* Additional Deputy CAG (Commercial), and the two whole-time members were *ex-officio* Directors of Commercial Audit (in the rank of Accountant General), Eastern Region, Calcutta and Southern and Western Region, Bombay. The Secretary to the Audit Board was *ex-officio* Assistant CAG (Commercial). The Chairman, the Secretary and the supporting officers and staff formed part of the CAG's office. The Audit Board was an internal mechanism for conducting only the review of the selected undertakings annually and had no separate legal status but worked under the supervision and control of the CAG. The selection of undertakings for appraisals was made by the CAG based on the proposals given by the ADAI(C).

The ADAI(C) continued to co-ordinate the audit of the State Government undertakings conducted by the respective As.G., the Central Government Companies/Corporations not selected for review by the Audit Board, and the Central Government Departmental undertakings. The technical supervision over the Chief Auditor, Commercial Accounts, Northern Region was exercised by him directly. The financial and administrative powers so long exercised by the DCA relating to the Chief Auditor's office, Northern Region was also exercised by him. The DCA in each region supervised the work of the Chief Auditor's working under them and exercised the financial and administrative powers exercised by the erstwhile DCA in relation to the offices of the Chief Auditors falling within their jurisdiction except for appointment and control of SAS (Commercial) Accountants and Audit Officers (Commercial). The Secretary and *ex-officio* Assistant CAG (Commercial) functioned as Secretary to the Audit Board reviewing a particular undertaking. Otherwise he functioned as AC (C) under the ADAI (C) whom he assisted in the administration of SAS (Commercial) and Audit Officers (Commercial) cadres.

NEW REGIONAL OFFICES

While the existing office of the Chief Auditors, Commercial Accounts of Western and Southern Region, Bombay was brought under the MAB & DCA, Bombay and the Chief Auditor, Calcutta and Ranchi brought

under the MAB & DCA, Calcutta, the Chief Auditor, Commercial Accounts, Northern Region, Delhi, was under the direct supervision of ADAI(C). The Chief Auditors of Commercial Accounts continued to conduct the audit of the Central Government Companies and Statutory Corporations entrusted to them and issued the inspection reports. The initial material collected by the Chief Auditors was submitted to the respective Members of the Board for conducting the review of the selected undertaking. The Members of the Audit Board visited the selected undertakings, discussed the review report with the representatives of the undertaking and after discussion, drew up the draft review report, which was sent to the Chairman of the Audit Board. A copy of the draft review report approved by the Chairman of the Audit Board was sent to the management of the undertakings and to the concerned Ministry. The Board discussed the review with the representatives of the Ministry concerned and the representatives of the undertaking. After discussion, the review report was finalised by the Chairman of the Audit Board, who obtained the approval of the CAG for inclusion in the Audit Report (Commercial), which was signed by him in his capacity as *ex-officio* ADAI(C) and countersigned by the CAG and was forwarded to the President, under Article 151 of the Constitution of India for placing before the Parliament.

The audit of the undertakings not selected for review by the Audit Board in a particular year was conducted by the Chief Auditors of each region. The Directors of Commercial Audit and the Chief Auditors, Commercial Accounts, Northern Region, processed the points noticed during the course of such audit and obtained comments of the Management of the undertakings and the Ministries concerned and sent them as draft paras to Headquarters office for inclusion in the Central Audit Report (Commercial).

Audit under Section 619(4) of the Act was conducted by the Chief Auditors and the comments were sent to Headquarters Office for approval before issue. The Chief Auditor, Commercial Accounts, Northern Region, obtained the approval for the comments direct from Headquarters Office and issued them. The Chief Auditors continued to conduct audit of the Central Government Corporations. The draft Audit Report was sent by the DCA to Headquarters Office for obtaining the approval of the CAG and issued over their signature.

The Chief Auditors/Accountants General continued the audit of the accounts of the Central Government Departmental Undertakings (Commercial). The certification of the consolidated accounts of various Departmental Undertakings, having more than one unit (like All India Radio, Lighthouse and Lightships, Government of India Presses,

Medical Stores Depots) was carried out by the Chief Auditor, Commercial Accounts, Northern Region, New Delhi, who was the Principal Audit Officer for the purpose. He sent the certified accounts together with the audit comments thereon to the Ministry. In respect of Films Division and Overseas Communication Service, the consolidated proforma accounts were certified by the Director of Commercial Audit, Southern and Western Region, Bombay and issued to the Ministry. In respect of all other undertakings the respective Accountants General/Directors of Commercial Audit/Chief Auditor, Commercial Accounts, Northern Region certified the accounts and sent them to the Ministry for comments. The practice of sending inspection reports by the DCA in respect of these undertakings was dispensed with. Copies of the certified proforma accounts together with the audit comments thereon were to be endorsed to Headquarters office by the respective Accountants General/Directors of Commercial Audit/Chief Auditor, Commercial Accounts, Northern Region, New Delhi. Material relating to the Departmental Undertakings proposed for inclusion in the Audit Report was issued to the Ministry by the respective Accountants General/Directors of Commercial Audit/Chief Auditor, Commercial Accounts, Northern Region, New Delhi and copies thereof sent to Headquarters for information. On receipt of the Ministry's replies, the final proposal of the Principal Audit Officers for inclusion of the material in the Audit Report was to be sent to the Headquarters Office in the form of Draft Paras/Draft Reviews, etc. The material so received was processed by the Commercial Audit Wing in the CAG's Office (instead of the Report Section) and sent to the AGCR for inclusion in the Audit Report (Civil) as in the case of Commercial Chapters of the State Audit Reports.

There was no change in processing Reports in the State Government Commercial undertakings. The State AG proposed the material for inclusion in the Commercial Chapter of State Audit Report to Headquarters Office (Commercial Audit Wing) for obtaining the approval of the CAG. Similarly, the comments under Section 619(4) of the Companies Act on the Audit Reports submitted by the Chartered Accountants on the State Government Undertakings and the review of accounts were prepared and issued by the State As.G. after obtaining the approval of the CAG, where necessary. Separate Audit Reports requiring counter-signature of the CAG were processed by the State As.G. as before. The Commercial Audit Wing of the Headquarters Office took over the work relating to selection of Chartered Accountants for appointment as Auditors under Section 619(2) of the Companies Act. Figure 12.2 exhibits the organisation of the Commercial Audit Department in 1969 -

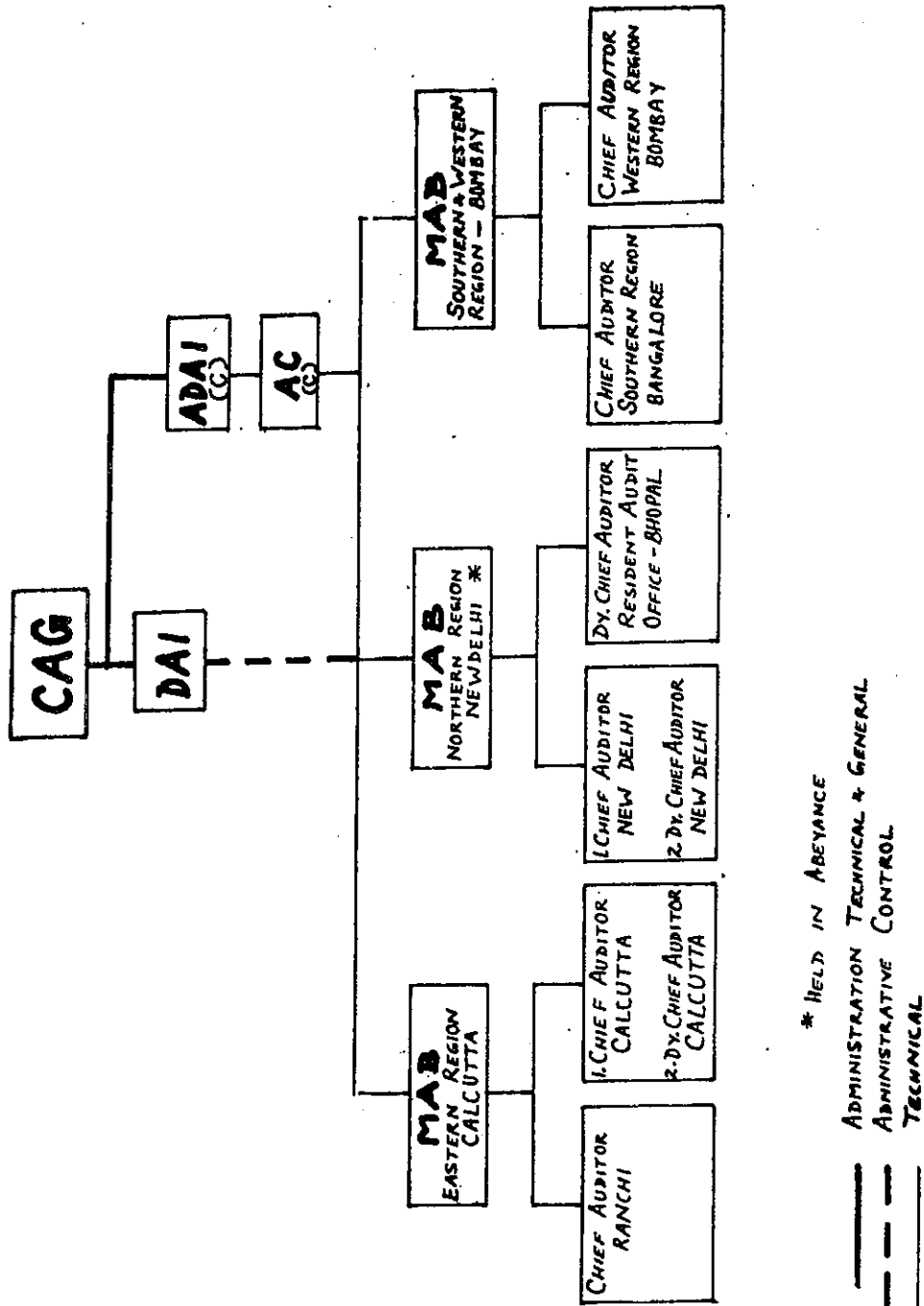


Fig. 12.2: Central Commercial Audit 1969

The offices of MAB & DCA, New Delhi was formed in March 1970; Bangalore in April 1971; Madras in July 1972; Ranchi in August below 1972; Dehradun in December 1972; MAB & DCA, Coal at Calcutta in January 1974; Hyderabad, F & C New Delhi and Bhopal in March/May 1978.

APPRAISALS

At the time of setting up of the Audit Board for making comprehensive appraisal on the performance of selected Public Sector Undertakings annually, no change in the system or procedure of conducting audit of such undertakings hitherto followed by the IAAD was contemplated. What was envisaged was to carry out a comprehensive appraisal of the performance by associating persons from outside the department having practical knowledge and experience of running these or similar organisations so as to make such reviews purposeful. Appraisal or evaluation of performance of any undertaking was primarily to be directed to ascertain how far the undertaking achieved its objectives. In the case of Private Sector Undertakings such an exercise presented no complicated problems, as in the case of Public Sector Undertakings, since profit was the sole motive, comparison between the planned or realised profit and the capital input became the only criterion of investment effectiveness. But in the case of Public Sector Undertakings, it could not be the only criterion, since it aimed at nationalised production, not profit maximisation but maximisation of national income, and to certain extent aimed at alienation of the prices of goods and services from their values on various governmental considerations, and considered it important to have the effects on the growth of a given line of production on various other branches and economic regions and was also to be guided by the decisions of the Government concerning a choice between given investment variants not often exclusively based upon the results of conventional economic analysis directed to ascertain the return on capital. Yet, the return on capital remained an important test to be applied in the case of Public Sector Undertakings in conducting their reviews, which was to be applied in the light of socio-economic objectives likely to be achieved. The criteria for investigation of investment effectiveness was not mere profits alone, but the maximisation of production of use/values with available material means and labour. It was no easy task, as some of the economic and social effects of nationalised production/trade on the economy as a whole were not susceptible of measurement nor can these be defined precisely in terms of money. Both have a common motivation of reducing the cost of goods and services, but in the case of Public Sector Undertakings where

no external competition existed except for certain fields to provide the innate urge to reduce the cost of goods and services for survival, investigations were to be directed with a change in emphasis to ascertain, if goods and services were produced at the most economic cost within the framework of objectives of nationalised production.

The distinction between conventional audit and comprehensive appraisal or efficiency-cum-performance audit has been clearly brought out during the last decades' performance. The published reviews brought out the major defects and deficiencies, namely, setting up of projects/undertakings without proper feasibility study, under estimation of capital cost, delay in construction/commissioning, longer gestation period than anticipated, under utilisation/non-utilisation of capacity, absence of market and market survey, low productivity of labour, defective material management and slack inventory control and improper credit control. The new approach was that the appraisal was to be directed not only to find out the defects, but also to a critical examination of the steps taken to remove them so that the undertakings became economically viable and socially useful. While preparing the appraisal of the Public sector undertakings the answers to the following questions were to be found :

- (i) What was the expected return from the investment? How was it arrived at? Has it been obtained? If not, why not? What the Management has done or intend to do to get it?
- (ii) How long will it take to pay back?
- (iii) Was the plant purchased, installed and commissioned most economically? How soon did it go into production? Was there delay? Did the undertaking get compensation for delay? If not, why not? Was the interest of the undertaking properly safe guarded in contracts? Was legal advice obtained before finalising the agreement? Were ancillaries like power, men, material, etc. available according to schedule?
- (iv) Is the plant economically viable by itself or should it expand? Was the expansion necessary? Did it come in time? What was its effect on cost?
- (v) Has the plant been fully utilised? Have efforts been/are efforts being made to ensure full utilisation?
- (vi) Has the undertaking been able to adhere to delivery schedule indicated to its customers? Was there cancellation of orders by customers for delay?
- (vii) Has it been able to supply to the satisfaction of clients or were there rejections? What was its impact on cost?

- (viii) Was cash adequate to meet pay roll, invoices, loans, etc. Whether borrowing was necessary and the time and mode of borrowing most opportune?
- (ix) What was the rate of collection of receivables? Was borrowing resorted to finance working capital? What happens if the rate of collection speeds up to the credit period enjoyed by the undertaking?
- (x) Does it operate in a monopoly or semi-monopoly condition? Who are the major customers - Government, other Public Sector Undertakings? What is the pricing policy, is it cost plus? Do the Government fix the prices? If so, on what basis? Is the profit a correct index of efficiency?

Audit was not only to anticipate the problems but also look into the solutions found by the Management and then examine them critically for commenting on performance, both micro and macro, to arrive at overall view on the subject/type appraised. The problems were expected to vary from industry to industry and the earlier guidelines issued for conducting reviews were to be adopted *mutatis mutandis* to the changing needs of each undertaking.

The theoretical exposition of the appraisal of the Government undertakings was naturally limited and confined to the broad principles that had emerged during review of these undertakings in the last decade and half and their acceptance and endorsement by the Parliamentary Committees, the industrial managements and the various controlling ministries. Both the theory and practice was not codified in any prevailing text books on Commercial auditing and what emerged in a forceful and effective form and design was a mixture of Government and commercial auditing practised by Government auditors with the added emphasis on accountability at appropriate levels, which ultimately provided the means to ensure parliamentary control over public sector undertakings. Surprisingly, the results thrown up by the practitioners in the next two decades not only made up the gnawing gaps in theoretical exposition but also created adequate case law, recommendations of COPU and Government decisions on them to enrich the art of business management in public sector undertakings. There was less emphasis on individual irregularities committed by management and more consideration of effects of administrative decisions on the performance and objectives of the undertakings. Detection and reporting of individual cases of loss, wastage, infructuous expenditure and irregularities were only incidental for such appraisals.

FUNCTIONAL DISTRIBUTION

Shri A. Baksi reorganised the offices of Members Audit Board in March 1978 with a view to streamlining the audit of Public Sector Undertakings and bringing supervisory charges within manageable levels. Four new offices of Directors of Commercial Audit were created - (i) at New Delhi for control and supervision of the audit of Fertilizer and Chemical units in the public sector (except SDP which was entrusted to DCA Hyderabad), (ii) at Bhopal to audit BHEL and National Textile Corporation (iii) at Hyderabad for audit of units of BHEL, and Nationalised Textile Mills transferred from six Directors of Commercial Audit and other Government companies or their units at Hyderabad and (iv) at Madras for audit of Oil Refining, marketing and petro chemicals complex transferred from DCA, Dehra Dun and DCA, Madras. The audit of insurance companies was centralised with the DCA, Bombay under a separate CA/Dy CA. The reorganised department had 12 Directors, and 23 CAs, 18 Dy CAs, 156 AOs and 384 SOs), for auditing 176 Government Companies and 42 deemed companies with an aggregate investment of over Rs. 10939.97 crores as under :

Class II Officer	No. of		Government companies/ Corporations	619-B. Companies	
	Class III Staff			No.	Capital invested (Rs. in crores)
AO	SO	No.	Capital invested (Rs. in crores)	No.	Capital invested (Rs. in crores)
19	48	30	614.61	5	10.45
13	28	22	1233.10	7	302.13
14	33	17	908.07	7	10.98
12	41	23	688.32	11	71.80
24	62	15	2797.60	-	-
17	39	8	275.44	-	-
13	28	14	958.44	5	26.47
11	28	10	1224.24	-	-
13	31	10	596.72	-	-
11	20	10	283.01	5	3.60
9	26	17	929.94	2	5.05
156	384	176	10509.49	42	430.48

The organisation chart of Commercial audit in the central sector is given in Figure 12.3.

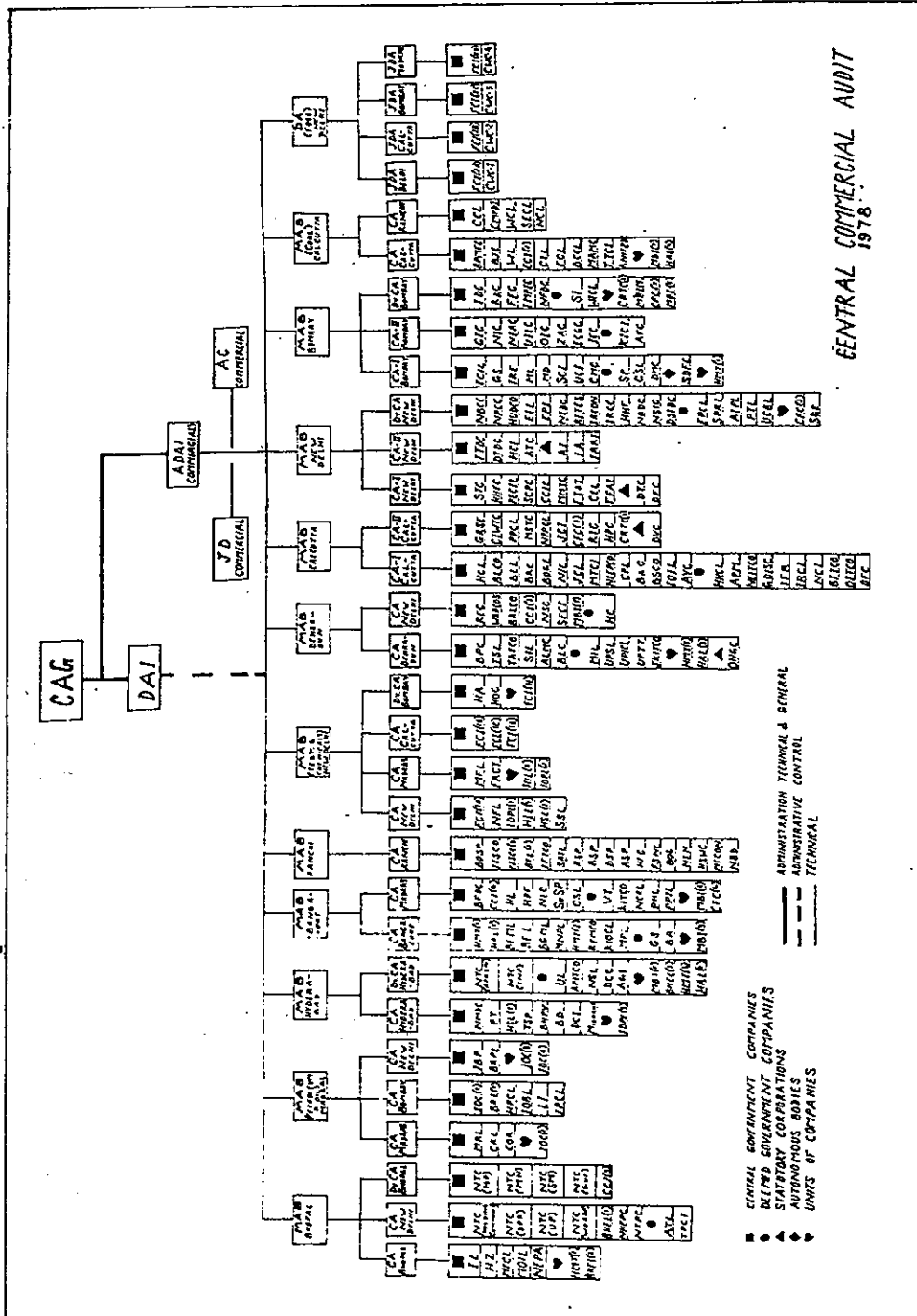


Fig. 12.3: Central Commercial Audit 1978

FURTHER REVISION

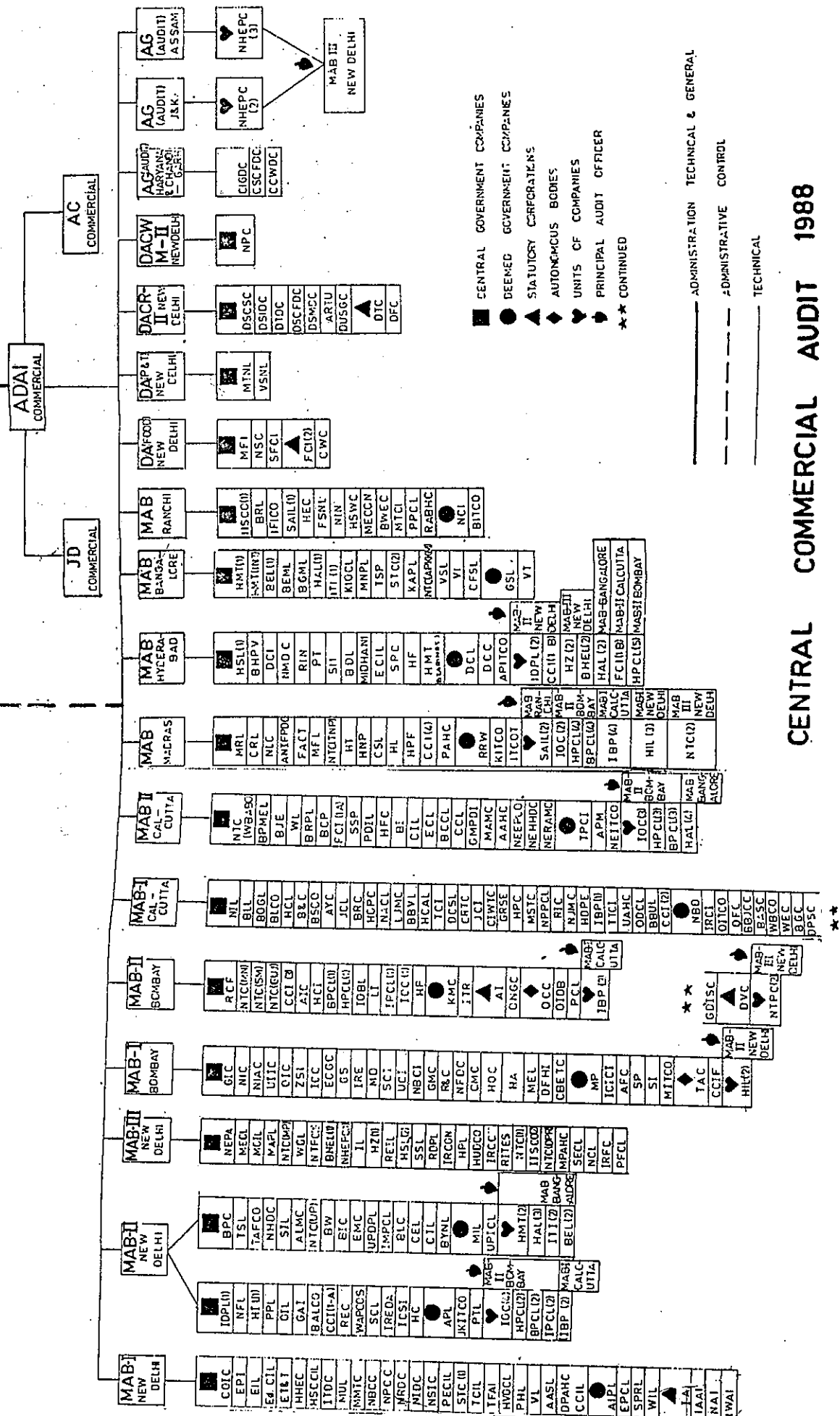
The organisation of the Commercial Audit was reviewed in April 1986 to set right the erosion of the effectiveness of the functional set-up due to constraint of co-ordination at the highest level, geographical distances within various units of the companies audited, differences in operational norms and processes among various units, and attachment of large number of companies to each Director of Commercial Audit. Small regional offices located at stations far away from the headquarters of a Director tended to dilute supervision of audit operations and in actual working the operation of dual control, that is administrative control by local DCA and the technical control by the accredited DCA located at a distance was not found conducive to efficient management. The organisational arrangements were therefore modified from 1st May, 1986. Audit of all Central Government departmental undertakings was entrusted to the Civil Wings of the Civil Audit Offices. The charges of the Members, Audit Board were re-organised. The Commercial Audit Offices in New Delhi were re-organised into three units, viz. MAB-I, MAB-II and MAB-III. The MAB, New Delhi was redesignated as MAB-I, New Delhi and MAB (F & C), New Delhi was redesignated as MAB-II, New Delhi and a new unit at New Delhi MAB-III, New Delhi was formed in lieu of the MAB, Bhopal, and the Joint Director at Bhopal functioned under him. Office of the MAB, Bombay was re-organised into two offices, MAB-I and MAB-II, Bombay. The headquarters of MAB, Dehradun was shifted to Lucknow. Both MAB-II, New Delhi and MAB-II, Bombay were constituted as independent administrative units. Consequent on revised allocation of work, MAB, Calcutta was redesignated as MAB-I, Calcutta, MAB (Coal), Calcutta was redesignated as MAB-II, Calcutta and MAB (P & O) was redesignated as MAB Madras. 5007 Chartered Accountants were empanelled for audit of Government Companies and Corporations and 2909 were actually employed during 1988-89. The organisational chart of the Commercial Audit Department is given in Figure 12.4.

MANAGEMENT OF COMMERCIAL CADRE

Measures to strengthen the Commercial Cadre of SAS Accountants and AOs, mainly by encouraging the Departmental Candidates to take the SAS (Commercial) continued after expansion of Commercial audit work in the wake of the Indian Companies Act. Deficiencies in working strength were made good by inducting SAS and AOs(Civil), who were generally engaged on items of work, that did not need any basic commercial expertise mostly in respect of enterprises under construction

CAG

DAI

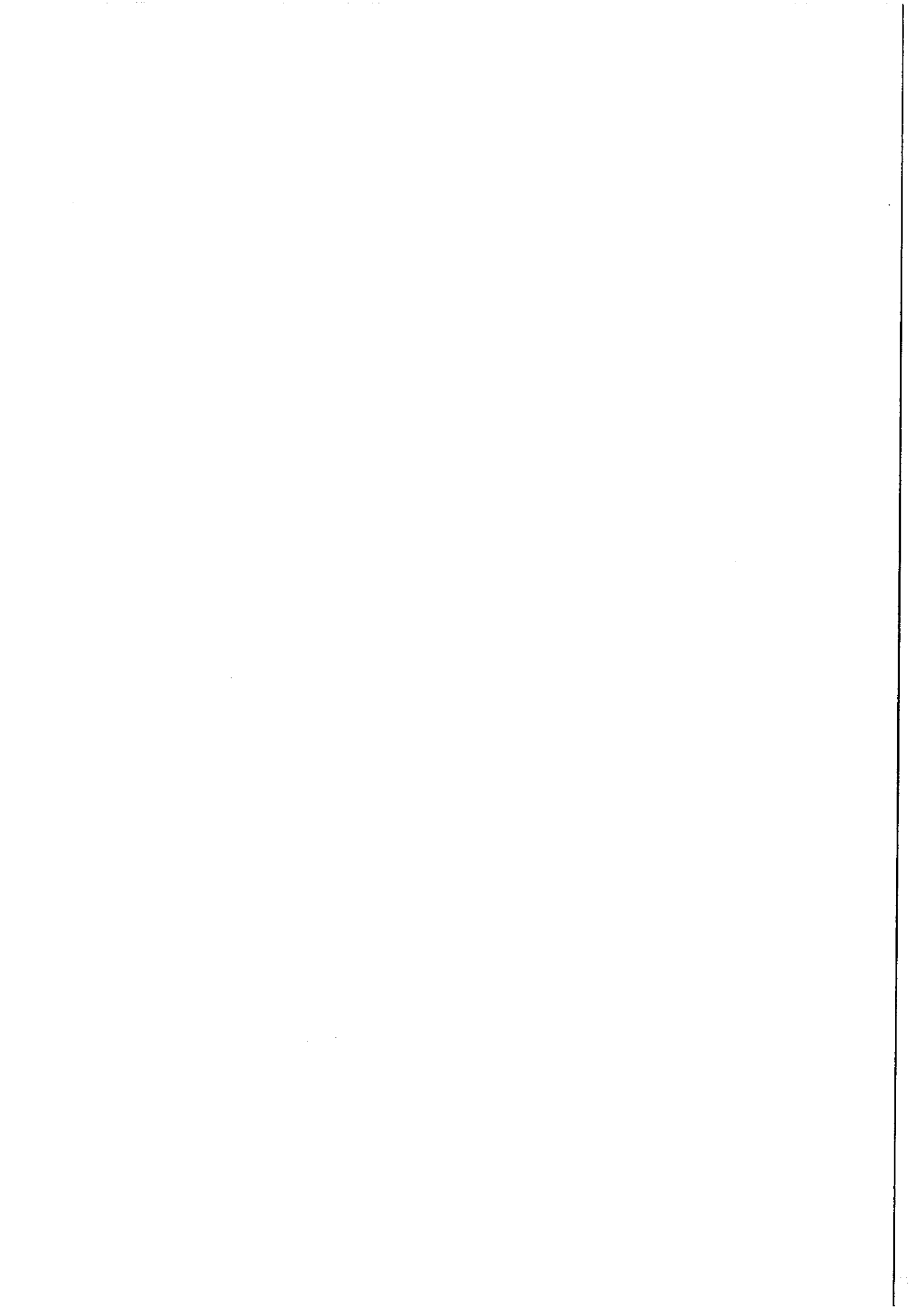


- CENTRAL GOVERNMENT COMPANIES
- DEEMED GOVERNMENT COMPANIES
- ▲ STATUTORY CORPORATIONS
- ◆ AUTONOMOUS BODIES
- ▼ UNITS OF COMPANIES
- ▽ PRINCIPAL AUDIT OFFICER
- ★ CONTINUED

- ADMINISTRATION TECHNICAL & GENERAL
- - - ADMINISTRATIVE CONTROL
- _____ TECHNICAL

CENTRAL COMMERCIAL AUDIT 1988

(Enlarged Chart is attached for better view.)



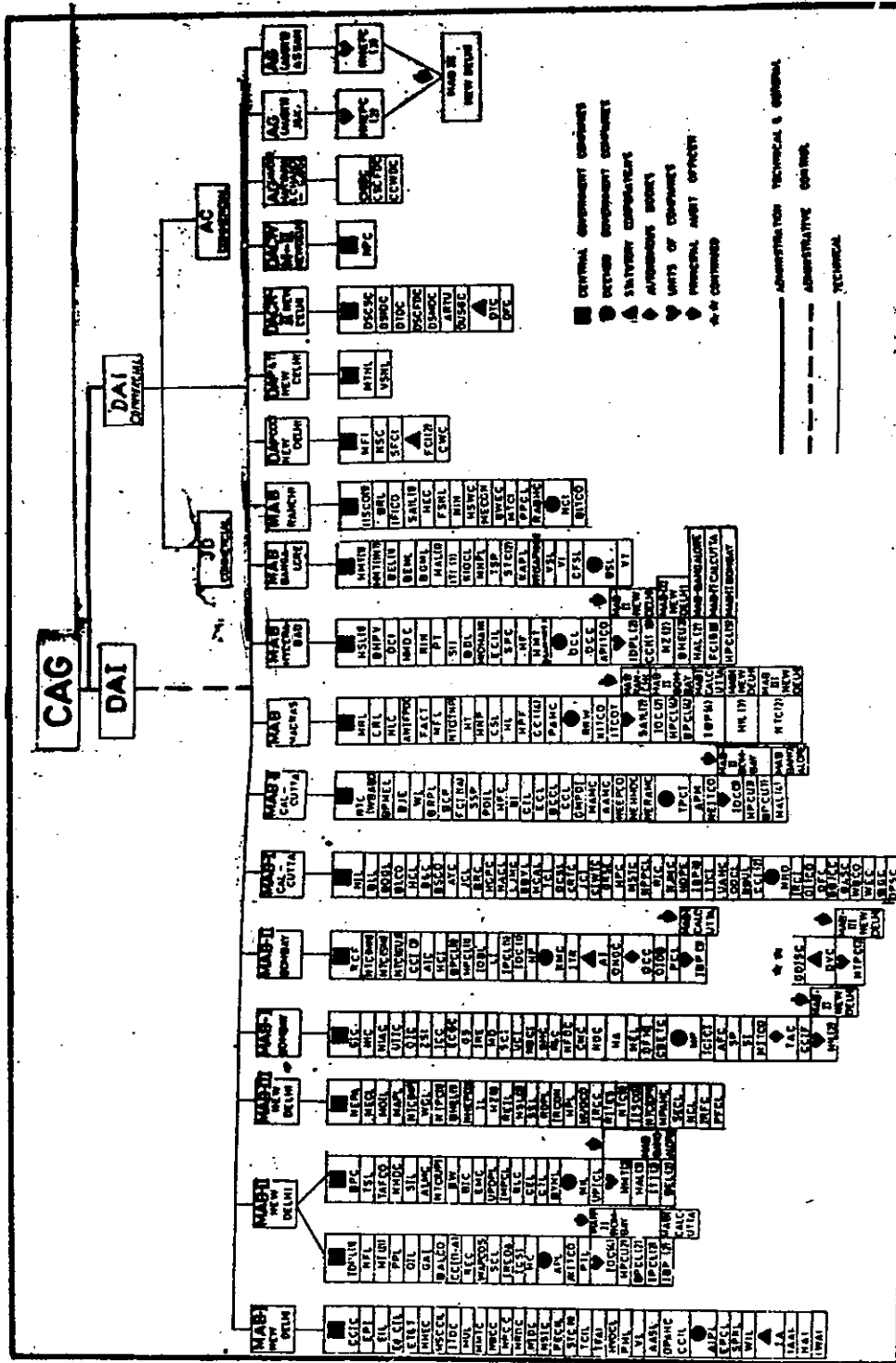
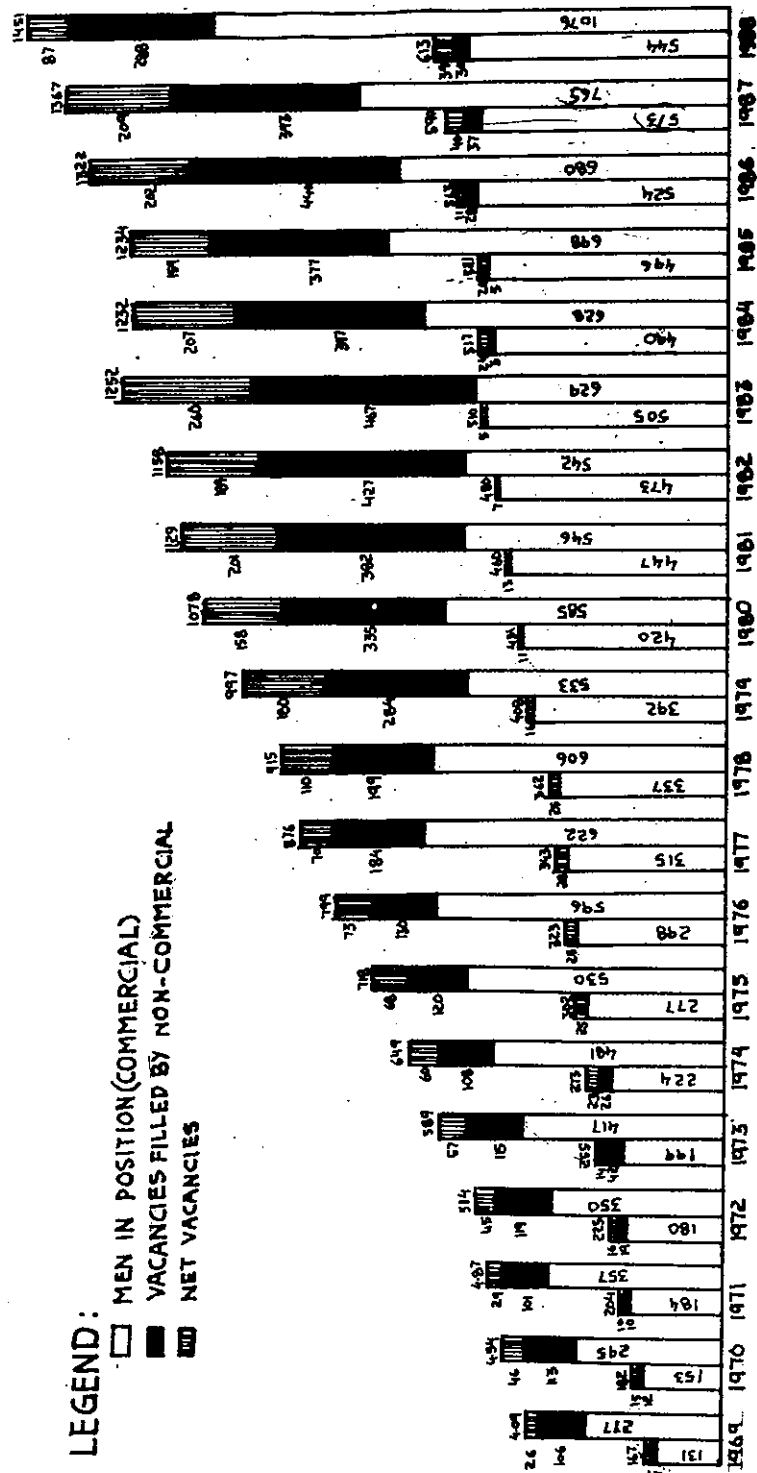


Fig. 12.4: Central Commercial Audit 1988

and administrative and coordinating jobs in the Commercial Audit offices. Direct recruitment of Commercially qualified candidates was resorted to in 1969, when only two candidates qualified and five in November, 1970. Further incentives were extended to departmental candidates in July, 1978. SAS Commercial Examination was thrown open to persons working in Civil, P&T and Railway Audit branches. The option was further extended to persons working in Civil, P&T and Railway Audit offices, who had passed SAS Part One or both parts of the SAS examination of their respective branches but who were not officiating as section officers to switch over to Commercial Audit Wing, subject to certain terms and conditions. In July, 1980 persons already officiating as section officers in P&T, Civil, Railway Audit branches were given option to switch over to Commercial Cadre. 5792 candidates appeared for SAS Commercial examination during 1969 to 1988 and 1267 qualified. The annual intake was not adequate to meet the accretion to work. A scheme of recruitment of CA and ICWA passed candidates as section officers (Commercial) on probation was started in 1979, who were also given some incentives, like exemption from appearing in the entrance examination (applicable to other candidates), incentive of six advance increments and age relaxation upto 30 years, as against 25 years in the case of other candidates. Under the scheme of recruitment of SOs Commercial on probation, 14 were recruited in 1980, 47 in 1981, 126 in 1982 and 241 in 1986, which did not contribute substantially to fill in even sanctioned posts. The sanctioned strength of Commercial cadre in the field offices engaged in the audit of Central and State government undertakings for selective years since re-organisation of 1969 was as under :

As on April of the year	<i>Number of offices and sanctioned strength</i>					
	D.C.As.			AGs		
	No.	AOs	SOs/ AAOs	No.	AOs	SOs/ AAOs
1969	6	61	172	16	86	237
1974	10	125	283	16	148	366
1979	11	203	453	16	205	544
1984	11	241	540	16	296	692
1988	12	282	632	19	331	819

Figure 12.5 shows the disposition of audit officers and section officers against the sanctioned strength for the years 1969 to 1988.



LEGEND:
 □ MEN IN POSITION (COMMERCIAL)
 ■ VACANCIES FILLED BY NON-COMMERCIAL
 ▨ NET VACANCIES

NOTE:
 1. FIGURES RELATE TO FIRST APRIL.
 2. FIGURES AT THE TOP OF THE BAR INDICATE SANCTIONED STRENGTH.
 3. FIRST BAR - AUDIT OFFICERS
 SECOND BAR - SECTION OFFICERS
 4. FROM 1-1984 FIGURES FOR SECTION OFFICERS INDICATE COMBINE POSITION OF A.A.O./S.Os.

DISPOSITION OF AUDIT OFFICERS!
 SECTION OFFICERS (COMMERCIAL)
 COMMERCIAL AUDIT WING.

Fig. 12.5: Disposition of Audit Officers and Section Officers

The policy and management of the cadre has not helped to build up the requisite number of commercially qualified SAS candidates, who form the sheet anchor of the Commercial Audit of the Government companies, corporations, autonomous bodies in the fast expanding Public Sector Undertakings. Induction and training of new recruits or turn over of departmental candidates have not kept pace with the work requirements from time to time, especially after the introduction of the system of appraisals by the Audit Board in the Government of India sector and expansion of the Public Sector Undertakings in certain States. While the Central Government undertakings increased from 84 in 1970 to 249 in 1987, the sanctioned strength of AOs/SOs/AAOs increased to 282/632 only, the State undertakings increased from 201 to 859, the sanctioned strength of AOs/SOs increased from 86/237 to 331/819. Apparently, new posts were sanctioned keeping in view the constraint of availability of qualified commercial personnel. During the period 1979 to 1988, only 75 AO Commercial and 100 SOs/AAOs commercial were sent on deputation, which was a small fraction of the demand for them. The number of offices of MAB and DCA increased by eight only during one and half decades, after the introduction of the Audit Board system. The present efforts are to update the skills of departmentally commercially qualified staff and impart training in the various Regional Training Institutes of the Department and also through the faculty of public sector undertakings under the audit control of each MAB/DCA. These efforts, judged by the past experience and performance, are not likely to generate the requisite number of qualified section officers/AAOs and AOs in the Commercial Audit Wing of the Department in the near future. Both the backlog of work to be turned out in the sphere of appraisals of Public Sector Undertaking in the not distant future and the imperative need to carry out supplementary audit and reviews of the public sector undertakings in a regular and systematic manner would necessitate a larger intake of personnel every year. Although the Administrative Reforms Commission had recommended that the CAG should be provided with the necessary technical inputs for carrying out the tasks assigned to him in Public Sector Undertakings and the Government of India had agreed, no new strategy or long term planning was evolved to build up the technical inputs for Commercial Audit and the Commercial Audit Wing is haunted by the spectre of recurring shortages. The emoluments given to the commercially qualified SOs/AAOs/AOs did not compare favourably with those given to similarly qualified personnel in the public sector undertakings or in the private sector, which had been consistently ignored by the Ministries concerned and the successive Pay

Commissions, while dealing with the structure and emoluments of the Commercial cadre in the IAAD. While disparity in pay scales of identical posts or those carrying common nomenclatures within a department or even in government can hardly be deemed equitable, denial of emoluments current in the profession can seldom help recruitment of the requisite number at any time.

LIST OF ABBREVIATIONS

- | | | | |
|-----|------------------------|---|--|
| 1. | AAO | — | Assistant Accounts Officer |
| 2. | AC (C) | — | Assistant Comptroller and Auditor General (Commercial) |
| 3. | ADAI (C)/ADAI (Comml.) | — | Additional Deputy Comptroller and Auditor General (Commercial) |
| 4. | As.G | — | Accountants General |
| 5. | AGCR | — | Accountant General, Central Revenues |
| 6. | AR | — | Audit Report |
| 7. | CA | — | Chartered Accountant |
| 8. | CCA | — | Controller of Commercial Audit |
| 9. | CCA Rules | — | Classification; Control and Appeal Rules |
| 10. | COPU | — | Committee on Public Undertakings |
| 11. | DCA | — | Director of Commercial Audit |
| 12. | DVC | — | Damodar Valley Corporation |
| 13. | EA | — | Economic Affairs |
| 14. | FA&CAO | — | Financial Adviser and Chief Accounts Officer |
| 15. | F&C | — | Fertilizers and Chemicals |
| 16. | FR&SCM | — | Food, Rehabilitation, Supply Commence and Miscellaneous |
| 17. | GDA | — | Government Diploma in Accountancy |
| 18. | IAD | — | Indian Audit Department |
| 19. | IAAD | — | Indian Audit and Accounts Department |
| 20. | IAAS | — | Indian Audit and Accounts Service |
| 21. | ICWA | — | Institute of Cost and Works Accountants |
| 22. | IRS | — | Indian Revenue Service |
| 23. | LDC | — | Lower Division Clerk |
| 24. | MAB & DCA | — | Member Audit Board and Director of Commercial Audit |
| 25. | PAC | — | Public Accounts Committee |
| 26. | P&O | — | Petroleum and Oil |
| 27. | P&T | — | Posts and Telegraphs |
| 28. | R&E | — | Revenue and Expenditure |
| 29. | SAS | — | Subordinate Accounts Service |
| 30. | SAS (Comml.) | — | Subordinate Accounts Service (Commercial) |
| 31. | Sr. Dy DCA/Dy DCA | — | Senior Deputy Director of Commercial Audit/Deputy Director of Commercial Audit |
| 32. | UDC | — | Upper Division Clerk |
| 33. | UK | — | United Kingdom |
| 34. | UP | — | Uttar Pradesh |

COMPANIES UNDER MABs

- | | | | |
|-----|---------|---|--|
| 35. | AAHC | — | Assam Ashoka Hotel Corporation Limited, Guwahati |
| 36. | AASL | — | Airlines Allied Services Limited, New Delhi |
| 37. | AFC | — | Agriculture Finance Corporation Limited, Bombay |
| 38. | AGI | — | Associated Glass Industries Limited, Hyderabad |
| 39. | AI | — | Air India, Bombay |
| 40. | AIC | — | Air India Charters Limited, Bombay |
| 41. | AIPL | — | Allied International Products Ltd., New Delhi |
| 42. | ALMC | — | Artificial Limbs Manufacturing Corporation of India Limited, Kanpur |
| 43. | ANIFPDC | — | Andaman and Nicobar Islands Forest and Plantation Development Corps., Port Blair |

- | | | |
|-----|--------|---|
| 44. | APITCO | — Andhra Pradesh Industrial and Technical Consultancy Organisation Limited, Hyderabad |
| 45. | APL | — Accumeasures Punjab Limited, Chandigarh |
| 46. | APM | — Ashok Paper Mills Limited, Gauwahati |
| 47. | ASP | — Alloy Steel Plant, Durgapur |
| 48. | ATL | — Ajanta Textiles Limited, |
| 49. | AYC | — Andrew Yule and Company Limited, Calcutta |
| 50. | BA | — Brindavan Alloys Limited, Bangalore |
| 51. | BAFC | — Bangalore Animal Food Corporation Limited, Bangalore |
| 52. | BALCO | — Bharat Aluminium Company Ltd., New Delhi |
| 53. | BASC | — Bengal, Assam Steamship Company Ltd., Calcutta |
| 54. | BBJCC | — Braithwaite Burn and Jessop Construction Company Limited, Calcutta |
| 55. | BBUL | — Bharat Bhari Udyog Limited, Calcutta |
| 56. | BBVL | — Bharat Brakes and Valves Limited, Calcutta |
| 57. | B&C | — Braithwaite and Company Limited Calcutta |
| 58. | BCCL | — Bharat Cooking Coal Limited, Dhanbad |
| 59. | BCP | — Bengal Chemicals and Pharmaceuticals Limited, Calcutta |
| 60. | BDL | — Bharat Dynamics Limited, Hyderabad |
| 61. | BEL | — Bharat Electronics Limited |
| 62. | BEML | — Bharat Earthmovers Limited, Bangalore |
| 63. | BFDC | — Banana and Fruit Development Corporation Ltd., Madras |
| 64. | BGC | — Becker Gray and Company (1930) Limited, Calcutta |
| 65. | BGML | — Bharat Gold Mines Limited, Orgaum KGF, Karnataka |
| 66. | BHEL | — Bharat Heavy Electricals Limited, New Delhi |
| 67. | BHPV | — Bharat Heavy Plates and Vessels Limited, Vizag |
| 68. | BI | — Bengal Immunity Limited, Calcutta |
| 69. | BIC | — British India Corporation, Kanpur |
| 70. | BITCO | — Bihar Industrial and Technical Consultancy Organisation Limited, Patna |
| 71. | BJE | — Birds Jute and Exports Limited, Calcutta |
| 72. | BLC | — Bharat Leather Corporation Limited, Noida |
| 73. | BLCO | — Balmer Lawrie and Co. Limited, Calcutta |
| 74. | BLL | — Biectoo Lawrie Limited, Calcutta |
| 75. | BOGL | — Bharat Ophthalmic Glass Limited, Durgapur |
| 76. | BOL | — Bolani Ores Limited |
| 77. | BOSP | — Bokaro Steel Plant, Bokaro Steel City |
| 78. | BPC | — Bharat Pumps and Compressors Limited, Naini |
| 79. | BPCL | — Bharat Petroleum Corporation Limited, Bombay |
| 80. | BPMEL | — Bharat Process and Mechanical Engineers Limited, Calcutta |
| 81. | BRC | — Bridge and Roof Company (India) Limited, Calcutta |
| 82. | BRL | — Bharat Refineries Limited, Bombay |
| 83. | BRL | — Bharat Refractories Limited, Bokaro Steel City |
| 84. | BRPL | — Bongaigaon Refineries and Petrochemicals Limited, Assam |
| 85. | BSCO | — Burn Standard Company Limited, Calcutta |
| 86. | BSP | — Bhilai Steel Plant, Bhilai |
| 87. | BSPL | — Burma Shell Properties Limited, Bombay |
| 88. | BW | — Brushware Limited, Kanpur |
| 89. | BWEC | — Bharat Wagons and Engineering Company Ltd., Patna |
| 90. | BYNL | — Bharat Yantra Nigam Limited |

91.	CEL	— Central Electronics Limited, Sahibabad
92.	CBETC	— The Central Bank Executor and Trustee Companies Limited
93.	CCI (1)	— Cement Corporation of India Limited, New Delhi
94.	CCI (2)	— Cycle Corporation of India Limited, Calcutta
95.	CCI (3)	— Cotton Corporation of India Limited, Bombay
96.	CCIC	— Central Cottage Industries Corporation Ltd., New Delhi
97.	CCIF	— Central Crop Insurance Fund
98.	CCL	— Central Coalfields Limited, Ranchi.
99.	CFC	— Central Fisheries Corporation Limited, New Delhi
100.	CFSL	— Can-Bank Financial Services Limited
101.	CIL	— Coal India Limited, Calcutta
102.	CIWTC	— Central Inland Water Transport Corporation Limited, Calcutta
103.	CMPDI	— Central Mine Planning and Design Institute Ltd., Ranchi
104.	CMC	— Computer Maintenance Corporation Ltd., Bombay
105.	COR	— Caltex Oil Refinery India Limited, Visakhapatnam
106.	CPL	— Coburn Properties Limited, Calcutta
107.	CRL	— Cochin Refineries Limited, Cochin
108.	CRTC	— Central Road Transport Corporation Ltd., Calcutta
109.	CSL	— Cochin Shipyard Limited, Cochin
110.	CRTC	— Central Road Transport Corporation Ltd., Calcutta
111.	CSL	— Cochin Shipyard Limited, Cochin
112.	CTL	— Canwanpore Textiles Limited, Kanpur
113.	CWC	— Central Warehousing Corporation, New Delhi
114.	DCC	— Derco Cooling Coils Limited, Secunderabad
115.	DCI	— Dredging Corporation of India Limited, Vizag
116.	DCL	— Ductrom Castings Limited, Hyderabad
117.	DCSL	— Damodar Cement and Slag Limited, Calcutta
118.	DFHI	— Discount and Finance House of India Limited
119.	DMC	— Drilco Metal Carbides Limited, Pune
120.	DPM	— Delta Paper Mills Limited, Hyderabad
121.	DPSC	— Dishergarh Power Supply Company Limited, Asansol
122.	DSP	— Durgapur Steel Plant, Durgapur
123.	DVC	— Damodar Valley Corporation, Calcutta
124.	ECGC	— Export Credit and Guarantee Corporation Ltd., Bombay
125.	ECIL	— Electronics Corporation of India Limited, Hyderabad
126.	ECL	— Eastern Coalfields Limited, Asansol
127.	Ed-CIL	— Educational Consultants India Limited, New Delhi
128.	EIL	— Engineers India Limited, New Delhi
129.	EMC	— Elgin Mills Company Limited, Kanpur
130.	EPCL	— Excelsior Plants Corporation Limited, New Delhi
131.	EPL	— Engineering Projects India Limited, New Delhi
132.	ET&T	— Electronics Trade and Technology Development Corporation Limited, New Delhi
133.	FACT	— Fertilizers and Chemicals Travancore Limited, Udyogmandal, Kerala
134.	FCI (1)	— Fertilizer Corporation of India Ltd., New Delhi
135.	FCI (2)	— Food Corporation of India, New Delhi
136.	FFC	— Film Finance Corporation Limited, Bombay
137.	FSNL	— Ferro Scrap Nigam Limited, Jamshedpur
138.	GAI	— Gas Authority of India Limited, New Delhi
139.	GAPL	— Goa Antibiotics and Pharmaceuticals Ltd., Panaji

140. GDISC	— Gay Day Iron and Steel Company Ltd., Calcutta
141. GIC	— General Insurance Corporation of India, Bombay
142. GMC	— Goa Meat Complex Ltd., Panaji
143. GRSE	— Garden Reach Ship Builders & Engineers Ltd., Calcutta
144. GS	— Goa Shipyard Limited, Goa
145. GSL	— Gogta Steel Limited, Bombay
146. GSI	— Gangavati Sugard Limited, Pragati Nagar, Karnataka
147. HA	— Hindustan Antibiotics Limited, Primpri
148. HAL	— Hindustan Aeronautics Limited
149. HC	— Hydro Carbons (India) Limited, New Delhi
150. HCL	— Hindustan Cables Limited, Rupnarayanpur
151. HCL	— Hotel Corporation of India, Bombay
152. HCL	— Hindustan Copper Limited, Calcutta
153. HDPE	— Hooghly Dock and Port Engineers Ltd., Calcutta
154. HEC	— Heavy Engineering Corporation Ltd., Ranchi
155. HF	— Hindustan Fluorocarbons Limited, Hyderabad
156. HFC	— Hindustan Fertilizers Corporation Ltd., New Delhi
157. HHCL	— Hindustan Heavy Chemicals Limited, Calcutta
158. HHEC	— Handicrafts and Handlooms Export Corporation of India Limited, New Delhi
160. HHF	— Hindustan Housing Factory Limited, New Delhi
161. HIL	— Hindustan Insecticides Limited, New Delhi
162. HL	— Hindustan Latex Limited, Trivandrum
163. HMT	— Hindustan Machine Tools Limited
164. HMT (INT.)	— HMT (International) Limited, Bangalore
164a. HMT (Bearings)	— HMT (Bearings) Hyderabad
165. HOC	— Hindustan Organic Chemicals Limited, Rasayani
166. HP	— Hindustan Packing Limited
167. HPC	— Hindustan Paper Corporation Ltd., New Delhi
168. HPCL	— Hindustan Petroleum Corporation Ltd., Bombay
169. HoPC	— Hoogly Printing Company Limited, Calcutta
170. HPE	— Hindustan Photo Films Manufacturing Co. Limited, Ootacamund
171. HPL	— Hindustan Perfab Limited, New Delhi
172. HSCCIL	— Hospital Services Consultancy Corporation India Limited, New Delhi
173. HSL (1)	— Hindustan Shipyard Limited, Vizag
174. HSL (2)	— Hindustan Salts Limited, Jaipur
175. HSWC	— Hindustan Steel Works Construction Limited, Calcutta
176. HT	— Hindustan Teleprinters Limited, Madras
177. HUDCO	— Housing and Urban Development Corporation Limited, New Delhi
178. HVDCL	— Hindustan Vegetable Oils Corporation Ltd., New Delhi
179. HZ	— Hindustan Zinc Limited
180. HNP	— Hindustan Newsprints Limited, Kottayam
181. IAAI	— International Airport Authority of India, New Delhi
182. IA	— Indian Airlines, New Delhi
183. IBP	— Indo-Burma Petroleum Company Limited, New Delhi
184. ICICI	— Industrial Credit and Investment Corporation Limited, Bombay
185. ICC	— Industrial Credit Company Limited, New Delhi

186.	ICSI	—	Intelligent Communication System (India) Limited
187.	IDPL	—	Indian Drugs and Pharmaceuticals Limited
188.	IFB	—	Indian Fine Blanks Limited, Calcutta
189.	IFICO	—	Indian Firebricks and Insulation Co. Limited, Marar, Bihar
190.	IISCO (1)	—	The Indian Iron and Steel Company Ltd., Burnpur
200.	IISCO (2)	—	IISCO Ujjain Pipe and Foundry Co. Ltd., Ujjain
201.	IL	—	Instrumentation Limited, Kota
202.	IMPCL	—	Indian Medicines and Pharmaceuticals Corporation Limited, Mohan (Almore)
203.	IMPEC	—	Indian Motion Pictures Export Corporation Limited, Bombay
204.	IOBL	—	Indian Oil Blending Limited, Bombay
205.	IOC	—	Indian Oil Corporation
206.	IOIL	—	Indian Oil International Limited
207.	IPCL	—	Indian Petrochemicals Ltd., Vadodara
208.	IRCC	—	Indian Road Construction Corporation Limited, New Delhi
209.	IRCI	—	Industrial Reconstruction Corporation of India Limited, Calcutta
210.	IRCON	—	Indian Railway Construction Co. Limited, New Delhi
211.	IRE	—	Indian Rare Earths Limited, Bombay
212.	IREDA	—	Indian Renewal Energy Development Agency Limited
213.	IRFC	—	Indian Railway Finance Corporation Limited
214.	ITCOT	—	Industrial and Technical Consultancy Org. of Tamil Nadu, Madras
215.	ITDC	—	Indian Tourism Development Corporation Limited, New Delhi
216.	ITI	—	Indian Telephone Industries
217.	ITPL	—	Indian Trading (Holding) Pvt. Ltd. Bombay
218.	ITR	—	Indian Tea and Testaurants Limited, Bombay
219.	IWAI	—	Inland Water Ways Authority of India, New Delhi
220.	JCI	—	Jute Corporation of India Limited, Calcutta
221.	JCL	—	Jessop and Company Limited, Calcutta
223.	JKITCO	—	J&K Industrial and Technical Consultancy Organisation Limited, Jammu
224.	KAPL	—	Karnataka Antibiotics and Pharmaceuticals Limited, Bangalore
225.	KIOCL	—	Kudremukh Iron Ore Company Limited, Bangalore
226.	KITCO	—	Kerala Industrial and Technical Consultancy Organisation Limited, Cochin
227.	KMC	—	Kohinoor Mills Company Ltd., Bombay
228.	LI	—	Lubrizol India Limited, Bombay
229.	LJMC	—	Lagan Jute Machinery Company Limited, Calcutta
230.	MAMC	—	Mining and Allied Machinery Corporation Ltd., Durgapur
231.	MAPL	—	Maharashtra Antibiotics and Pharmaceuticals Limited, Nagpur
232.	MBI	—	Modern Bakeries Indian Limited
233.	MD	—	Mazagaon docks Limited, Bombay
234.	MECL	—	Mineral Exploration Corporation Limited, Nagpur
235.	MECON	—	Metallurgical and Engineering Consultants (India) Limited, Ranchi
236.	MEL	—	Maharashtra Electro-Smelt Limited
237.	MFI	—	Modern Food Industries (India) Limited, New Delhi

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| 238. MFL | - Madras Fertilizers Ltd., Manali |
| 239. MIDHANI | - Mishra Dhatu Nigam Ltd., Hyderabad |
| 240. MIL | - Madan Industries Limited, Meerut |
| 241. MITCO | - Maharashtra Industrial and Technical Consultancy Organisation Limited, Pune |
| 242. MMTC | - Minerals and Metals Trading Corporation of India Limited, New Delhi |
| 243. MNPL | - The Madhya National Paper Mills Limited, Belagula |
| 244. MOIL | - Manganese Ore India Limited, Nagpur |
| 245. MP | - Mandovi Pellets Limited, Shiroda(Goa) |
| 246. MPAHC | - M.P. Ashika Hotel Corporation Ltd., Bhopal |
| 247. MTCI | - Mica Trading Corporation of India Ltd., Patna |
| 248. MPL | - Mysore Porcelain Limited, Bangalore |
| 249. MRL | - Madras Refineries Limited, Madras |
| 250. MSTC | - Metal Scrap Trade Corporation Ltd., Calcutta |
| 251. MTNL | - Mahanagar Telephone Nigam Ltd., New Delhi |
| 252. MUL | - Maruti Udyog Limited, New Delhi |
| 253. NAAI | - National Air-port Authority of India New Delhi |
| 254. NACL | - National Aluminium Company Ltd., Bhubaneshwar |
| 255. NBCC | - National Building Construction Corpn. Ltd., New Delhi |
| 256. NBCI | - National Bicycle Corporation of India Limited, Bombay |
| 257. NBD | - North Bengal Dolomited Ltd., Calcutta |
| 258. NCI | - Nalanda Ceramics and Industries Ltd., Ranchi |
| 259. NCL | - Northern Coalfields Limited, Singrauli |
| 260. NCRL | - Neyveli Ceramics and Refractories Ltd., Vadalur, (Tamil Nadu) |
| 261. NEEPCO | - North Eastern Electric Power Corpn. Ltd. Shillong |
| 262. NEHHDC | - North Eastern Handicrafts and Handloom Development Corporation Ltd., Guwahati |
| 263. NEITCO | - North Eastern Industrial and Technical Consultancy Organisation Ltd., Guwahati |
| 264. NEPA | - National Newsprint and Paper Mills Ltd. Nepanagar |
| 265. NERAMC | - North Eastern Regional Agricultural Marketing Corporation Limited, Guwahati |
| 266. NFDC | - National Film Development Corporation Ltd. Bombay |
| 267. NFL | - National Fertilizers Limited, New Delhi |
| 268. NHDC | - National Handloom Development Corpn. Ltd., Lucknow |
| 269. NHEPC | - National Hudro-Electric Power Corpn. Ltd., New Delhi |
| 270. NIAC | - New India Assurance Company Ltd., Bombay |
| 271. NIC | - National Insurance Company Ltd., Calcutta |
| 272. NIDC | - National Industrial Development Corporation Limited, New Delhi |
| 273. NIL | - National Instruments Limited, Calcutta |
| 274. NIN | - Neelanchal Ispat Nigam, Bhubaneshwar |
| 275. NJMC | - National Jute Manufacturing Corpn. Ltd., Calcutta |
| 276. NIC | - Neyeli Lignite Corporation Ltd., Neyveli |
| 277. NDMC | - National Mineral Development Corporation Ltd., Hyderabad |
| 278. NPC | - Nuclear Power Corporation |
| 279. NPCC | - National Projects Construction Corpn. Ltd., New Delhi |

280. NPPCL	— Nagaland Pulp and Paper Company Limited, Tuli (Nagaland)
281. NRDC	— National Research Development Corpn., New Delhi
282. NSC	— National Seeds Corporation, New Delhi
283. NSIC	— National Small Industries Corporation Limited, New Delhi
284. NSL	— Nagarjune Steel Limited, Hyderabad
285. NTC	— National Textile Corporation, Limited
286. NTPC	— National Thermal Power Corporation Limited
287. OCC	— Oil Co-ordination Committee, New Delhi
288. ODCL	— Orissa Drugs and Chemicals Ltd., Bhubaneswar
289. OFC	— Orissa Fertilizers and Chemicals Ltd., Rourkela
290. OIC	— Oriental Insurance Company Ltd., New Delhi
291. OIL	— Oil India Limited, Duliajan
292. OIDB	— Oil Industry Development Board, New Delhi
293. OITCO	— Orissa Industries and Technical Consultancy Organisation Ltd., Bhubaneswar
294. ONGC	— Oil & Natural Gas Commission
295. PAHC	— Pondicherry Ashoka Hotel Corporation Limited
296. PCL	— Petrofils Co-operatives Ltd., Vadodara
297. PECIL	— Projects and Equipments Corporation of India Limited, New Delhi
298. PDIL	— Project and Development India Ltd., Sindri
299. PFCL	— Power Finance Corporation Limited, New Delhi
300. PHL	— Pavan Hans Limited, New Delhi
301. PNBSC	— PND Capital Service
302. PPCL	— Pyrites, Phosphates and Chemicals Ltd., Dehrion-Sone (Bihar)
303. PPIL	— Protein Products of India Limited, Cochin
304. PPL	— Paradeep Phosphates Ltd., New Delhi
305. PT	— Praga Tools Ltd., Secunderabad
306. PTL	— Punjab Tractors Limited, Chandigarh
307. RABHC	— Ranchi Ashok Bihar Hotel Corpn. Ltd., Patna
308. R&C	— Richardson and Cruddas (1972) Ltd., Bombay
309. RCF	— Rashtriya Chemicals and Fertilizers Ltd., Bombay
310. RDPL	— Rajasthan Drugs and Pharmaceuticals Ltd., Jaipur
311. REC	— Rural Electrification Corporation Ltd., New Delhi
312. REIL	— Rajasthan Electronics and Instruments Ltd., Jaipur
313. REMCO	— Radio and Electrical Manufacturing Company Limited, Bangalore
314. RIC	— Rehabilitation Industries Corpn. Ltd., Calcutta
315. RIN	— Rashtriya Ispat Nigam Ltd., Vizag
316. RITES	— Rail India Technical and Economic Services Limited, New Delhi
317. RRW	— Rubby Rubber Works Limited, Chenganacherry
318. RSP	— Rourkela Steel Plant, Rourkela
319. SAIL	— Steel Authority of India Limited, New Delhi
320. SCI	— Shipping Corporation of India Ltd., Bombay
321. SCL	— Semi-Conductor Complex Limited, Chandigarh
322. SCPC	— State Chemicals and Pharmaceuticals Corporation of India Limited, New Delhi
323. SECL	— South Eastern Coalfields Limited, Bilaspur
324. SFCI	— State Farms Corporation of India Limited, New Delhi
325. SGE	— State Governments Emporia, New Delhi
326. SI	— Siporex India Limited, Pune
327. SIL	— Scooters India Limited, Lucknow

328.	SII	— Sponga Iron India Limited, Paloncha
329.	SP	— Shyam Properties Limited, Bombay
330.	SPC	— Southern Pesticides Corporation Ltd., Hyderabad
331.	SPRL	— Shri Ram Pistons and Rings Limited, New Delhi
332.	SSL	— Sambhar Salts Limited, Jaipur
333.	SSP	— Smith Stainstreet Pharmaceuticals Ltd., Calcutta
334.	SaSP	— Salem Steel Plant, Salem
336.	STC (1)	— State Trading Corporation of India Ltd., New Delhi
337.	STC (2)	— Spices Trading Corporation Limited
338.	TAC	— Tariff Advisory Committee, Bombay (including regional committees)
339.	TAFCO	— Tannery and Footwear Corporation of India Limited, Kanpur
340.	TCI	— Tyre Corporation of India Limited, Calcutta
341.	TCIL	— Telecommunication Consultants (India) Ltd., New Delhi
342.	TFAI	— Trade Fair Authority of India, New Delhi
343.	TPCI	— Textile Processing Corporation of India Limited, Calcutta
344.	TSL	— Triveni Structurals Limited, Naini
345.	TSP	— Tungabhadra Steel Products Limited, Tungabhadra Dam.
346.	TTCI	— Tea Trading Corporation of India Limited, Calcutta
347.	UAHC	— Utpa! Ashika Hotel Corporation Ltd., Bhubaneshwar
348.	UCBL	— Universal Conveyor Belting Limited, New Delhi
349.	UCI	— Uranium Corporation of India Limited, Jaduudha (Bihar)
350.	UIIC	— United India Insurance Company Limited, Madras
351.	UL	— Uniliods Limited, Hyderabad
352.	UPDPL	— U.P. Drugs and Pharmaceuticals Ltd., Lucknow
353.	UPSL	— U.P. Steel Limited, Muzaffar Nagar
354.	UPICL	— U.P. Industrial Consultants Limited, Kanpur
355.	UPTT	— U.P. Tyres and Tubes Limited, Lucknow
356.	VL	— Vayudoot Limited, New Delhi
357.	VR	— Vizag Refinery, Vizag of Hindustan Petroleum Corporation Ltd
358.	VI	— Vigyan Industries Limited, Bangalore
359.	VSL	— Vijaynagar Steel Limited, Bangalore
360.	VSNL	— Videsh Sanchar Nigam Limited, Bombay
361.	VT	— Vikrant Tyres Limited, Bangalore
362.	WAPCOS	— Water and Power Consultancy Services (India) Limited, New Delhi
363.	WCL	— Western Coalfields Limited, Nagpur
364.	WBCD	— West Bangal Consultancy Organisation Limited, Calcutta
365.	WEC	— Webel Electro-Ceramics Limited, Calcutta
366.	WICL	— Western India Chemicals Limited, Pune
367.	WIL	— Wagon India Limited, New Delhi
368.	WL	— Weighbird (India) Limited, Calcutta
369.	ZAC	— Zenith Allurance Company Limited, Bombay
370.	ZSI	— Zenith Securities and Investment Ltd., Bombay

COMPANIES UNDER DACR-II- NEW DELHI

371.	ARTU	— Assciation of Road Transport Undertakings
372.	CCWDC	— Chandigarh Child and Women Development

373.	CIGDE	—	Corporation Limited, Chandigarh Chandigarh Industrial and General Development Corporation Limited, Chandigarh
374.	CSCFDC	—	Chandigarh Scheduled Castes Financial and Development Corporation Limited, Chandigarh
375.	DFC	—	Delhi Financial Corporation, New Delhi
376.	DSCFDC	—	Delhi Scheduled Castes Financial and Development Corporation Limited, New Delhi
377.	DSCDC	—	Delhi State Civil Supplies Corporation Limited, New Delhi
378.	DSIDC	—	Delhi State Industrial Development Corporation Limited, New Delhi
379.	DSMDC	—	Delhi State Mineral Development Corporation New Delhi
380.	DTC	—	Delhi Transport Corporation, New Delhi
381.	DTDC	—	Delhi Tourism Development Corporation Limited, New Delhi
382.	DUSGC	—	Delhi Units of State Government Companies

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5. The Indian Companies Bill and Proceedings in Parliament
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7. Commercial Appendices to Appropriation Accounts (Civil)
8. Audit Reports (Civil) Pre-independence & Post Independence Period
9. Audit Reports (Commercial) 1963 to 1989
10. Estimates Committee Reports
11. PAC Reports for 1928-29, 1947-48 to 1963-64
12. COPU Reports 1964-65 to 1988-89
13. Indian Companies Act, 1956
14. Report of Dr. Appleby on Public Administration and Press Comments thereon
15. State Financial Corporation Bill 1951 and Correspondence relating thereto
16. Report of Administrative Reforms Commission on Public Sector Undertakings
17. Report of the Study Team set up by ARC on Public Sector Undertakings
18. Audit Board set-up and Changes from time to time
19. Bureau of Public Enterprises Survey from time to time
20. Annual Reports of the Companies and Corporations
21. News items in Various National Dailies

13 Field Offices

MAB & DCA I-NEW DELHI

The Northern Circle of the DCA's office, under a Deputy Director of Commercial Audit, at New Delhi was formed in 1955 for auditing 17 Central Government Undertakings spread over Punjab, PEPSU, Delhi, Uttar Pradesh, Himachal Pradesh and Rajasthan. Office had a staff strength of 1 IAAS Officer, 9 AAOs (now AOs), 18 SAS accountants (now SOs), 53 UDCs (now Auditors), 10 LDCs (now Clerks) and 22 Class IV (now Group 'D'). The audit findings were included in the Audit Reports of Central Government and State Governments respectively. The audit of commercial undertakings of the State Governments was transferred to the As.G concerned in April 1967. The office was upgraded to Chief Auditor level in 1965 with audit jurisdiction over 20 undertakings (5 Corporations, 14 Companies and 1 Autonomous Body) and the total strength was 203 (4 Group A, 19 Group B and 180 others). In March 70, the office of MAB and *ex-officio* DCA was formed and Shri A.C. Bhatla was the first MAB, and since then 13 officers held the charge ranging from 6 months and 2 days to 3 years 4 months 16 days of Shri S. G. Stephen.

There were four Joint/Deputy Directors with 10 RAPs, 12 LAPs and 4 Headquarters Sections with a total staff strength of 19 AOs, 39 SAS Accountants, 100 Class III personnel and 41 Class IV. The audit jurisdiction extended to 3 statutory corporations and 32 government companies with a total investment of Rs.73.2 crores. In June 1974 audit of 4 statutory corporations and 1 Government company with a total investment of Rs. 311.3 crores was added and the CA, Tourism and Civil Aviation under MAB & *ex-officio* DCA, Bombay carried out the audit. In 1978, the audit of 5 companies and 11 undertakings with a total investment of Rs. 239.4 crores was transferred to the newly formed Office of the MAB and *ex-officio*, DCA, Dehradun. The Chief Auditor, Bombay was brought under the control of this office. After the reorganisation in 1986, the audit jurisdiction extended to 4 statutory corporations, 23 Government companies and 4 deemed companies with an aggregate investment of Rs. 859.9 crores in March 1988. There were 10 RAPs, 6 LAPs and 6 Headquarters sections with a total staff strength of 23 AOs, 54 AAOs/SOs, 114 Auditors/Clerks and 34 Group D, besides 4 group level officers. The expenditure incurred by the office in 1987-88 was Rs. 61.45 lakhs, which constituted 0.004 % of the turnover the Public Sector undertakings under its audit jurisdiction. During 1984-85 to 1987-88, 255 inspection reports containing 1360 paras were issued, while

255 inspection reports with 1512 paras were settled. The turn-over of inspection reports/paras issued and settled was 64 inspection reports/340 paras and 64 inspection reports/378 paras respectively. In March 1988, 203 inspection reports containing 773 paras were outstanding and the oldest related to 1976-77.

In this region, 21 to 98 Chartered Accountants were engaged for audit of 10 to 25 companies during 1965-66 to 1986-87 and the average number of Chartered Accountants engaged and number of Companies audited was 51 and 16 respectively. During 1987-88, there were 101 CAs for auditing 31 companies and the total remuneration paid to them amounted to Rs. 14.64 lakhs. During the period from 1965-66 to 1986-87, 256 companies were selected for supplementary audit and 234 observations on 80 companies involving net monetary effect aggregating to Rs. 5.78 crores were issued. In 17 cases, the companies had revised their accounts as a result of Government Audit. Reviews on 21 companies for Audit Reports (Commercial) was contributed during the period from 1963 to 1969, the maximum being 8 reviews for 1965 Report, of which seven originated from the office. Three were examined by the COPU. Details are given below.

Name of the Audit Report (Commercial)		Company/Corporation appraised	Ref. to COPU, Report, if any
1970	Part I	NBCC	—
1969-70	Part III	NPCC	—
	Part VIII	IA	28 (V) 58 (V)
1974	Part II	STC	—
1981	Part VIII	ITDC	48 (VII)
			59 (VII)
	Part IX	MMTC	76 (VII) 82 (VII)
1987	Part II	IA	

No appraisal was contributed for ARs 1970-71, 1973, 1975 to 1980 and 1982 to 1986.

82 paras were contributed for Audit Reports (Comml.) from 1963 to 1986. While a number of years' Reports had no paras (1972, 1974, 1976-77, 1980, 1982), number of paras in other years varied from 1 (1964 and 1965) to 9 (1986) but the average was around 5. Major contributions were for the Audit Reports 1964 (8 paras), 1965 (13 paras), 1966 (10

paras), 1967 (5 paras), 1968 (7 paras) mostly on losses, shortages, extra/avoidable/infructuous expenditure, irregularities in purchases and sales etc. Few of the significant observations were as under .

- (i) As a result of audit of the proforma accounts, maintained by STC in respect of edible oil trade handled on behalf of Government of India to determine surplus payable to and deficit recoverable from the Government, over charges to the tune of Rs. 34.77 crores were detected, which were subsequently withdrawn and credited to Government.
- (ii) Avoidable payment of Rs. 22.41 lakhs as interest on shiploads of imported urea negotiated by the foreign banks "under reserve" due to defects in clauses incorporated in the letter of credit and subsequent delay in obtaining proper inspection reports.
- (iii) Payment of higher rate of tariff to the Tamil Nadu Electricity Board by IAAI at Madras due to improper assessment of the requirement of power and revision of the demand at the instance of Audit resulted in a saving of Rs. 17.33 lakhs per annum, apart from adjustment of Rs. 34.65 lakhs excess paid for the period September 1985 to August 1987 by Board in future consumption of current.
- (iv) Audit of the accounts of trade in Methonal by STC for the year 1986-87 revealed that while STC retained, without payment of any interest, sizeable amount of surplus payable to Government of India, which exceeded the amount of capital blocked by STC on average monthly stock holdings, it unjustifiedly charged interest from Government of India on blocked capital. On this being pointed out by Audit, the STC Management not only paid interest amounting to Rs. 1.58 crores to Government but also withdrew its claim of Rs. 15.10 lakhs on account of interest on blocked capital.

MAB & DCA II-NEW DELHI

The Office of the Member Audit Board and *ex-officio* Director of Commercial Audit was formed from 1st April, 1978 with headquarters at New Delhi for audit of twelve Government companies engaged in the manufacture of fertilizers, chemicals and allied items with a total investment of Rs. 122.5 crores. Shri A.C. Bose was the first MAB and since then 10 officers held the charge for periods varying between 24 days to 2 years and 20 days held by Miss Amrita Grover. The MAB was assisted by three CAs at New Delhi, Madras and Calcutta and one Dy. CA Bombay. The CA at New Delhi was entrusted with the audit of the

Fertilizer Corporation of India (Head Office at New Delhi as well as plants at Nangal, Jodhpur Mining Organisation and Northern Marketing Zone), National Fertilizers Limited, New Delhi (with plants at Panipat, Bhatinda, and Mathura), Indian Drugs and Pharmaceuticals Limited (Head Office at New Delhi Gurgaon Sales Office and Rishikesh Plant), Hindustan Insecticides Limited (Head Office at New Delhi and plant at Delhi), Hindustan Salts Limited and Sambhar Salts Limited. The CA at Madras dealt with the audit of Madras Fertilizers Limited, Fertilizers and Chemicals Travancore Limited, Alwayee unit of Hindustan Insecticides and Madras unit of Indian Durgs & Pharmaceuticals Limited. The CA at Calcutta audited the fertilizer plants located at Sindri, Ghorakhpur, Namrup, Barauni, Durgapur, Haldia, Talcher, Korba, Ramagundam and Paradeep, Eastern Marketing Zone and Planning and Development Division at Sindri. The Dy. CA at Bombay audited Trombay Unit and South-West Marketing Zone of the Fertilizers Corporation of India, Hindustan Antibiotics Limited and Hindustan Organic Chemicals Limited. The strength of the office in April 1978 was 103 - 5 IAAS, 10 AOs, 27 SOs, 31 auditors, 4 stenographers, 12 clerks and 14 class IV. Fifteen more companies came under the audit jurisdiction of this office during the next seven years - four in 1978-79, one in 1979-80, four in 1980-81, two in 1981-82, two in 1983-84 and two in 1984-85. At the close of 1985-86, the strength was 133 - 5 IAAS, 15 AOs, 35 AAOs/SOs, 37 Senior auditors/auditors, 1 welfare assitant, 9 stenographers, 15 clerks/typists and 16 group D).

In 1986 the office was renamed as MAB and *ex-officio* DCA-II, New Delhi and Shri A.K. Menon was the MAB & DCA. The audit jurisdiction covered 16 companies, units of 5 other companies and 1 autonomous body (Shipping Development Fund Committee), including 5 companies of ex-MAB (F & C). with an investment of Rs. 6703.68 crores. The strength of the reorganised office was 85 - 3 IAAS, 10 AOs, 21 AAOs/SOs, 1 welfare assistant, 25 Sr. auditors/auditors, 1 Sr. PA, 2 stenos, 10 clerks/typists, 3 record keepers, 9 class IV. The expenditure of the office was Rs. 19.54 lakhs in 1986-87, which constituted 0.004% of the total turn-over of the public sector undertakings under its audit jurisdiction. SDFC was dissolved in 1987.

MAB & DCA-DEHRADUN

The Office of the Member Audit Board and *ex-officio*, Director of Commercial Audit, Dehradun was formed in 1972 and 13 companies/units with

an aggregate investment of Rs. 472.79* crores were brought under the audit jurisdiction of this office and Shri M.S. Sarna was the first MAB and DCA. Who had the longest tenure (6 years and 21 days) among the four officers who held the office. The MAB was assisted by one Chief Auditor with headquarters at Dehradun and the strength was 87 - 9 AOs, 18 SOs, 24 auditors/SG auditors, 12 clerks, 3 stenographers and 21 group 'D'. During the next four years the number of companies/units increased and in 1977-78 there were 27 undertakings under its audit jurisdiction. The strength as on 1st March, 1978 was 107 - 10 AOs, 23 SOs, 34 SG auditors/auditors, 14 clerks, 2 stenographers and 24 group D. As a result of reorganisation of Commercial audit offices in 1978, one sub office was opened at Delhi under the charge of another Chief Auditor. With this reorganisation, there were 14 Government Companies, 4 units of other companies, one Corporation, 5 deemed companies and 11 departmental undertakings. The capital invested in the companies/corporation was around Rs. 985 crores. The companies and other units were allocated between 2 Chief Auditors on a regional basis, the Chief Auditor at Dehradun dealing with companies etc. based on U.P. and the Chief Auditor at New Delhi with companies located in and around Delhi. The Chief Auditor at New Delhi had under his charge 6 government companies, 4 units of other companies, 1 corporation and 5 deemed companies, while the Chief Auditor at Dehradun had 8 government Companies and 11 departmental undertakings. In May 1986, the headquarters of MAB was shifted to Lucknow and the jurisdiction of the office extended to 16 Government companies and 14 units of 4 other companies. Two more companies viz. Kanpur Textiles Mills, Bharat Emperor Nigam Limited, Allahabad were subsequently allocated to this office making the total of government companies to 18. In February 1988, when the office was merged with the office of the MAB & DCA II, New Delhi, the audit jurisdiction covered 18 companies and 14 units of 4 other companies.

Audit of two newly formed companies viz. Indian Renewable Energy Development Corporation, Intelligent Communication System Limited with a total investment of Rs. 4.35 crores and one unit under cooperative sector viz. KRIBCO was added towards the close of 1987-88. In all, 36 companies including two newly formed companies, 1 unit under cooperative sector and 24 units of 9 other companies with a total investment of Rs. 634 crores formed its audit jurisdiction. By March 1988, 2 AOs, 4 SOs, 1 Manager (Typing Pool) and 2 group 'D' were added and the total strength increased to 93. One RAP each functioned at IOC and IDPL while 5 LAPs functioned in the field. The expenditure

* Excludes the investment in respect of units of companies under the jurisdiction of other DsCA.

of the office was Rs. 52.31 lakhs in 1987-88, which constituted around 0.003% of the total turn-over of the undertakings under its jurisdiction.

During the period from 1984-85 to 1987-88, 151 inspection reports/774 paras were issued and 233 inspection reports/1042 paras got settled. 90 inspection reports/366 paras were outstanding at the end of 1987-88 and the oldest pending inspection reports related to the year 1975-76. In respect of the Companies/Units which were under the audit jurisdiction of MAB Dehradun/Lucknow, 146 inspection reports/749 paras were issued during the 1984-85 to 1987-88 while 232 inspection reports/803 paras were settled during the same period. 55 reports/223 paras were pending for settlement at the end of 1987-88 and the oldest pending inspection reports pertained to the year 1980-81.

During 1965 to 1987, DCA (F & C) contributed 34 paras on 10 companies - 9 paras on Fertilizer Corporation of India, 5 paras on Hindustan Organic Chemicals, 4 paras on Fertilizers and Chemicals (Travancore), 4 paras on IDPL, 2 on Hindustan Insecticides Limited, 2 on Hindustan Salts Limited, 2 on Madras Fertilizers Limited, 2 on Hindustan Antibiotics Limited, 2 on Hindustan Fertilizers Limited, 2 on National Fertilizers Limited - for 18 Audit Reports and number varied from 1 (1970-71, 1978, 1981, 1984) to 7 (1983). The details of seven reviews contributed for three year's Audit Reports are given below :

Sl. No.	Audit Report in which review was included	Name of the company reviewed
1.	A.R.1965	(i) Fertiliser Corpn. of India (Nangal) (ii) Hindustan Salts Limited (iii) Hindustan Insecticides Limited
2.	A.R.1967	(i) Hindustan Antibiotics Limited (ii) Fertilisers and Chemicals (Travancore) Limited
3.	A.R.1968	(i) Fertiliser Corporation of India (Trombay) (ii) Fertiliser Corporation of India (Namrup)

After the formation of Audit Board, 13 appraisals were initiated and details of 6 appraisals examined by COPU are given in the table below :

The remaining 7 appraisals were, FCI Namrup Unit (1978 - Part VI), FCI Gorakhpur Unit (1979 - Part I), FCI, Sindri Unit (1979 - Part VI), Hindustan Salts Ltd. and Sambhar Salts Ltd. (1982 - Part IV), Madras Fertilisers Ltd. (1982 - Part VI), FCI Durgapur Unit (1980 - Part II) and FCI (1980 - Part III), which have not been examined by COPU.

In respect of the companies/units transferred from MAB Lucknow, 57 paras on 14 companies were contributed during the period from 1973 to 1987. The number of appraisals included in the Audit Report (Commercial)

Sl. No.	Audit Report in which appraisal was included	Name of the Company appraised	Reference to COPU Report	Number of Recommendations	(A)	(B)	(C)	(D)
01.	1969-70 (Part X)	Fertiliser and Chemicals Travancore Limited	O 67(V) A.T.81(V)	37	25	12	-	-
02.	1970-71 (Part X)	IDPL	O 56(V) A.T.76(V)	87	61	20	6	-
03.	1970-71 (Part XI)	Hindustan Antibiotics Limited	O 80(V) A.T.37(VI)	79	69	3	5	2
04.	1977 (Part II)	Hindustan Organic Chemicals Limited	O -					
05.	1978 (Part III)	FCI (Trombay Unit)	O 21(VII) A.T.31(VII)	25	21	1	1	2
06.	1979 (Part III)	FCI (Nangal Unit)	O 65(VII) A.T.83(VII)	30	25	2	1	2

was three - (i) on Tannery and Footwear Corporation of India Limited, (ii) on Scooters India Limited and (iii) on Bharat Pumps and Compressors Limited. The appraisals on Tannery and Footwear Corporation and Scooters India Limited were examined by the COPU* who made 36 recommendations were made, out of which 27 were accepted by the Government, one was not pursued by the committee in view of the government reply, replies on 2 were not accepted by the COPU and the position was reiterated and on the remaining six, Government furnished only interim replies.

The number of CAs engaged were 35 to 41 for the audit of 13 to 18 Companies during 1986-87 and 1987-88 and total remuneration paid to them amounted to Rs. 7.83 lakhs and Rs. 11.77 lakhs respectively.

Results of supplementary audit conducted for the period 1977-78 to 1986-87 are tabulated below :

Units which were under this office before the merger of MAB Dehradun/Lucknow

Year	No. of companies under the audit jurisdiction of the MAB	No. of companies selected for purposes of comments or supplement to the auditors report	No. of companies on which comments were issued	No. of observations made/on number of companies	Monetary effect (Rs. in lakhs)
1	2	3	4	5	6
1977-78	13	7	1	5/1	29.95
1978-79	13	16	2	7/2	328.53
1979-80	13	13	3	6/3	2243.43
1980-81	22	16	5	19/5	723.62
1981-82	22	14	5	20/5	4101.49
1982-83	24	22	6	28/6	4185.39
1983-84	25	21	5	15/5	9268.95
1984-85	25	11	3	17/3	3349.99
1985-86	27	17	7	28/7	4462.34
1986-87		15	2	13/2@	3021.03

* 20th and 58th Reports (7th Lok Sabha).

@ One company revised the accounts.

Companies/Units which were under MAB & ex-officio DCA, Dehraun.

1	2	3	4	5	6
1.	1973-74	18	13	2	9 28.73
2.	1974-75	20	13	1	13 2.83
3.	1975-76	21	18	1	3 -
4.	1976-77	23	22	1	4 1.27
5.	1977-78	17	13	1	4 -
6.	1978-79	17	9	-	- -
7.	1979-80	17	16	1	2 21.87
8.	1980-81	18	16	2	3 -
9.	1981-82	17	16	3	4 40.32
10.	1982-83	18	17	-	- -
11.	1983-84	20	17	1	- -
12.	1984-85	22	12	-	- -

Companies/Units which were under MAB & ex-officio DCA, Lucknow

13.	1985-86	30	11	1	- -
14.	1986-87	31	10	-	- -

MAB & DCA III-NEW DELHI

The Office of the Chief Auditor, Commercial Accounts, Bhopal was formed in May 1971 under the overall supervision of the MAB & *ex-officio* DCA, Bombay for auditing 10 Government of India companies located in Madhya Pradesh and Rajasthan with a total investment of Rs. 539.31 crores (Rs. 240.01 crores paid-up capital and Rs. 299.30 crores long term loans) and the total strength was 24 - 1 CA, 1 DCA, 2 AOs, 7 SOs, 5 UDCs, 3 LDCs, 1 steno and 4 class IV. It was upgraded to the office of the MAB and *ex-officio* DCA in April 1978 with audit jurisdiction on 19 Government of India Companies located in Madhya Pradesh, Rajasthan, Maharashtra and New Delhi. Shri J. Veeraraghavan was the first MAB and since then four officers held the charge for periods ranging from 2 months and 26 days to 2 years and 11 months held by Shri N. Srivastava. There were two CAs - one at Bhopal for auditing 5 companies and 2 units of government companies under the jurisdiction of other MABs and the other at New Delhi for auditing 4

government companies and 4 units of government companies under other MAB's jurisdiction - and one Dy. CA at Bhopal with audit jurisdiction on 5 government companies. The aggregate investment of the companies under the jurisdiction of the MAB, Bhopal was around Rs. 930.00 crores in April 1978 and the strength of the office increased to 52 in 1978, 59 in 1980, 65 in 1983 and 71 in 1984-85. The expenditure incurred by the office in 1984-85 was Rs. 12.10 lakhs. The office was redesignated as Member Audit Board & *Ex-officio* DCA-III, New Delhi in May 1986, and shifted to New Delhi with audit jurisdiction over 31 Government of India companies, of which 9 were supervised by the Joint Director at Bhopal and the remaining 22 by the Dy. Director at New Delhi. Two Resident Audit Officers for the audit of BHEL at Bhopal and Western Coalfields at Nagpur functioned under the JD, Bhopal while 4 Resident Audit Officers - 1 each for BHEL, New Delhi, NTC, New Delhi NTPC, New Delhi, NHPC, New Delhi - functioned under DD, New Delhi. The aggregate investment on these undertakings as on 31st March, 1987, was Rs. 8777.22 crores (Rs. 5751.37 crores capital and Rs. 3025.85 crores loans). The total strength of the reorganised office in March 1987 was 115, which increased to 138 in March, 1988 - 71 at New Delhi (10 AOs, 6 AAOs, 55 others), 56 at Bhopal (6 AOs, 6 AAOs and 44 others), and 11 at Nagpur (2 AOs, 2 AAOs and 7 others). The expenditure incurred was Rs. 35.58 lakhs, which constituted 0.003% of the turnover of the public sector undertakings under its audit jurisdiction.

During 1984-85 to 1987-88, 340 inspection reports/1466 paras were issued, while 318 inspection reports/1613 paras were settled, the average turnover of objections raised and settled being 85 inspection reports/367 paras and 40 inspection reports/403 paras per year respectively. 215 reports/749 paras were outstanding for settlement at the close of 1987-88 and the oldest report related to 1980-81. There were 69 statutory auditors for auditing 29 companies in 1986-87 and 70 auditors for auditing 28 companies in 1987-88 and the total remuneration paid to them was Rs. 25.63 lakhs and Rs. 24.48 lakhs respectively.

212 companies were selected for supplementary audit during the period from 1977-78 to 1986-87 and 94 observations with a total monetary effect of Rs. 3253.41 lakhs on 28 companies were made and 16 companies revised their accounts. Details for last five years are given in the table below :

Year	No. of companies under the audit jurisdiction of MAB including deemed companies	No. of companies selected for purposes of comments or supplement to auditors report	No. of companies on which observations were made	No. of observations made	No. of companies which revised their accounts	Total monetary effect (in crores of Rupees)
1982-83	24	34	4	17	2	180.02
1983-84	24	24	6	16	2	356.38
1984-85	24	24	1	2	2	56.67
1985-86	26	21	1	1	1	413.00
1986-87	28	24	3	4	4	2236.35

Eleven appraisals originated from the office during the period from 1972 to 1987, of which seven were examined by the COPU. Details are given in the table at page 446 :

MAB & DCA I-BOMBAY

The office of the the Deputy Director of Commercial Audit, Bombay was formed on 2nd April, 1956 for auditing the commercial concerns in the State - 14 Government of India undertakings, 3 companies, 1 corporation and 10 departmental undertakings and 24 undertakings of the State Government, 2 Companies, 2 state corporations and 20 departmental undertakings. The total strength of the office was 123 - 1 IAAS officer, 7 AAOs, 17 SAS accountants, 65 UDCs, 7 LDCs, 2 stenographers and 24 class IV staff. The Commercial Audit work of concerns situated in Saurashtra, Vidarbha and Marathwada regions was transferred to the office of the AG, Bombay (Nagpur and Rajkot Offices) in March 1957, along with the staff, 3 SAS accountants, 6 UDCs, 1 LDC and 2 class IV. The audit of Bombay Electricity Board was added during 1957-58 along with 1 AAO, 3 SAS accountants, 6 UDCs, 1 LDC and 4 class IV employed on the work. There were 69 undertakings under its audit control (8 Central Government companies/corporations, 6 State Government companies/corporations, 12 Central Government departmental undertakings and 43 State Government departmental undertakings) in March 1959. The post of Deputy Director of Commercial Audit was upgraded to Senior Deputy Director of Commercial Audit from 1960 and was re-designated as Chief Auditor from 1965 onwards. The number of undertakings increased to 128 by the

Sl. No.	Year of Audit Report	Name of the company appraised	Reference to COPU Report		Number of recommendations	Action on Recommendations			
			Original	Action taken		(A)	(B)	(C)	(D)
01.	1970 (Part I)	H.E.L. Bhopal	19th Report (V Lok Sabha)	32nd Report (VII Lok Sabha)	49	20	23	6	—
02.	1970 (Part IX)	BHEL	21st Rep. (V L.S.)	43rd Rep. (V L.S.)	61	35	13	13	—
03.	1969-70 (Part III)	National Newsprint & Paper Mills Ltd Napanagar	50th Rep. (VI L.S.)	39th Rep. (VII L.S.)	7	6	—	—	1
04.	1969-70 (Part V)	Instrumentation Limited Kota	27th Report (V L.S.)	45th Report (V L.S.)	29	16	6	3	4
05.	1970-71 (Part V)	Hindustan Housing Factory	66th Report (V L.S.)	86th Report (V L.S.)	—	—	—	—	—
06.	1974 (Part III)	Hindustan Zinc Limited	88th Report (V L.S.)	27th Report (V L.S.)	106	87	14	3	2
07.	1981 (Part V)	Cotton Corporation India Limited	62nd Report (VII L.S.)	93rd Report (VII L.S.)	37	21	4	6	6
08.	1982 (Part IV)	Hindustan Salts Ltd. Sambhar Salts Limited	—	—	—	—	—	—	—
09.	1983 (Part II)	Mineral Exploration Corpn. Limited	4th Report (VIII L.S.)	18th Report (VIII L.S.)	36	19	5	1	11
10.	1984 (Part VI)	Manganese Ore Ltd. (I)	—	—	—	—	—	—	—
11.	1985 (Part VI)	Western Coal Fields Ltd.	—	—	—	—	—	—	—

end of March 1967 and the total strength of the office was 233 - 3 IA & AS officers, 16 AAOs, 45 SAS accountants, 102 UDCs, 2 stenos, 17 LDCs and 48 class IV. The audit of 21 State Government companies/corporations/boards and 47 departmental undertakings was transferred to AsG, Maharashtra and Gujarat from April 1967 along with 9 AAOs, 29 SAS accountants, 68 UDCs, 1 steno, 8 LDCs and 24 class IV, which confined its audit jurisdiction to Central Government companies/corporations (22) and departmental undertakings (38). The Chief Auditor, Western Region was placed under the newly formed office of MAB & DCA, Bombay in April 1969, which had a total strength of 95 - 3 IAAS officers, 7 AOs, 16 SAS accountants, 34 UDCs, 2 stenos, 9 LDCs, and 24 class IV. Shri H.M.S. Bhatnagar was the first MAB and since then six officers held the post of MAB and Shri C.J. Malkani had the longest tenure, 3 years 10 months and 10 days.

From March, 1971, the control of the CA, Bangalore was transferred to MAB and DCA, Bangalore. The newly created office of the Chief Auditor at Bhopal, who was entrusted with the audit of 10 Government companies and departmental undertakings located in Madhya Pradesh and Rajasthan, was placed under this office. The strength of the office increased to 112 - 3 IAAS officers, 10 AOs, 20 SAS accountants, 38 UDCs, 13 LDCs, 3 stenos and 25 class IV. In April 1978, the audit of all the Insurance Companies (3) along with 2 companies and 1 committee, in lieu of audit of 29 companies/corporations transferred to other office of the MAB and DCA, was added. The re-organised strength of the office was 210 - 6 IAAS, 23 AOs, 54 SOs, 11 SG Auditors, 48 Auditors, 6 Stenos, 24 clerks, and 38 class IV. The re-organisation of 1986 left with this office the audit of 29 companies with an aggregate investment of Rs. 429.70 crores. The total strength of the Office in March 1987 was 149 - 5 IAAS, 18 AOs, 32 AAOs/SOs, 1 WA, 39 Auditors, 7 stenos, 22 clerks and 25 group 'D'. The expenditure incurred during the year ended March 1987 was Rs. 38.97 lakhs and March 1988 Rs. 41.73 lakhs, which constituted 0.0004% of the turnover of the PSUs under its audit jurisdiction.

While Resident Audit Officer was attached to Air India (April 1956 to April 1986), Resident Audit Circles were attached to IOC (Western Region, Head Office and Co-ordination), HPCL, BPCL and IPCL, Baroda (1977-78 to April 1986), NTC, South Maharashtra, North Maharashtra and Gujarat (1981-82 to April 1986) which were transferred to the MAB and DCA-II, Bombay and Indian Air Lines (Bombay Unit) (1960-61 to April 1986), which was transferred to MAB and DCA-I, New Delhi from May 1986. An RAO was also attached to SCI, MDL, MLL and GSL from December, 1979, GIC, New India Assurance, ECGC,

ICICI, Zenith Securities and Investments Limited and Agricultural Finance Corporation from 1981-82, and National Insurance Company, Calcutta, United India Insurance Company, Madras and Oriental Insurance Company, Madras and Oriental Insurance Company, New Delhi. An RAO was also attached to Medical Stores Depot (April 1956 to September 1986), Milk Distribution Scheme and State Road Transport Corporation (April 1956 to March 1967) and State Electricity Board (1962-63 to March 1967), before they were transferred to the Accountants General, Maharashtra/Gujarat.

Manual for audit of General Insurance Companies was issued in December 1979. Subsequently, in December 1985 manuals for audit of 12 more companies - 10 under its audit jurisdiction and 2 transferred to other MABs were issued.

During the last five years (1983-84 to 1987-88) 433 inspection reports/2229 paras were issued, the turn-over being 87 reports/446 paras per year, and 480 reports/2600 paras were settled. 296 inspection reports with 1006 paras were outstanding in March 1988. The outstandings showed a declining trend, which was indicative of the improvement in responsiveness of the management.

In this region, 878 company auditors were engaged for auditing 27 companies/corporations during 1987-88 and the remuneration paid to them amounted to Rs. 59.71 lakhs. Supplementary audit comments were made from 1961-62 onwards on companies selected for review till 1983-84. In all, 265 comments were issued on 135 companies with an over all monetary effect of Rs. 86.72 crores. While the companies on which the comments were issued varied from 1 to 16 during the year, the number of observations varied from 1 to 41. The average number of companies commented upon each year was around 6 and the average number of observations made on companies around 11. While the total monetary effect of the comments made was around Rs. 80.62 crores, the monetary value of the average number of comments per year was Rs. 33 crores. The largest number of companies on which comments were issued were 16 during the years 1971-72, 15 in 1972-73 and 15 in 1973-74 and the highest number of observations made were 32, 33 and 34 respectively. Few comments carried monetary effect of Rs. 14.23 crores in 1981-82 (1 company and 1 observation), Rs. 13.38 crores in 1975-76 (3 companies and 6 observations) and Rs. 11.07 crores in 1983-84 (2 companies and 2 observations).

The details of comments made during 1981-82 to 1986-87 are given below :

Year	No. of Govt. Cos. under the audit jurisdiction of member	No. of Cos. accounts received	No. of Cos. selected for review	No. of Cos. on which comments were issued	No. of observations made	No. of Cos. who revised accounts	Net Monetary effect of Column 6 (Rs. in crores)
1	2	3	4	5	6	7	8
1981-82	21	21	24	1	1	2	14.23
1982-83	21	21	21	3	3	3	9.37
1983-84	21	21	23	2	2	5	11.7
1984-85	21	21	20	3	4	4	0.98
1985-86	21	21	21	2	2	1	3.62
1986-87	22	22	24	1	1	8	1.63

Eight reviews for Audit Reports for 1963 to 1969 were contributed. 14 comprehensive appraisals originated from the office, which were included in ARs 1969-70 to 1986 as under :

Sl. No.	Name of Company of appraised	Nomenclature Report	Relevant COPU report
1	2	3	4
1.	The Mugul Line Limited	1969-70 (Part II)	—
2.	Indian Oil Corporation Ltd (Gujarat Refinery)	1969-70 (Part XI)	O 52 (V) O 49 (V) AT 65 (V) AT 73 (V)
3.	Shipping Corporation of India Limited	1979 (Part III)	O 20 (V) AT 29 (V)
4.	Film Finance Corporation India Ltd	1970-71 (Part II)	O 79 (V) AT 30 (VI)
5.	Indian Oil Corporation Ltd (Marketing Division)	1970-71 (Part VII)	vide sl.no.2
6.	Hindustan Antibiotics Ltd	1970-71 (Part XI)	O 80 (V) AT 37 (VI)
7.	Mazagon Dock Limited	1976 (Part V)	Not examined
8.	Fertilizers Corporation of India Ltd (Trombay Unit)	1978 (Part III)	O 21 (VII) AT 31 (VII)

1	2	3	4
9.	The Cotton Corporation of India Ltd.	1981 (Part V)	O 62 (VII) AT 93 (VII)
10.	Electronics Corpn. of India Ltd	1982 (Part V)	
11.	General Insurance Corporation of India Ltd	1982 (Part XIII)	O 6 (VIII) AT 23 (VIII).
12.	United India Insurance Co. Ltd.	1983 (Part VI)	Not examined
13.	Richardson & Cruddas (1972) Ltd.	1985 (Part IV)	Not examined
14.	Shipping Corporation of India Ltd.	1986 (Part III)	Report awaited

Two reviews on Central Government corporations included in Audit Reports 1963 and 1968, 8 reviews on departmentally managed Central Government commercial and quasi-commercial undertakings included in Audit Reports 1963 to 1968 and two reviews on departmental undertakings included in Audit Report (Civil) 1980-81 were also contributed. 48 paras on 26 companies were contributed for inclusion in Audit Reports (Commercial) for 1965 to 1984; 6 paras on departmental undertakings for Audit Reports (Civil) 1965, 1966, 1967 and 1968 were included.

Material for the Audit Report incorporating Resume of Company Auditors Reports was furnished every year and on an average 45 observations per year were contributed for Reports 1981 to 1986 and the average number of points commented upon per company was four.

14 paras on State Government companies, corporations and departmental undertakings were included in the State Audit Reports (Commercial) for the years 1962 to 1966-67.

MAB & DCA II-BOMBAY

The office of the MAB & *ex-officio* DCA-II, Bombay was formed in May 1986 for audit of two statutory corporations, fourteen government companies, including one government company for which he functioned as sub-auditor, two 619(B) companies and three units under Section 20 of the CAG's (DPC) Act. The aggregate investment of the units under the audit jurisdiction of the office was around Rs. 3072.38 crores. The office was headed by Shri B.M. Oza and its total strength was 113, which increased in July 1988 to 166 - 4 Group A Officers, (of which three Dy. Directors were stationed at Bombay, Baroda and Dehradun), 20 AOS, 24 AAOs, 26 SOs, 33 senior auditors, 22 auditors, 6 stenographers, 18 Clerks/Typists, 3 record keepers and 10 group D. The expenditure of the office

during 1987-88 was Rs. 46.54 lakhs which constituted 0.002% of the turnover of the audited institutions.

During 1986-87 and 1987-88, 110 inspection reports containing 923 paras were issued and 98 inspection reports consisting of 781 paras got settled. 230 inspection reports containing 1213 paras were outstanding on 31st March, 1988 and the oldest pending inspection report related to 1977-78. Of the 14 companies selected for supplementary audit during 1985-86, 23 comments were issued on 7 companies involving total monetary effect of Rs. 4328.16 lakhs. 15 companies were selected during 1986-87, on which 21 comments were issued on 5 companies with a total monetary effect of Rs. 7319.52 lakhs and 2 companies revised their accounts.

The total comments during the period from 1966-67 to 1984-85, on the companies/corporations allocated to successor MABs was around 615 with a total monetary effect of Rs. 11420.06 crores. 56 CAs, who were paid Rs. 35.89 lakhs as audit fees, audited 13 Government companies in 1986-87 and 49 had responded in time to the questionnaire issued by the CAG and 59 CAs, who were paid Rs. 36.98 lakhs, audited 15 Government companies in 1987-88 and 23 had replied to the questionnaire upto June 1989. 7 paras for AR(C) 1986, 8 paras and one appraisal for AR(C) 1987 were contributed. Five undertakings had been reviewed appraised prior to the transfer of their audit to the MAB DCA-II, Bombay, - IOC, (1971 Report), RCF (1978 Report), IPCL (1982 Report) and HPCL (1983 Report) and LIL (1987 Report). Report on IPCL (1982) was discussed by the COPU who made 37 recommendations.

AIR INDIA

The assets and liabilities of the Air India International Limited was taken over by the Government of India with effect from 1st August, 1953 under the Air Corporation Act, 1953 whose name was changed to Air India in 1962. Its main objectives were to provide safe, efficient, adequate, economical and properly coordinated air transport services, whether internal or international or both. The other objectives of the Corporation were to provide services of a high standard to passengers and customers to achieve, maintain and improve its rightful place in the international air transport industry, to make an increasing contribution to the national economy and maximise revenues with efficient fleet utilisation and route network, to promote international tourism to India and to improve the nation's foreign exchange resources, to assist in the promotion of nation's export trade, to improve the national economy by encouraging local skills and technology, to get equipment and materials, other than air craft, indigenously manufactured so as to curtail imports steadily and save foreign exchange, and to serve the country in emergencies as a

second line of defence. The Corporation was entirely financed by the Central Government and the total capital invested (paid-up capital, long term loan, and free-reserves) at the end of 1986-87, was Rs. 1284 crores. The CAG was the sole auditor of the Corporation and the audit was conducted by CCA/DCA and successor MABs. Table below gives the key statistics for selective years of the Corporation :

	1977-78	1982-83	1986-87
FINANCE			
Operating Profit/Loss <i>i.e.</i>	36.64	61.50	46.54
Operating Revenue minus Operating Expenses (Rs. in crores)			
Net Surplus/Deficit Before Tax <i>i.e.</i> Total Revenue minus total Expenses (Rs. in crores)	28.45	38.04	30.16
Net Surplus/Deficit After Tax (Rs. in crores)	28.45	38.04	30.16
Operating Ratio <i>i.e.</i> Operating Expenses to Operating Revenues)(%)	88.7	91.2	94.8
SELECTED BALANCE SHEET ITEMS			
Net working Capital (<i>i.e.</i> current assets minus current liabilities)(Rs. in crores)	74.94	141.31	426.25
Capital (Equity and Loan) (Rs. in crores)	66.82	148.73	148.73
Net Worth (Rs. in crores)	155.01	286.48	542.32
OPERATIONS			
Revenue Hours flown (No.)	55,151	63,627	63,070
Available Seat Kilometres (Million) (Total)	7,949.1	12,526.9	11,346.4
Available Tonne Kilometres (Total)	1,165,732	11,898,493	1,919,512
TRAFFIC			
Revenue Passengers Carried (No.)	1,043,159	1,748,260	1,830,078
Freight Tonnes Carried (No.)	41,775	62,343	85,529
Total Revenue Tonne (Million) Kilometres	730.594	1,123.091	1,206.287
LOAD FACTOR (SCHEDULED SERVICES):			
Passenger (%)	64.3	64.9	68.8
Overall (%)	62.8	59.9	63.1
Aircraft Utilisation - (No.) Revenues Hrs./per annum	3,700	3,070	2,950
PERSONNEL			
No. of staff (Year end) (No.)	12,676	16,296	17,443

The growth over the last ten years (1978 to 1987) was as under:

(i) Operating Revenue	191.44%
(ii) Operating expenses	211.53%
(iii) Operating profit	34.35%
(iv) Net Surplus (after tax)	6.01%
(v) Operating Cost per ATKM	113.04%
(vi) Fixed Assets	484.68%
(vii) Capital (Equity and Loan)	122.58%
(viii) Revenue Hours flown	14.36%
(ix) Freight tonnes carried	104.74%
(x) Revenue Passengers Carried	75.44%
(xi) Total Revenue Tonne Kilometres	65.11%
(xii) Passenger load factor	7.00%
(xiii) Available tonne kilometres per employée	25.19%

Audit was conducted with reference to the provisions of Air Corporations Act of 1953 and rules framed thereunder in accordance with the instructions contained in the Manual of DCA supplemented by subsequent instructions issued from time to time. The International Air Transport Association Resolutions were also kept in view while carrying out the audit. These covered all the units and the various books of accounts, documents, returns etc. maintained by the Corporation and its branches, cargo and passenger revenue and refunds. Pay accounts, general accounts, costing section, Billing section, purchases and stores. Resolutions of the Board of the Corporation and sanctions issued by the various delegated authorities were also audited.

The Estimates Committee examined the working of Air India in 1956-57 together with the CAG's comments included in the Conventional AR and their recommendations were incorporated in 41st Report (First Lok Sabha) and the replies furnished by Government indicating the action taken on these recommendations were considered by the Estimates Committee in 1958-59 and a further Report (34th Report - Second Lok Sabha) was presented. The COPU examined the working of Air India in 1965-66, which also covered the audit paras included in the ARs till then, whose recommendations were contained in their 21st Report (Third Lok Sabha). Some of the major recommendations were opening of new routes connecting various regions in Africa, across the Atlantic and to the West Coast of America from Japan, watching operating expenses to effect economy, increasing its load factors on routes, especially where these were uneconomically low, utilisation of the spare capacity on the domestic sector, review of the staff strength with a view to reducing it, and control over overtime payments and inventories.

Important comments on Air India were incorporated in the Conventional ARs from time to time. During the period 1971-72 to 1986-87, 56 paras involving aggregate monetary effect of Rs. 128421 lakhs were included - which ranged from two in 1971-72 (Rs. 179 lakhs) to 13 (Rs. 56540 lakhs). No Audit appraisal of Air India has so far been presented to Parliament. The COPU examined its working in 1978-79 and made their recommendations in 52nd and 53rd reports (Sixth Lok Sabha). The Committee again examined working of Air India in 1985-86 and their recommendations were contained in their 14th Report (1986-87), which *inter alia* commented adversely upon its working and recommended various measures for improvement, including constitution of an expert Committee to go into the problems faced by it in competing with foreign airlines and to suggest measures to achieve its rightful place in the international air transport industry.

OIL & NATURAL GAS COMMISSION

The Government of India decided in 1955 to have a separate organisation for oil exploration and a new department under the name of Oil and Natural Gas Commission Directorate was established. The Directorate was converted into a high powered Commission in August 1956 following the acceptance, in principle, of the detailed plan for oil exploration during the Second Five Year Plan drawn up with the assistance of the Soviet experts. The Commission was converted into a statutory body under the Oil and Natural Gas Commission Act, 1959 (Act XLIII of 1959) to plan, promote, organise and implement programmes for the development of petroleum resources and the production and sale of petroleum and petroleum products produced by it. The Commission was wholly financed by the Central Government and all non-recurring expenditure upto 14th October, 1959 was treated as capital of the Commission and further capital was provided by the Central Government under Section 16 of the Act. The total capital invested (paid up capital, long term loans and free reserves) in March 1965 amounted to Rs. 7956.23 crores. The activities of the Commission broadly are exploration - geological survey, geophysical survey and drilling operations - production and research and training. These activities are controlled by the various Directorates of the Commission, important ones being Directorate of Geology, Directorate of Geophysics, Directorate of Drilling, Chief Engineer (Production), and Directorate of Training. The CAG has been the sole auditor of the Commission ever since its creation and audit was entrusted initially to the DCA and later successor offices. The Commission came under the audit jurisdiction of

MAB & *ex-officio*, DCA-II, Bombay, from May 1986. The key statistics relevant to its growth and performance for selected years are given below :

Details of Production	1978	1983	1987
Crude Oil (MMMT) ₃	7.47	17.58	27.65
Natural Gas (MMM ₃)	728.17	1856.72	5042.47
LPG (Tonnes)	-	161220	450402
NGL (Tonnes)	-	24664	137951
Revenues (Rs. in crores)	298.08	2385.63	5627.39
Net income (Rs. in crores)	51.72	692.87	1484.46
<i>Rate of Return as (%)</i>			
On Capital Employed	12.7	58.1	33.9
On Total Revenues	17.4	29.0	26.4
On Equity	12.6	44.2	25.1
(ii) <i>Capital, Exploration and Development</i>			
Costs, Capital Exploration & Development (Rs. in crores)	305.44	1358.91	895.88
Income from Operations	124.35	1028.84	1369.28
Percentage	41.00	76.00	72.00
External Support (Rs. in crores)	181.09	330.07	526.60
Percentage	59.00	24.00	28.00
(iii) <i>Capital Structure (Rs. in crores)</i>			
Government Capital	320.80	342.85	342.85
Reserves and Surplus	89.68	1225.20	5569.99
Indian Loans	263.17	715.29	861.11
Foreign Loans	11.14	925.49	2149.65
Total	684.79	3208.83	8923.60
(iv) <i>Resources (Rs. in crores)</i>			
Total Own Funds	415.79	1593.71	5954.93
Total Outside Resources	258.97	1485.69	2735.58
(v) <i>Disposition of Resources (Rs. in crores)</i>			
Total block Capital	511.40	1930.72	5010.02
Working capital	73.92	255.79	1563.93
Capital Employed	585.32	2186.51	6573.95
Total investment	25.00	414.53	701.95
Unallocated Expenditure	64.44	478.36	1414.61
Total disposition	674.76	3079.40	8690.51
(vi) <i>Ratios (as a relation)</i>			
Debt to equity	0.631:1	0.95:1	0.46:1
Debt to Govt. Capital	0.81:1	4.34:1	7.98:1
Debt to total Capitalisation	0.39:1	0.49:1	0.31:1
Current Ratio	1.82:1	1.18:1	1.54:1
Quick Ratio	0.75:1	0.91:1	1.17:1

The growth over the last ten years (1978 to 1987) was as under:

1	2
(i) Quantity of Crude Sold	270.15%
(ii) Gross Revenue	1787.88%
(iii) Operating expenses	1438.85%
(iv) Operating income	2892.79%
(v) Retained earnings	3621.63%
(vi) Total Assets (Net)	1412.46%
(vii) Return before interest but after tax to capital	112.17%
(viii) Return on Equity	99.21%

The accounts maintained at each of the projects/offices were consolidated at Dehradun (Headquarters) by the Deputy Chief Accounts Officer (Accounts). The Balance Sheet was compiled by the Commission after analysing the Budget Heads and determining outstanding liabilities etc. on the basis of information furnished by the projects. The form of accounts has been prescribed in consultation with the CAG of India. The detailed instructions for conducting the audit of the accounts of the Commission were laid down in the DCA's manual, which were supplemented by subsequent instructions issued by the MAB & DCA concerned. Besides ascertaining that the operations of the Commission were carried on in accordance with the Oil and Natural Gas Commission Act, 1959, the Oil and Natural Gas Commission Rules, 1960 and the Petroleum and Natural Gas Rules, 1959, special points relevant to the Commission's activities, operation and performance were seen during audit.

Important audit findings on the Commission were included in conventional Audit Report of CAG during 1971-72 to 1986-87, numbering in all 296 paras involving a total monetary effect of Rs. 2908.84 crores. The paras ranged from 4 (Rs. 9.04 lakhs) in 1971-72 to 22 (Rs. 82718.52 lakhs) in 1986-87. A comprehensive appraisal of the Commission was included in the Audit Report 1970 - part VIII, which contained 49 paras. The paras were examined by the Estimates Committee, PAC and COPU. The COPU examined the working of the Oil and Natural Gas Commission in 1964-65 and made their recommendations/observations in their Fifth Report (Third Lok Sabha) and the replies furnished by the Government on the action taken on them were considered by the Committee (1968-69), who presented their Thirty-Seventh Report (Fourth Lok Sabha) to Parliament on 30th April, 1969. The Committee examined the working of the Commission in 1971-72, when Audit Report (1970) was also taken up, and presented its report in April 1972 which contained 73 recommendations (16th Report -

V Lok Sabha); 33 of them were accepted by Government, 31 were not pursued by the Committee in view of replies and in the remaining cases replies furnished were of interim nature. The Committee reviewed its organisational structure and project clearance in 1985-86 and made 16 recommendations in their 8th Report and the Head Office, Survey and Exploration in 1986-87 and made 16 recommendations in the 12th Report (VIII Lok Sabha).

MAB & DCA I—CALCUTTA

The regional Commercial Audit office at Calcutta under a Dy. Director of Commercial Audit was formed late in 1955 for auditing 8 Central Government and 17 State Government commercial concerns in West Bengal, Bihar, Orissa and Assam with a total strength of 74 - 1 IAAS Officer, 6 AAOs, 14 SAS Accountants, 29 UDCs, 8 LDCs and 16 Class IV. The DDA was re-designated as Dy. CA from June 1965. The audit of the Damodar Valley Corporation, which was declared as Commercial Undertaking by the Government of India in 1965, was transferred from the office of the AG, West Bengal to the office of the Dy. CA in November 1966. The audit of State Government Commercial Undertakings was transferred to the AG, West Bengal in April 1967. The office was upgraded to that of Member Audit Board & *ex-officio* Director of Commercial Audit, Calcutta with effect from 1st April, 1969, and Shri R. Chinnappa was the first MAB, and since then, eight officers held the charge for periods ranging from 4 months to 3 years 1 month and 21 days, held by Shri A.P. Sinha. The MAB was assisted by one CA and one Dy. CA for auditing 14 Government Companies, 2 Statutory Corporations and 11 Departmental Undertakings with an aggregate investment of Rs. 455.15 crores and the total strength of the office was 189 (3 IAAS Officers, 11 AOs, 32 SAS Accountants, 76 UDCs, 3 Stenos, 28 LDCs and 36 Class IV). 4 AOs, 10 SOs, 27 Auditors, 1 Steno, 11 clerks and 15 Class IV audited the DVC. In April 1974, the audit of 11 Departmental Undertakings and the branches of the 2 companies was transferred to the newly formed office of MAB & DCA (coal), Calcutta. The audit of the Fertilizer Units was transferred to MAB, Fertilizers and Chemicals, New Delhi, audit of NTC (WB ABO) Limited to the MAB, Bhopal and the audit of National Insurance Corporation to the MAB, Bombay, in 1978 but the administrative control of the resident audit parties located in Calcutta continued to be vested with the MAB, Calcutta, which was transferred to the newly formed office of the MAB-II, Calcutta with effect from 1st September, 1986 along with the staff. The administrative control over the resident party of National Insurance Company, Calcutta and Indian Airlines Corporation, Calcutta was

transferred to MAB-I, Bombay and MAB-I, New Delhi with effect from 1st September and 1st October, 1986 respectively. In 1986, the audit jurisdiction of the office covered 40 Government companies, 1 Statutory Corporation and 11 deemed companies and the aggregate investment of 39 companies was Rs. 5754.22 crores. The total strength of the office was 225 - 1 Director, 1 Jt. Director, 23 AOs, 20 AAOs, 22 SOs, 1 Welfare Assistant, 88 Sr. Ar./Ar., 6 Stenos, 28 Clerks/typists and 35 Group D and its expenditure for the year 1986-87 was Rs. 131.06 lakhs, which constituted 0.02 per cent of the turnover of the auditee institutions (excluding one Corporation and 4 deemed companies) The strength of DVC audit establishment was 84 (6 AOs, 5 AAOs, 9 SOs, 38 Senior Auditors/auditors, 12 LDCs and 14 Group D). Manuals for audit of 11 companies - 10 under its audit jurisdiction and 1 transferred to MAB Ranchi were brought out in 1986. The average turnover of inspection reports was 45 with 145 paras during the last four years. In March 1988, 184 inspection reports with 451 paras were outstanding for settlement and the earliest pending report related to the year 1978-79. The following reviews and appraisals originated from the office.

Sl. No.	Nomenclature of Report	Name of undertaking	Reference to COPU Report		No. of Recommendations	Details of Action Taken
			Original	Action Taken		
1	2	3	4	5	6	7
1.	1969-70 Pt. VII	Pyrites, Phosphates & Chemicals Ltd.	39(V) 72-73	48(V) 73-74	43	A 12 B 16 C 10 D 5
2.	1970-71 Pt. XII	National Instruments and Ophthalmic Glass Limited	-	-	-	-
3.	1970-71 Pt. VI	Hindustan Shipyard Limited	-	-	-	-
4.	1975 Pt. II	Garden Reach Workshop Limited	-	-	-	-
5.	1976 Pt. II	Central Fisheries Corporation Ltd.	49(VI) 78-79	34(VII) 81-82	18	A 15 B 3
6.	1978 Pt. IV	Fertiliser Corporation India Limited	-	-	-	-
7.	1978 Pt. VI	Namrup Unit Hindustan Copper Limited (Review)	-	-	-	-

1	2	3	4	5	6	7
8.	1979 Pt. VI	-do- Sindri Unit	-	-	-	-
9.	1980 Pt. VI	-do- Durgapur Unit	-	-	-	-
10.	1982 Pt. II	Rehabilitation Industries Corporation	96(VII) 83-84	5(VIII) 85-86	31	A 15 B 8 C 4 D 4
11.	1982 Pt. IX	Jessop & Company	-	-	-	-
12.	1982 Pt. XIV	Central Inland Water Transport Corporation	-	-	-	-
13.	1986 Pt. VI	Biecto Lawrie 88-89	421(VIII) 88-89	62(VIII)	24	A 5 B 6 C 12 D 1
14	1986 Pt. VII	Hindustan Cables Ltd.	-	-	-	-

No reviews or appraisals were contributed for ARs the 1974, 1977, 1981, and 1983 to 1985 and appraisals on 12 companies are yet to be taken up.

As sole auditor, a separate Audit Report for DVC was issued every year and 19 Reports were issued upto 1986-87 since formation of Audit Board. In all, 33 individual paras were contributed for ARs 1975 to 1986 ranging from 1 to 6 in each year.

The statutory audit of 34 companies/corporations was carried out during 1987-88 by 60 CAs and the total remuneration paid to them amounted to Rs. 14.97 lakhs. The average number of companies under the audit jurisdiction of the office was 36, the minimum 32 in 1986-87 and the maximum 39 in 1983-84, 1984-85 and 1985-86; the average number of accounts received for supplementary audit was 32 - minimum 29 in 1979-80 and maximum 36 in 1983-84 and 1984-85; the average number of companies selected for purpose of comments or supplement to the Audit Reports was 25 - minimum 21 in 1977-78 and 1979-80 and maximum 29 in 1983-84. The average number of companies not reviewed was 15 - minimum 11 in 1986-87 and the maximum 19 in 1984-85. In all, 379 comments were made on the accounts ranging from 12 in 1977-78 to 95 in 1985-86 and on an average 38 per annum with overall monetary effect of Rs. 209.88 crores - minimum Rs. 0.19 crore in 1978-79 and the maximum Rs. 58.35 crores in 1985-86 and 13 companies revised their accounts - 1 each in 1979-80, 1981-82 and 1983-84, 4 in 1985-86 and 6 in 1986-87.

DAMODAR VALLEY CORPORATION

The Damodar Valley Corporation was established under the Damodar Valley Corporation Act, 1948* with the broad objectives of achieving an unified development of Damodar Valley in the States of Bihar and West Bengal. The Act entrusted the Corporation with the main functions of flood control, irrigation and generation, transmission and distribution of electrical energy and certain subsidiary activities like afforestation, soil conservation, fishery and promotion of navigation, public health, agricultural, industrial, economic and general well being in the Damodar Valley and its area of operation. The Corporation is managed by a Chairman and two other members, appointed by the Union Government after consultation with the State Governments of Bihar and West Bengal with a Secretary (who is also the General Manager) and the Financial Adviser appointed by the Union Government. The accounts of the Corporation are audited by an officer appointed by the CAG under his direction and control, under Rule 28 of the DVC Rules. The annual accounts prepared by the Corporation are certified by the Audit Officer in terms of Rule 31 *ibid* and an Audit Report is appended thereto. The annual accounts so certified and the Audit Report, after counter signature by the CAG, are submitted to the President with three additional copies. One copy is retained by the Central Government and one copy each is sent to the two participating State Governments. The Audit Report is printed along with the annual report and annual accounts. The annual report is laid before Parliament and the State Legislatures concerned. The corporation was under the audit control of AG, West Bengal since its formation on 7th July, 1948.

After the Corporation was declared as commercial undertaking by the Government of India, Ministry of Irrigation and Power, in November 1965, the audit was entrusted to the Director of Commercial Audit from 1st November, 1966, who carried out efficiency-cum-performance audit, apart from routine audit. The Chief Auditor, Commercial Accounts, Calcutta under the overall supervision of the former Director of Commercial Audit carried out the audit of the Corporation and other Central Units. After the formation of the Audit Board, the MAB Calcutta became responsible for the audit of the Corporation and the audit is conducted on an annual basis.

The Original DVC plan envisaged construction of seven multi-purpose storage dams and a low diversion dam across the Damodar and

* Act XIV 1948.

its tributaries with a total storage capacity of 4.68 million acre-ft. (5733 m.cu.m). The Corporation has so far constructed four multi-purpose dams at Tialaiya, Maithon, Konar and Panchet (Panchet, the last dam in this series, was inaugurated in December 1959), a barrage at Durgapur and an irrigation canal system of 2495 kms. with 137 kms. long irrigation-cum-navigation canal of the left bank of the Damodar River. The four dams so far constructed provided for a total storage of 2.9 million acre-ft. (3577 m.cu.m.) with a flood cushion of 1.51 million acre-ft. (1862 m.cu.m.) but due to incomplete acquisition of land for submergence in the Maithon and Panchet reservoirs, the actual flood cushion available at present was only 1.05 million acre-ft. (1,295 m.cu.m.). The management of Barrage and Irrigation System of DVC was entrusted to the Government of West Bengal in 1964 and the operation and maintenance expenses were debited to DVC account. As a part of first phase, the Corporation constructed three hydel stations appended to Tialaiya, Maithon and Panchet Dams and a Thermal Power Station at Bokaro. On completion of the first phase, the Corporation's activities were concentrated mainly on power generation and transmission and distribution and for this purpose, constructed two more large thermal power stations at Durgapur (DTPS) and Chandrapura (CTPS) and added Units at Bokaro, (BTPS) and DTPS with a vast network of associated transmission and distribution lines. The total installed capacity (derated) of the DVC power system was 1649 MW - Thermal : 1545 MW (unit nos. I & II of DTPS with generating capacity of 110 MW were decommissioned as per order of Central Electricity Authority being damaged due to devastating fire which occurred in October 1985) and Hydel: 104 MW. The existing transmission system comprised of 427 ckms of 220 KV, 3308 ckms of 132 KV and 840 ckms of 33 KV lines. The on-going Generation Projects of the Corporation were Bokaro 'B' TPS (3 x 210 MW), Panchet Hydel II Unit (1 x 40 MW, and Maithon Gas Turbine Station (3x30 MW), and Mejia TPS (3 x 210 MW). Of these, Bokaro 'B' TPS Unit No. I has since been brought under commercial operation with effect from 12th March, 1987. The on-going major transmission works are 220 KV lines in Bokaro - Jamshedpur, Chandrapura-Maithon, Waria-Durgapur (NTPC) Sections, 220 KV sub-station at Maithon, 220 KV sub-station inter-state line between Chandrapura and Santaldih and 132 KV line between Bokaro 'B' TPS and Bokaro TPS have been commissioned. Other works of 132 KV line diversion, augmentation of transformer capacity and 33 KV feeders to various consumers are in progress.

Corporation has an Internal Audit Department under the overall control of the Financial Adviser. The checks exercised by the Internal

Audit Department are mostly routine in nature. The pattern of audit conducted by the AG was based on the model of works audit and consisted mainly of voucher audit according to the quantum laid down by the CAG for different types of vouchers. The audit office had 6 sections in head quarters with a total strength of 42 comprising 2 AOs, 7 AAOs/SOs, 16 Senior auditors/auditors, 2 stenos, 5 clerks and 10 group D and 4 Resident Audit Offices, at Maithon with a total strength of 15 (1 AO, 2 AAOs/SOs, 8 senior auditors/auditors, 2 clerks and 2 group 'D' Chandrapura - 13 (1 AO, 2 AAOs/SOs, 6 senior auditors/auditors, 2 clerks and 2 group 'D'), Bokaro - 8 (1 AO, 1 SO, 4 senior auditors/auditors, 1 clerk and group 'D') and Durgapur - 9 (1 AO, 2 AAOs/SOs, 4 senior auditors/auditors, 1 clerk and 1 group 'D'). 84 inspection reports containing 157 paragraphs were outstanding for settlement at the end of December 1988. After DVC adopted the commercial accounting system 356 paras/review paras were incorporated in the Audit Reports. They were mostly on projects under construction viz. CTPS IV & V, DTSP IV, Bokaro 'B', TPS phase I & II, Panchet Hydel Unit II, etc., irregularities in purchases, performance of the Corporation in generation and distribution of power, irrigation and flood control, delay and irregularities in major contracts entered into by the Corporation, financial results, material management and inventory control etc. The annual accounts of the Corporation were also checked and commented upon.

The activities of the Corporation were reviewed by the COPU in 1981-82 and the annual Audit Reports issued by the CAG were brought to their notice. In their 37th Report (VII Lok Sabha) the Committee observed that "Besides the issues dealt with in this Report, a number of outstanding points arising out of Audit Reports were also brought to the notice of the Committee by the CAG of India. These were taken up by the Committee with the Government and the Corporation. The Committee trust that suitable action, as may be necessary, will be taken in consultation with the CAG. In future, this should be a continuous arrangement and action on Audit Reports should be monitored by the Board of the Corporation as well as the Government". Thereafter seven Audit Reports were issued to the Corporation but these were neither taken to the notice of the Board of the Corporation nor any discussion held by the COPU.

MAB & DCA II-CALCUTTA

MAB & DCA (Coal) was formed in Calcutta in January 1974 with one Chief Auditor each at Calcutta and Ranchi for auditing 15 enterprises (4 Government of India Undertakings engaged in Coal and allied

industries, 2 units of the Government of India companies and 9 departmental undertakings). Shri M. Ramaswamy was the first MAB and the total strength was 77 - 3 IAAS, 6 AOs, 14 SOs, 35 auditors, 7 clerks/typists and 12 Group 'D' staff. The CA at Calcutta held the charge of administration of the office and audit of BCCL, CMA Ltd. (CIL) and other Calcutta-based departmental undertakings and the CA Ranchi was in charge of NCDC (CCL) and WCL, Nagpur. Six more enterprises - 5 companies and 1 departmental undertaking were added in 1978, when the strength of the office rose to 138. The designation of the office was changed to MAB and DCA II, Calcutta in May 1986 and its audit jurisdiction extended to 26 enterprises, 21 Government of India Companies and 5 units of other companies with an aggregate investment of Rs. 14933.93 crores (paid up capital Rs. 7581.50 crores and long term loans Rs. 7352.43 crores) in 1987-88. The reorganised office had a total strength of 197 - 4 IAAS Officers (One Director, two Joint Directors and one Dy. Director) 24 AOs, 25 AAOs, 18 SOs, 68 Auditors, 7 Stenos, 20 clerks/typists, 5 Record Keepers, 1 Welfare Assistant and 25 Group 'D' staff. The Joint Directors at Calcutta had direct charge of certain companies, in addition to administration of the office and the Deputy Director of Ranchi was entrusted with audit of certain companies located at Ranchi as also of the administration of his office. There were RAOs at MAMC, Durgapur, NTC, Calcutta, IOC, Calcutta and F & C, Sindri. The expenditure of the office in 1986-87 was Rs. 50.85 lakhs, which constituted 0.008% of the turnover of the auditee institutions under its jurisdiction. Seven officers held the charge for different tenures ranging from 2 months and 10 days to 3 years 11 months and 13 days held by Shri A.S. Krishnamoorthy.

The annual turnover of IRs was 1021 with 335 paras during the last four years. 239 IRs with 545 paras were outstanding in March 1988 for settlement and the earliest pending report/paras related to 1978-79. The audit of 24 companies in the region in Calcutta by 95 CAs and the total remuneration paid to them amounted to Rs. 16.32 lakhs for 1987-88. Supplementary audit of accounts conducted varied from three in 1978-79 to 15 in 1986-87 and the number of comments ranged from 6 in 1978-79 to 48 in 1982-83. The average number of companies selected for review was around 7 per annum and the average number of comments 22. The aggregate monetary effect of the comments made during each year in the accounts reviewed varied from Rs. 64.94 lakhs to Rs. 23,508.70 lakhs on three to eight companies.

Three appraisals were finalised - MAMC included in AR 1982, ECL included in AR 1983 and Sudhamdih Washery of BCCL included in AR 1987 and one appraisal on WCL under finalisation was transferred to

DCA-III New Delhi and included in the AR 1987. No appraisal was turned out for Reports 1974 to 1981 and 1984 to 1986. 63 paras on 13 companies were contributed for the Audit Reports 1975 to 1986 - an average of over five paras per annum during last 12 years and the number of paras varied from 1 to 10 (1983 and 1986 report). The largest number of paras (10) was on BCCL but there were no paras on 14 companies.

MAB & DCA-RANCHI

The Regional Commercial Audit Office at Calcutta carried out audit of the Hindustan Steel Limited, National Coal Development Corporation as well as the Heavy Engineering Corporation at Ranchi through Resident Audit Units/peripatetic parties. In June 1962 a separate Regional Commercial Audit Office was formed at Ranchi under a Senior Deputy Director of Commercial Audit with a total strength of 65 (3 ADs, which was actually held by AAOs - 7 AAOs, 14 SAS, 26 UDCs, 7 clerks/typists, 8 class IV). The audit of the newly formed Pyrites Phosphates and Chemicals Limited was entrusted to it. Four Government companies with a total financial investment of Rs. 744.06 crores as on 31st March, 1962 were under its audit jurisdiction. The resident audit offices Bhilai, Durgapur and Rourkela steel plants were strengthened by inducting Assistant Chief Auditors. The office was upgraded to the level of Chief Auditor, Commercial Accounts in May 1963. Audit of Hindustan Steel Construction Limited was added in 1964 and Mining and Allied Machinery Corporation in 1965 and the strength of the office rose to 117. Audit of Bokaro Steel was initially entrusted to this office and later on transferred to the Office of the MAB, Calcutta along with audit of Mining and Allied Machinery Corporation. The Office of the MAB, *ex-officio*, DCA was formed in Ranchi in August 1972 and five companies *viz.* Hindustan Steel Limited with its units, Hindustan Steel Construction Limited, Heavy Engineering Corporation, National Coal Development Corporation Limited and Pyrites Phosphates and Chemicals Limited with a total investment of Rs. 1531.38 crores including loans as on 31st March, 1972 were under its audit jurisdiction. Shri S. Jayaraman was the first MAB and the strength of the office was 216 (5 IAAS, 23 AOs, 56 SAS, 72 UDCs, 3 stenographers, 25 clerks/typists and 32 class IV). Since then six officers held the charge and each one had a tenure of more than one year, the longest being of Shri T.K. Krishnadas with a tenure of 5 years.

Steel Authority of India Ltd. and Metallurgical and Engineering Consultants Limited formed in 1972-73, Bholani Ores Limited and Mica Trading Corporation Limited formed in 1973-74, Bharat Refractories

Limited formed in 1974-75, Indian Fire Works and Insulation Company Limited and SAIL (International) Limited formed in 1975-76 came under the audit jurisdiction of this office in the respective years. By the end of 1977, the MAB, Ranchi had 12 regular and 4 deemed companies under its audit jurisdiction and latter was transferred to MAB Calcutta in March 1978. After the reorganisation of commercial audit offices in December 1980, the audit jurisdiction was confined to Steel Authority of India Limited, Hindustan Steel Construction Ltd., Indian Iron and Steel Company, Indian Iron Steel Company Santon, Metallurgical and Engineering Consultants (India) Limited, Bharat Refractories Limited, India Fire Bricks and Insulation Company Limited, Ferro Scrap Nigam Limited, Bolani Ores, NMDC Project at Kiriburu and Meghataburu and Modern Bakeries at Ranchi. The staff strength in 1980-81 was 347 - 7 IAAS, 31 AOs, 76 SOs, 122 auditors, 12 stenographers, 42 clerks/typists, 57 class IV which rose to 350 in 1985 (7 IAAS, 31 AOs, 61 AAOs, 16 section officers, 98 senior auditors, 24 auditors, 12 stenographers, 43 clerks/typists, 8 record sorters and 50 group D). The audit jurisdiction of the MAB was modified in 1986 and covered 13 regular government companies and 2 deemed companies with a total investment of Rs. 7632.50 crores including loans in March, 1986. The staff strength in March 1986 was 349 (6 IAAS, 31 AOs, 61 AAOs, 15 SOs, 1 welfare assistant, 122 senior auditors/auditors, 12 stenographers, 43 clerks/typists, 8 record keepers and 50 class IV) and the expenditure incurred by the office in 1987-88 was Rs. 68.38 lakhs, which constituted 0.006% of the total turnover of the companies under its audit jurisdiction.

The turnover of inspection reports was 71 with 232 paras per annum. In March 1988, 578 inspection reports containing 1492 paras were outstanding and the earliest pending report related to years as far back as 1973-74.

In this region, 40 CAs audited 15 companies which fell under the audit jurisdiction of this office. The audit of one company viz. Nalanda Ceramics was yet to be taken up, as the accounts were in arrears since 1984. The total remuneration paid to the statutory auditors for 1987-88 (excluding TA/DA) was Rs. 16.06 lakhs. During the period from 1973-74 to 1986-87, 129 companies were selected for the purposes of comments on or supplement to the Statutory Auditors Reports and 474 observations were made involving a net monetary effect of Rs. 5930.39 lakhs. 57 companies revised their accounts, as a result of audit review. Results of supplementary audit conducted during the last 5 years are given below :

Year	Number of companies under the audit jurisdiction of MAB (including deemed companies) Report	Number of companies selected for the purpose of comments or supplementary Auditors' Report	Number of observations made	Number of companies which revised the accounts	Net Monetary effect (in lakhs of rupees)
1982-83	12	12	77	6	893.67
1983-84	13	12	65	5	376.52
1984-85	13	12	88	7	1213.55
1985-86	11	9	67	6	645.21
1986-87	14	10	75	5	1068.61

Contribution of paras to the Audit Reports (Commercial) during 1963 to 1986 was 109 paras - 80 paras on HSL/SAIL, 8 on HEC, 8 on NCDC, 7 on Bokaro Steel Ltd. 3 on ISCO and 1 each on Metallurgical Engineering Consultants (India) Ltd. and Bharat Refractories Ltd. Two reviews and 11 appraisals initiated were as under :

Sl. No.	Year of AR	Company reviewed/ appraised	Reference to COPU Report, if examined by them	No. of recommendations	Action taken
1	2	3	4	5	6
1.	1963	Hindustan Steel Ltd.	23rd Report (3rd Lok Sabha)		
2.	1963	National Coal Development Corporation	-do-		
3.	1966	Heavy Engineering Corporation			
4.	1969	Hindustan Steel Construction Ltd.	1st Report (5th Lok Sabha)		
5.	1970 (Part X)	Heavy Engineering Corporation	18th Report 1972-73 (5th Lok Sabha) Original 44th Report 1973-74 (5th Lok Sabha) Action taken	58	A 32 B 22 C 4 D -

1	2	3	4	5	6
6.	1973 (Part II)	National Coal Development Corporation (Review)			
7.	1981 (Part III)	Bhilai Steel Plant	-		
8.	1981 (Part IV)	Rourkela Steel Plant	-		
9.	1981 (Part VI)	Alloy Steel Plant	-		
10.	1981 (Part VII)	Central Coal Washeries Organisation	27th Report 1983-84 (7th Lok Sabha) Original 3rd Report 1985-86 (8th Lok Sabha) Action Taken	29	A 23 B 2 C - D 4
11.	1981 (Part X)	Durgapur Steel Plant	89th Report 1983-84 (7th Lok Sabha) Original 7th Report 1985-86 (8th Lok Sabha) Action taken	28	A 17 B 5 C 5 D 1
12.	1981 (Part XIII)	Hindustan Steel Ltd. (A macro Review)			
13.	A.R. 1986 (Part IX)	Bharat Refractories Ltd.			

MAB & DCA-HYDERABAD

The Chief Auditor Commercial Accounts, Bangalore was entrusted with the audit of 9 Government of India undertakings or their units located in Hyderabad, who had two resident audit parties - one formed in 1967 for auditing 5 companies and another in 1969 for auditing 4 companies, with a total strength of 2 RAOs, 3 SAS, 3 UDCs, 1 LDC and 2 class IV. In August 1972, the office of the Chief Auditor, Hyderabad was formed under the MAB, Bangalore, with a total strength of 13 - 3 AOs, 6 SOs, 2 senior auditors and 2 class IV for auditing 22 undertakings - 5 companies with an aggregate investment of Rs. 14,304 lakhs, 7 units of other companies and 10 departmental undertakings in 1973. The number of

units increased to 34 by 1977-78 with an aggregate investment of Rs. 296.95 crores, 9 units of other companies, 6 deemed companies and 12 departmental undertakings and the staff increased to 57 - 7 AOs, 20 SOs, 10 senior auditors, 1 steno, 7 clerks/typists and 12 group D. In March 1978, the office of the Member, Audit Board and *ex-officio* Director of Commercial Audit, Hyderabad was formed and Shri K.S. Rangamurthy was appointed as the first MAB and DCA who had the longest tenure of 4 years and 4 months. He was assisted by one Joint Director at Hyderabad, who supervised the RAPs and LAPs, besides holding charge of Report and Administration sections and one DD at Vishakapatnam for auditing 10 companies, 11 units of 8 companies falling under section 619(B) of the Companies Act, who supervised the RAPs and LAPs and processed reports. Since then, six officers held the office for varying tenures. In May 1987, the jurisdiction of the office extended to 45 undertakings - 13 companies, 30 units of other companies and 2 deemed companies with an aggregate investment of Rs. 3871.38 crores. In March 1987, the office comprised of four IAAS officers - one JD, one DD each at Hyderabad and Vishakapatnam, 22 AOs, 50 AAOs, 31 senior auditors, 10 stenos, 16 clerks/typists and 25 group D. There were 17 RAPs located at Hyderabad (NMDC, BHEL, MIDHANI, BDL, IDPL, HAL, ECIL & PTL Secunderabad), Trichy (BHEL), Madras (BHEL), Bangalore (BHEL, CED), Nasik (HAL), Koraput (HAL) and Vizag (HSYL, OCI, BHPV and RIN). The total expenditure incurred in 1987-88 was Rs. 52.23 lakhs, which constituted 0.04% of the total turnover of the companies under its audit jurisdiction. The turnover of inspection reports/paras issued per annum was around 56/727 and those settled 77/813. 140 IRs with 401 paras relating to the period 1983-84 to 1987-88 were outstanding in March 1988 and Seven to five years were taken for clearance of inspection reports. The office finalised during 1983-84 the Manual of Commercial Audit procedure for fourteen companies under its audit jurisdiction and five units since transferred to other MABs.

Sixty two paras were contributed for Audit Reports (Commercial) during 1972 to 1987, ranging from one (1975, 1976, 1981 and 1985) to sixteen (1982). The average number of paras included in the Report was about 4 per annum. Neither a para nor an appraisal featured in the Reports for 1972 to 1974 and 1987. A few of the paras considered significant at the time of their appearance in the Audit Reports were :

- (i) Demurrage charges amounting to Rs. 13.77 lakhs was paid by B.H.P.V. in 1975-76 against the imports (value Rs. 339 lakhs) made by the company due to organisational drawbacks of the

company included in the Report of the CAG, Union Government (Commercial) 1978 Part VI. Section XXI (Pages 175 and 1976).

- (ii) B.H.E.L., Hyderabad, had to absorb increase in material cost of Rs. 32279 lakhs on manufacture of 12 sets of turbo generators due to non-maintenance of suitable records, despite provisions for bearing such increase of cost by the customer, included in the Report of the CAG, Union Government (Commercial) 1979 - Part V section III (Page 10).
- (iii) Praga Tools Limited, Secunderabad loaned special steel billets (99.9 Mts.) to a private firm and incurred a loss of Rs. 4.68 lakhs on buying alternative steel, included in Report of CAG, Union Government (Commercial) 1979 - Part V - Section XXII (pages 115 to 118)..
- (iv) Midhani made avoidable payment of Rs. 16.91 lakhs to two foreign agencies on inspection charges of imported equipment without utilising the services of the consulting engineers, included in the Report of the CAG, Union Government (Commercial) Part XXIII.
- (v) Extra expenditure of Rs. 4.39 lakhs was incurred by B.H.E.L., Hyderabad, due to failure to place an order within the validity period, included in report of the CAG, Union Government (Commercial) - Part VIII - Section III, (Pages 38 to 41).
- (vi) H.A.L., Nasik, procured 130 Test sets valued at Rs. 4.04 lakhs without obtaining an order from the customer, which subsequently became surplus, included in Report of the CAG, Union Government (Commercial) - Part VIII - Section XI.
- (vii) N.T.C. (T&P), incurred loss of Rs. 2.26 lakhs on account of supply of 77,025 metres of "soma beauty" sarees in place of "Soma Queen" as ordered by Kerala State Civil Supplies Corporation Limited, included in the Report of the CAG, Union Government (Commercial) 1984 - Part III.

None of the paras was discussed by COPU at any time.

Three appraisals originated by this office (during the tenure of three members) were Praga Tools Limited (1976 Report - 13 Chapters and 45 paras covering 145 pages), Bharat Heavy Plates and Vessels Limited (1984 Report - 15 Chapters and 55 paras covering 40 pages) and Hindustan Shipyard Limited (1986 Report -17 Chapters and 88 paras covering 35 pages. The Report on B.H.P.V. was examined by COPU

who made 20 recommendations* and 16 recommendations were accepted by Government, 2 were not pursued on receipt of replies, in one case Government reply was not accepted by the Committee and the position was reiterated and in one case only interim reply was received.

In the region, 29 to 41 chartered accountants were appointed as auditors of Government companies during 1982-83 to 1986-87. 42 CAs were appointed for auditing 22 companies during 1987-88 and were paid remuneration of Rs. 6.65 lakhs. In all 49 auditors did not send the Supplementary reports but 18 reports were received later after the matter was reported to headquarters office. As many as 15 auditors during 1985-86 and 8 during 1986-87 did not respond to the questionnaire in time. The special reports received from the statutory auditors were processed regularly every year from 1973 to 1986 and the average number of important points processed for inclusion in the CAG's Report for each year was around 33 - the minimum 29 (1973 and 1979 Reports) and the maximum 68 (1986 Report).

The supplementary audit comments issued during 1980 to 1986-87 were as under :

Year	No. of Companies selected for review	No. of Companies/ observations made	No. of Companies who revised the accounts	Total monetary effect (Rs in crores)
1980-81	32	24 62	20	13.97
1981-82	32	24 39	19	5.73
1982-83	31	26 15	14	4.37
1983-84	33	28 25	23	1.56
1984-85	31	28 19	22	7.78
1985-86	46	42 24	18	2.13
1986-87	32	32 22	20	12.52

* COPU's 22nd Report (1986-87) - VIII Lok Sabha - 98 pages and Action Taken Report presented on 22nd November, 1988.

MAB & DCA-BANGALORE

A Commercial Audit Office under a Deputy Director was formed on 1st March, 1957, for auditing 12 Central Government Commercial Undertakings of Mysore, Kerala, Tamil Nadu and Andhra Pradesh States and 25 commercial undertakings and departmental undertakings of the Government of Mysore with a total strength of 73 - 1 Dy. DCA, 1 Asstt. C.A., 2 AOs, 11 SAS Accountants, 35 UDCs, 1 Steno, 4 LDCs and 18 Class IV. The Post of Dy. Director was upgraded to Senior Deputy Director from 1962 and Chief Auditor from 1965, who worked under the overall supervision of the DCA. Subsequently, 17 Government companies/departmental undertakings were added, which increased the total strength to 160 in 1966 (1 C.A., 11 AAOs, 32 SAS accountants, 71 UDCs, 12 clerks and 33 group D staff). One resident audit party (1 RAO, 2 SAS, 2 UDCs and 1 class IV) was formed in 1967 and another (1 RAO, 1 SAS, 1 UDC, 1 LDC and 1 class IV) in 1969 for auditing 14 Government of India undertakings at Hyderabad. After the formation of the Audit Board in 1969, the C.A. came under the MAB and DCA Southern and Western Region Bombay. In November 1970, a new office of MAB and DCA was formed for Southern region at Bangalore, with a branch office at Madras under a C.A. from March 1971 for auditing 12 Government of India Undertakings/statutory corporations situated in Tamil Nadu and Kerala States and a CA at Bangalore, who supervised the audit of 14 Government of India undertakings located in Karnataka and Andhra Pradesh. The strength of the office was 123 (2 IAAS, 13 AAOs, 29 SAS accountants, 40 UDCs, 16 clerks and 23 group D). Shri U.D. Acharya was the first DCA and since then 9 officers held the charge of MAB for periods ranging from 4 months and 20 days to 3 years 3 months and 26 days, which was held by Shri R. Chinnappa. In July 1972, the MAB and *ex-officio* DCA, Southern region was redesignated as MAB and *ex-officio* DCA, Bangalore and a new office of MAB and *ex-officio* DCA, Madras was created for auditing the Government of India undertakings located in Tamil Nadu. The MAB and *ex-officio* DCA, Bangalore became responsible for the audit of 31 Central Government undertakings located in the states of Mysore and Andhra Pradesh. A new post of CA at Hyderabad was sanctioned with necessary supporting staff for auditing 17 undertakings located in Andhra Pradesh. The CA, Bangalore was in charge of 14 units in Mysore State. The total strength of the re-organised office was 129 in 1973, which increased to 181 in March 1978. In March 1978, the units located in Andhra Pradesh was transferred to the newly created office of the MAB and *ex-officio*, DCA, Hyderabad. The strength

of the office was reduced to 120. The post of the CA was redesignated as Joint Director from 1st April, 1979. While the technical control of 9 companies and departmental undertakings remained with the CA at Madras, who functioned under MAB and *ex-officio* DCA, Bangalore, the administrative control over personnel etc. remained with MAB and *ex-officio* DCA, P & O, Madras. The jurisdiction was again modified in May 1986 and the audit 19 companies with a total investment of Rs. 1023.75 crores was entrusted to him. The total strength of the office was 168 and expenditure Rs. 46.13 lakhs, which constituted 0.01% of the total turnover of the companies under its audit jurisdiction. Manuals for audit of 11 companies - 6 under its audit jurisdiction and 5 transferred to other MABs were issued.

During 1974-75 to 1986-87, the number of Chartered Accountants for auditing Government companies ranged from 43 to 57. Fifty Chartered Accountants were engaged during 1986-87 and 46 during 1987-88. The total remuneration paid to statutory auditors during 1986-87 was Rs. 15.48 lakhs and 1987-88 Rs. 17.70 lakhs. Results of supplementary audit conducted by the DCA for the years 1982-83 to 1986-87 are summarised below :-

Year	Number of accounts received	Number of accounts of the companies selected for review	Number of companies on which comments were issued	Number of observations	Number of companies who revised their accounts	Total monetary effect (Rs. in crores)
1982-83	13	12	1	1	8	0.65
1983-84	13	12	2	5	6	0.09
1984-85	15	13	1	1	7	5.31
1985-86	16	14	-	-	8	-
1986-87	61	14	2	6	8	20.54

The turnover of IRs/Paras was 81/618 per annum during the last five years. 155 IRs with 979 paras were outstanding in March 1988, which related to the period 1982-83 onwards.

53 paras were contributed for the Audit Reports (Commercial) 1964 to 1987, ranging from one (1967 to 1969 and 1975) to seven (1982 and 1983). On an average, two paras were included in each year's

Report. No paras were proposed for Audit Reports 1969-70 to 1974, 1976, 1986 and 1987. Important paras included were 8 paras on losses amounting to Rs. 254.69 lakhs in 2 companies in successive years, 4 paras on avoidable extra expenditure amounting to Rs. 25.44 lakhs in one company and write off of shortages in the manufacturing of components in one company (Rs. 31.82 lakhs) etc. 12 reviews were contributed for the AR 1964 to 1969, three reviews in AR 1964 on ITI Limited, Praga Tools and Indian Rare Earths Limited, one review on Neyveli Lignite Corporation in 1965 Report, two reviews - Hindustan Shipyard and Hindustan Photofilms in 1966 Report, two reviews - HMT and FACT in 1967 Report, one review on Praga Tools Ltd. in 1968 Report and three reviews - BEML, HAL and BEL - in 1969 Report. 10 appraisals originated from the office for the ARs 1969-70 to 1987.

MAB & DCA-MADRAS

The Office of the Chief Auditor (Commercial Accounts) at Madras was formed from April 1971 for auditing three companies and one Departmental Undertaking of Government of India situated in Madras State under the control of MAB and *ex-officio* DCA, Bangalore. The strength of the office was 36 - 1 IAAS, 4 AAOs, 12 SAS, 1 SGC, 8 UDC, 1 steno, 3 clerks, and 6 class IV. Resident audit parties were attached to IAC, MSD, HTL and NLC. In July 1972 the office was upgraded to that of MAB and DCA with audit jurisdiction over the Government of India Undertakings situated in Madras and Kerala States (22 Enterprises, 13 Companies, 1 Corporation, 1 Authority and 7 Departmental Undertakings) and Shri S. Sethuraman was the first incumbent. Since then 9 officers held the charge of MAB and for periods ranging from 8 months and 21 days to 3 years 5 months and 21 days held by Shrimati Saraswathi R. Rao.

Manuals for audit of seven companies which have since been transferred to other MABs in 1986 were issued in 1983-84. A training facility for training commercial audit personnel was also introduced in the new office. Apart from RAPs at the premise of all the companies/corporations, there were AOs in headquarters for administration, training, Reports and peripatetic inspection work. The office had a total strength of 90 (12 officers and 78 staff) in 1976-77. In April 1978, the office was redesignated as MAB and *ex-officio* DCA (Petroleum and Oil) and was entrusted with the audit of all the Refineries and Oil Distribution Companies spread over the entire country (15 units in all) and also Oil Coordination Committee, with three CAs stationed at Madras (charge of 5 units), Bombay (charge of 6 units)

and New Delhi (charge of 4 units), who were designated as Joint Directors. The cadre control in respect of the staff below SOs' level in the Resident Audit units of the other MABs, functioning in the region was also vested with the office. The strength of the office in March 1982 rose to 155. In May, 1986, the jurisdiction was further modified to include 25 Government enterprises - 14 companies, 7 units of Government companies under the charge of other MAB and 4 Deemed Companies. The aggregate paid up capital of these enterprises amounted to Rs. 1409.37 crores. The MAB was assisted by 2 Deputy Directors and the total strength of the reorganised office was 136 (3 IAAS, 19 AOs, 42 SAS, 23 senior auditors, 13 auditors, 1 welfare assistant, 5 stenographers, 15 clerks and 15 group D) and the expenditure of the office in 1987-88 was around Rs. 49.36 lakhs which constituted 0.001% of the total turn over of the companies under its audit jurisdiction.

The turnover of inspection reports/paras was 107/590 per year. 198 IRs with 948 paras were outstanding in March 1988 for periods relating to 1977-78 onwards. 33 CAs were engaged for conducting statutory audit of 20 companies under the jurisdiction of the office during 1987-88 and the total remuneration paid to them amounted to Rs. 6.71 lakhs. The results of supplementary audit for the last five years was as under :

Sl. No.	Year	No. of companies selected	No. of companies on which comments were issued	No. of observations made	No. of companies who revised their accounts	Net monetary effect (Rs. in crores)
1.	1982-83	9	7	24	2	(—) 0.598
2.	1983-84	9	1	1	2	(—) 0.020
3.	1984-85	10	7	15	3	(—) 2.370
4.	1985-86	11	3	12	3	(+) 0.880
5.	1986-87	11	5	2	3	(—) 1.060
6.	1987-88	11	2	2	5	(—) 24.070

The office initiated 8 appraisals for three Audit Reports - Hindustan Photofilms Manufacturing company Ltd. (1970-71), Cochin Refineries Ltd. (1973), Hindustan Teleprinters Ltd. (1975), Neyveli Lignite Corporation Ltd. (1976), Madras Refineries Ltd., Indian Petro-

chemicals Corporation Ltd. (1982), Hindustan Petroleum Corporation Ltd. (1983) and Cochin Refineries and, The Fertilisers and Chemicals (Travancore) Ltd. (1987). Two appraisals - Hindustan Teleprinters Ltd. and Indian Petro-chemicals Limited were examined by COPU vide their 55th Report (1972-73) and 21st Report (1986-87) respectively. A mini review on Bharat Petroleum Corporation Limited was included in 1978 report. 26 paras were contributed for 11 years reports - the maximum of 7 in 1985 report and minimum of one each in 1975, 1978, 1980, 1984 and 1986 reports.

DIRECTOR OF AUDIT(FOOD)

THE FOOD CORPORATION OF INDIA

The Food Corporation of India (FCI) was established as per the Food Corporation Act, 1964, with a view to secure for the primary producer a minimum price for food grains and to protect the consumer from the vagaries of speculative trade, to take up state trading in food stuffs on an appreciable scale and to build up gradually buffer stocks and to secure for itself a strategic and commanding position in the foodgrains trade of the country. FCI commenced functioning from 1st January, 1965, with an authorised capital of Rs. 100 crores, and the paid up capital was Rs. 4 crores and loans Rs. 11.0 crores and took over the functions performed earlier by the Ministry of Food and Agriculture, Department of Food in regard to purchases, imports, sales, storage, movement and distribution of food grains. The Corporation was headed by a full time Chairman and Managing Director, who functioned on the basis of delegated powers, and three other Directors and there were separate functional committees to deal with various operational subjects of its activities. Initially, the Head Office of the Corporation was located at Madras, which was shifted to New Delhi in July 1967. It was in overall charge of the activities and was organised into different functional divisions - Commercial, Finance, Products, Quality Control, Movement, Legal, Personnel, Vigilance, Security etc. There were four zonal offices at Bombay, Calcutta, Madras, and New Delhi, nineteen Regional offices at Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Bombay, Calcutta, Chandigarh (Punjab), Chandigarh (Haryana), Gauhati, Hyderabad, Jaipur, Jammu, Lucknow, Madras, New Delhi, Patna, Shillong, Simla and Trivandrum, four Port-operation offices (equivalent of Regional Offices) at Calcutta, Kandla, Madras and Vishakhapatnam, twenty five Rice Mills, two processing plants, one hundred forty nine District offices and more than two thousand storage centres throughout the country. Each zonal office was headed by a Zonal Manager who exercised the

supervision over the Region under his jurisdiction. The regional Offices under the charge of Regional Managers or Senior Regional Managers were responsible for supervision and control of all the districts, depots and port offices within their respective jurisdictions. The port offices, wherever separately organised, were under the charge of Joint Manager (Port Operations) and dealt with export and import operations of foodgrains and fertilizers. The district office under the charge of a District Manager was a district operational and accounting unit of the Corporation. All payments for purchases, collections for sales, bills for services rendered were handled at the district offices, who also supervised and controlled all activities of the Port Offices and the storage depots within their respective jurisdiction. A depot generally consisted of a number of godowns, each of which was manned by an Assistant Depot Superintendent, who was responsible for the quality and quantity of the foodgrains stored in the godowns and for the proper maintenance of the records relating to receipt into and issues from the godowns. The Food Corporation Act, 1964 provided for audit of the accounts of the Corporation solely by Auditors qualified to act as auditors of Companies under section 226 of the Companies Act, 1956, from among the list of auditors approved by the Central Government on the advice of the CAG. Consequent on repeated demands from members of Parliament, most vehemently expressed during discussion on CAG's (DPC) Bill, and the recommendations of the Joint Select Committee, the then Finance Minister Shri Y. B. Chavan assured to amend the Act, and Section 34 of the Act was amended in 1972 to entrust supplementary or test audit of the accounts of the Food Corporation to the CAG of India, independent of the statutory auditors, which empowered him to comment upon or supplement the audit report submitted by the latter in such manner as he thought fit.

DIRECTOR OF AUDIT

The office of the Director of Audit (Food Corporation of India), subsequently renamed as Director of Audit (Food) with headquarters at New Delhi was set up in May 1973, for conducting the audit of FCI. Shri R. Ganapati was appointed as the Officer on Special Duty (Food Audit) to study the nature of audit of the Food Corporation of India and suggest organisational set up necessary to carry out the contemplated audit. Based on his proposals, the branch offices at Delhi, Calcutta, Madras, Bombay, Chandigarh, Lucknow, Hyderabad and Trivandrum were opened. The strength of the office was fixed at 155 - 6 IAAS Officers, 19 AOs, 50 SOs, 12 Auditors, 16 Stenographers, 16 Clerks/Typists and 36 Class IV. The Director of Audit was placed

Designation	Head Office	Calcutta	Bombay	Bhopal	Madras	Trivandrum	Hyderabad	Chandigarh	Lucknow	Total
1. A.O.	11	6	2	1	3	2	2	2	1	30
2. AAOs/SOs	20	16	5	3	7	5	7	7	5	75
3. SGAs/Ars	17	7	4	1	2	1	1	1	1	35
4. Stenos	7	3	2	1	2	1	1	1	1	19
5. Clerks/Typist	10	6	3	1	3	1	1	2	1	28
6. Group D	17	9	5	2	6	2	2	3	2	48
Total sanctioned strength	82	47	21	9	23	12	14	16	11	235

under the overall control and supervision of the ADAI (Comml.). A Regional Audit office at Bhopal was added in 1975. While most Audit Officers, Section Officers were obtained on deputation from other Audit Offices, there was also direct recruitment of auditors, stenographers and clerks/typists. The audit of Central Warehousing Corporation was added from the year 1973-74. The audit of National Seeds Corporation was assigned from the year 1981-82. The strength of the office increased to 224 in 1984-85 and 235 in 1986-87. In March 1988, the distribution of sanctioned strength and personnel in position was as given in the table at page 477.

The aggregate investment of the four Corporations and one company under the audit jurisdiction of the Director was Rs. 2,14,971 lakhs in March, 1988.

Nine officers headed the office for periods ranging from 5 months and 14 days to 3 years, 1 month and 18 days, held by Shri K.N. Rao. While the statutory auditors conducted the audit of the Corporation as in other Government Companies, CAG's audit was confined to checking that the former carried out their work properly and that no relevant expenditure during the year was left out or expenditure debitible to other years included and to see that the annual accounts gave a true and fair picture, that the profit or loss shown was correct and the balance-sheet represented a true and fair picture of the assets and liabilities of the Corporation. During local audit, efficiency-cum-propriety Audit was carried out as in the case of other Government companies. Manuals on Food corporation of India, National Seeds Corporation and Central Warehousing Corporation were brought out during 1984-85. Regular inspection reports were issued after audit of the Corporation and its branches. During 1984-85 to 1987-88, 557 Inspection Reports with 2930 paras were issued, while 401 Inspection Reports/2537 paras got settled. At the close of 1987-88, 729 Inspection Reports/2643 paras were pending for settlement and the oldest pending report related to the year 1974-75.

SUPPLEMENTARY AUDIT

The FCI had 5 statutory Auditors in 1972-73, which increased to 14 in 1973-74, 20 in 1978-79 and 23 in 1986-87 and 1987-88 - the average number of auditors per annum during the last 10 years was around 21. The audit fee, travelling and other expenses paid to 23 auditors in 1987-88 amounted to Rs. 35.58 lakhs. The results of the test-check of the accounts of the Corporation approved by the Board of Directors and certified by the Statutory Auditors (Chartered Accountants) appointed under Section 34(3) of the Food Corporation's Act, 1964 conducted

Net effect of comments
Net effect of adjustments carried out by Managements

Years	Expenditure		Income		Liabilities		Assets		Total				
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.		Net			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1982-83	182.10	4.79	177.31Dr	151.82	151.82Dr	7.80	44.96	37.16Cr	7.85	299.82	291.97Cr	349.57Dr	1366.66
	368.21	232.26	135.95Dr	138.38	327.00	188.62Cr	335.60	345.52	9.92Cr	524.47	461.88	62.59Dr	
													<u>349.57Cr</u> 1366.66
1983-84	—	28.05	28.05Cr	338.00	29.95	308.05Dr	23.25Dr	23.25Dr	23.25Dr	34.75	338.00	303.25Cr	396.00Dr
	114.13	570.38	456.25Cr	520.22	107.60	412.62Dr	450.38	175.45	274.93Dr	458.04	689.34	231.30Cr	1542.77
													<u>396.00Cr</u> 1542.77
1984-85	34.25	11.29	22.96Dr	15.81	78.35	62.54Cr	13.89	26.70	12.81Cr	18.35	25.96	52.39Dr	142.30Dr
	121.14	231.84	110.70Cr	94.78	92.90	1.88Dr	305.78	182.98	122.80Dr	326.58	340.56	13.98Cr	848.28
													<u>142.30Cr</u> 848.28

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1985-86	370.56 217.80	33.29 66.25	143.49 1573.31	337.27Dr 151.55Dr	81.96 60.30	45.51 81.87	36.45Dr 21.57Cr	29.19 58.89	423.78 136.34	394.59Cr 77.45Cr	192.67 218.52	121.80 271.05	20.87Dr 52.53Cr	624.38Dr 555.51
1986-87	3775.01 943.28	143.49 1573.31	3631.52Dr 630.03Cr	274.89 212.99	8.77 114.91	266.11Dr 98.08Dr	173.62 904.60	700.63 262.28	527.01Cr 642.32Dr	73.77 1143.29	3444.39 1553.66	3370.62Cr 110.37Cr	4297.28Dr 3204.16	624.38Dr 555.51

under Section 36(6)(d) of the Act, for the last five years along with the adjustments carried out by the Managements before the approval of the accounts by the Board of Directors and certification by the Statutory Auditors are summarised in the table at pages 479 and 480.

National Seeds Corporation Limited had four Statutory auditors, one each for North Zone, South Zone, West Zone, East Zone during 1981-82 to 1987-88. The fees, travelling allowances and other expenses paid to Statutory Auditors during 1987-88 amounted to Rs. 1.87 lakhs. Supplementary audit comments were issued on N. S. C. on each year's accounts. In the annual accounts for 1981-82, a comment on understatement of expenditure and overstatement of income to the extent of Rs. 2.81 lakhs, which resulted in over-statement of profit by Rs. 2.81 lakhs, was made. In the accounts for 1982-83 attention was drawn to the various accounting deficiencies and shortcomings which qualified the Report to Members. In the accounts for 1983-84, comments on accounting policies forming part of accounts - cash basis of accounting instead of accrual basis, contrary to the accepted principles of commercial accounting and non-assessment of the financial effect of certain notes which formed part of the Balance Sheet, were made. In 1984-85 accounts, two comments on over-statement of profits to the extent of Rs. 68.76 lakhs were made. In 1985-86 accounts, there were 4 comments, which included excess credits resulting in overstatement of profit by Rs. 159.62 lakhs. In 1986-87 accounts, over-statement of Sundry Creditors and under-statement of Sundry Debtors to the extent of Rs. 6 lakhs was commented upon.

The Central Warehousing Corporation had 2 Statutory Auditors till 1982-83 and 4 thereafter. The fees, travelling allowances and other expenses paid to auditors during 1987-88 amounted to Rs. 2.60 lakhs. There were comments under Section 31(10) of the Warehousing Corporations Act, 1962, on the accounts of Central Warehousing for the years 1981-82 to 1986-87. There were seven comments on the accounts for 1981-82, which included over-statement of Warehousing charges, as well as profit to the extent of Rs. 10.30 lakhs and profit surplus on handling operation of cement at ports Rs. 9.33 lakhs and the overall monetary effect was reduction of profit by Rs. 19.63 lakhs. In 1982-83 accounts, there were six comments, including one on over-statement of gross loss in profit and loss accounts, which resulted in reduction of profit of Rs. 5.56 lakhs. In 1984-85 accounts, there were three comments on Balance Sheet - misclassification under fixed assets, non-maintenance of fixed assets registers, inclusion of cement (value of Rs. 0.82 lakh) held by units under material-site accounts and inclusion of claims (Rs. 3.55 lakhs) under loans and advances not accepted by the State Government.

There were six comments on 1984-85 accounts - *ad hoc* provision for bad and doubtful debts, double accounting of a claim for Rs. 12.36 lakhs under sundry creditors and sundry debtors, inclusion of inter-unit advices not adjusted for lack of details Rs. 7.23 lakhs, under suspense, non-maintenance of asset registers and non-availability of annual physical verification reports, and inclusion of unserviceable and broken stores Rs. 7.52 lakhs under stores in hand, doubtful debts amounting to Rs. 4.47 lakhs under sundry debtors (considered good), doubtful advances Rs. 18.23 lakhs under other advances recoverable in cash or in kind, and comments on two notes under Accounts. There were six comments on 1985-86 accounts - understatement of handling and transport charges Rs. 19.60 lakhs, non-inclusion lease premium stamp paper and registration charges Rs. 4.3 lakhs in respect of land taken on lease under fixed assets, inclusion of storage charges relating to early years recoverable from Air India Rs. 20.37 lakhs, non-disclosure of a sum of Rs. 90.40 lakhs under cash and bank balance but pledged against bank guarantee, omission to make contingent provision Rs. 23.40 lakhs under arbitration. Comments were made on the audit report of the statutory auditors to the shareholders that because of materiality of deviations and departures mentioned by them they were unable to form an opinion, whether the accounts of the Corporation showed a true and fair view to bring out as to how some of the qualifications had no direct bearing on the accounts, or were either in general terms or were not clear, or were not material in nature. There were 8 comments on the accounts of 1986-87 - mistakes in the number of sites held by Corporation, mis-classification in capital work-in-progress Rs. 1.38 lakhs, inclusion of cost of abandoned work adjusted by FCI as good debt (Rs. 6.12 lakhs), inclusion of deposits of Rs. 3.60 lakhs made to Railways towards survey charges etc. for abandoned work under recoverable advances, overstatement of interest Rs. 1.88 lakhs, inclusion of bank drafts, cheques and remittances Rs. 6.52 lakhs received in April 1987 under cash and bank balances, non-provision of expenditure and income and credit for anticipated realisation before arriving at net profit - monetary effect Rs. 19.03 lakhs.

There was a comment on Modern Food Industries Limited in 1986-87 accounts indicating overstatement of investment allowance (utilised) reserve account and understatement of government residual accounts to the extent of Rs. 1.62 lakhs. There were 15 statutory auditors in MFIL during 1985-86 to 1987-88. The fees, travelling allowances and other expenses paid to them amounted to Rs. 1.09 lakhs for 1987-88.

The State Farms Corporation Limited had 6 auditors during 1985-86 to 1987-88. The fees paid to them amounted to Rs. 0.83 lakhs for

1987-88. There was a comment on the accounts of State Farms Corporation of India Limited for 1986-87 on exhibition of assets and treatment of development expenditure from 1985-86 in accounts.

AUDIT REPORTS

The first appraisal on the procurement of food grains by the Food Corporation of India appeared in 1976 Audit Report. Regular paras appeared thereafter in each year's Reports, ranging from 1 (1977) to 13 (1987). In all, 83 paras appeared in 10 year's Reports. The average number of paras exceeded eight per annum in each year's Report. 2 paras each relating to National Seeds Corporation appeared in 1986 and 1987 Reports. The paras covered a wide range of irregularities during audit, namely, purchase of sub-standard grains, pulses, unsatisfactory storage arrangements, injudicious hiring of godowns/storage, defective acquisition of land, demurrage losses, avoidable expenditure, non-recovery/short recovery cases, shortages, unnecessary and irregular extra expenditure, defective acceptance of tenders and contracts, idle equipments, acceptance of defective security, etc. Two reviews on construction of Godowns with I.D.A. Assistance and consumption and Disposal of Gunny bags appeared in 1987 Report. 1 para, namely, despatch of sub-standard wheat from North Zone to South Zone, which appeared in 1986 Report Part III, only was discussed by the COPU in August, 1988 in two sittings. The COPU* made 15 recommendations, which, *inter alia*, pointed out the wanton disregard shown by the Corporation of norms of quality control before despatch of foodgrains stored in its godowns to various destinations, despatch of sub-standard grain not fit for human consumption, the need to identify sub-standard grains so as to avoid their despatch and consumption under the public distribution system. The committee deprecated serious laxity on the part of the FCI in detection and investigation of transit and storage losses, which were of abnormal size and value and emphasised the need to take steps to plug the loopholes to bring them down. There was paramount need to take suitable action against supervisory officers, wherever laxity was found and expressed its unhappiness over the inordinate delay in taking disciplinary action. The Committee expressed their concern over the delay in initiating disciplinary action, particularly, against the erring officials in cases of despatch of sub-standard wheat noticed by them and pointed out the need for strengthening vigilance department and expediting pending enquiries against the officers involved. The Committee came to the painful conclusion that the state of affairs in the

* 57th Report (Eighth Lok Sabha) presented on 24th April, 1989.

Food Corporation needed to be gone into thoroughly for effecting overall improvement and recommended that Government should appoint a high level Committee of experts for examining in depth the working of the FCI and suggesting ways and means to remove the prevailing short-comings so as to make the corporation an effective instrument for proper handling, procurement and distribution of good quality foodgrains. Bulk of the results of audit - 82 paras - was not examined by the COPU.

LIST OF ABBREVIATIONS

1. ARs	— Audit Reports
2. AD	— Assistant Director
3. BTPS	— Bokaro Thermal Power Station
4. CA	— Chief Auditor
5. CA	— Chartered Accountant
6. COPU	— Committee on Public Undertakings
7. CTPS	— Chandrapur Thermal Power Station
8. DA	— Daily Allowance
9. DD	— Deputy Director
10. DTPS	— Durgapur Thermal Power Station
11. DVC	— Damodar Valley Corporation
12. F&C	— Fertilisers and Chemicals
13. FCI	— Food Corporation of India
14. IRs	— Inspection Reports
15. JD	— Joint Director
16. KV	— Kilo Volts
17. LAPs	— Local Audit Parties
18. MW	— Mega Watts
19. NTPC	— National Thermal Power Corporation
20. PAC	— Public Accounts Committee
21. PEPSU	— Patiala and East Punjab States Union
22. P&O	— Petroleum and Oil
23. RAC	— Resident Audit Circle
24. RAO	— Resident Audit Officer
25. RAPs	— Resident Audit Parties
26. SAIL	— Steel Authority of India Limited
27. TA	— Travelling Allowance
28. TPS	— Thermal Power Station
29. A	— Recommendations accepted by Government
30. B	— Recommendations not pursued by Committee in view of Government replies
31. C	— Recommendations, replies in respect of which were not acceptable to the committee
32. D	— Interim replies

SOURCES AND REFERENCES

1. Manual of Commercial Audit of former office of the Director of Commercial Audit
2. Audit Reports (Commercial) 1963 to 1989
3. Civil Audit Reports 1947-48 to 1962
4. Reports of PAC, Reports of Estimates Committee and Reports of COPU 1962 to 1988-89
5. Annual Reports of Government Companies, Corporations etc.
6. Statements of Sanctioned Strengths
7. Bureau of Public Enterprises Survey 1985-86 to 1987-88

14 Audit Reports (Commercial)

REPORTS - 1970—1989

After the setting up of Parliamentary Committee on Public Sector Undertakings for examining the Government Companies and Corporations and allocation of departmentally managed commercial undertakings for examination by the PAC along with the material relating to other Departments of Government, the Audit Report (Commercial) incorporated only audit comments on Government Companies and Statutory Corporations from 1969. Comments on departmentally managed commercial undertakings formed part of the Audit Report (Civil). "Highlights on the working of Central Government Companies" were indicated at the beginning of Part I of the Report of each year from 1969-70 onwards. After the formation of the Audit Board from April 1969, appraisals were presented in different parts of each year's Reports from 1970 onwards. Audit Report (Commercial) 1970 was issued in ten parts. Part I - Introduction contained a general review of the working results of the Government Companies and Corporation in two Sections and three Annexures - Annexure A - List of Corporations in which Government have invested Rs. 1 crore or above but which were not subjected to audit by the CAG of India, Annexure B - summarised financial results of Government Corporations for the year 1968-69 and Annexure C - summarised financial results of Statutory Corporations for the year 1968-69. Part II to IX carried comprehensive appraisals of eight Government companies processed by the Audit Board and Part X contained the irregularities noticed in the undertakings not taken up for comprehensive appraisals and a resume of the reports of Company Auditors received in response to the directives issued by the CAG. The title of the Audit Report for the year 1969-70 was changed to "Report of the CAG for the year 1969-70 - Central Government (Commercial)" and the same practice was followed in the next year also. However, as the Reports on comprehensive appraisal of Public Undertakings stood on a different footing, the title of the Report was changed in 1973 to "Report of CAG of India - Union Government (Commercial), 1973". Material in respect of the Companies falling under the Section 619-B of the Companies Act, 1956 was included from AR 1977 and in separate section with effect from AR 1980. A separate section to incorporate the material in respect of General Insurance Companies was introduced with effect

from the AR 1975. The title of the part of the Report, which incorporated individual paras and Company auditors' comments was "individual irregularities and resume of the Company auditors' report" in the AR (Commercial) 1970, which continued upto the AR 1974. From AR 1975 the title was changed to "Other Topics of Interest" which included, apart from the individual paras, the report of the Company auditors and the observations and comments made under Section 619(4) of the Companies Act, 1956. The title of this part was again changed in the AR 1976 to "Miscellaneous Topics of Interest". From AR 1984, the title of this part was "Audit Observations on Individual Topics". Resume of the Company auditors report and comments on the accounts of Government companies were incorporated in a separate part from AR 1978. The resume of the Company Auditors report was prepared according to the group headings of the directives issued, instead of company-wise. AR 1984 modified it to company-wise. A summarised version of the company auditors as well as the government auditors reports were given in the form of a table from AR 1987. At the beginning of each comprehensive appraisal, an "over-view" was given from the AR 1985.

The table below gives the details of Reports presented during 1970 to 1989.

AUDIT BOARD'S APPRAISALS

While in the first year of the Audit Board, 8 appraisals were finalised during a time span of 10 to 17 months, and each appraisal was turned out in 9 to 12 months time, processing of appraisals took longer time - an average of 72 months' in 19 cases, not to mention of unusual cases, wherein 137 months were taken for finalising an appraisal. The actual time taken for completing each appraisal included in each year's Reports exceeded the norm adopted for selection, planning and execution of appraisal by the ADAI(C). The overall performance belied the expectation regarding the turnover of appraisals conceived at the time of formation of Audit Board set up for conducting appraisals of all undertakings.

After the Audit Board was set up, 99 reviews/appraisals were presented to the Parliament in 18 years' reports, 15 were countersigned by Shri S. Ranganathan, 26 by Shri A. Baksi, 33 by Shri Gian Prakash and 25 by Shri T.N. Chaturvedi (upto 1989). Out of 126 undertakings selected for appraisal by the CAG upto March 1988, 99 were completed and presented to Parliament. The appraisals on 27 undertakings selected upto May 1985 remained to be finalised. Shri S. Ranganathan selected 47 companies for appraisal and 32 were completed during his tenure and incorporated in ARs 1968-69, 1969-70, 1970-71 and 1971-72, which were authenticated by his successor. Appraisals of 15 Government undertakings spilled over to

Year of Report	No. of Reports (parts)	Time profile of authentication		3(b)	Contents of Report			4(e)	5
		3(a)	presentation		Total No. of pages	4(a)	4(b)		
					4(a)	4(b)	4(c)	4(d)	4(e)
1970	10	15-5-70 to 7-12-70	3-8-70 to 17-12-70		659	28	109	8	40
1969-70	12	16-7-71 to 11-12-72	9-8-71 to 22-12-72		700	27	143	10	42
1970-71	13	30-8-72 to 20-7-74	24-12-72 to 18-11-74		1098	35	228	11	38
1973	5	23-8-73 to 20-7-75	31-8-73 to 28-7-75		497	57	156	3	39
1974	4	20-7-74 to 17-4-76	16-12-74 to 6-5-76		745	54	447	2	45
1975	4	6-11-75 to 13-1-77	6-1-76 to 13-6-77		460	83	174	2	104
1976	6	12-7-76 to 2-8-77	10-8-76 to 8-8-77		909	60	252	5*	103
									50
									61

Supplementary audit Comments included in column 4(e) from 1975 onwards.

1	2	3(a)	3(b)	4(a)	4(b)	4(c)	4(d)	4(e)	5
1977	2	1-8-77 to 17-5-78	8-8-77 to 25-7-78	222	66	156	2**	108	45
1978	6	23-8-78 to 22-12-79	31-8-78 to 1-2-80	723	63	210	5**	183	93
1979	6	3-12-79 to 29-8-80	1-2-80 to 8-11-80	587	49	158	3	169	77
1980	5	30-9-80 to 16-6-81	8-11-80 to 18-8-81	515	87	119	2	163	79
1981	13	30-6-81 to 29-11-82	18-8-81 to 21-2-83	1483	48	205	10	185	91
1982	14	14-1-83 to 31-12-83	21-2-83 to 24-2-84	1796	48	220	11	193	74
1983	7	12-1-84 to 5-2-85	21-3-84 to 14-5-85	792	41	174	4	150	36
1984	6	12-9-85 to 28-4-86	12-12-85 to 21-8-86	354	39	103	3	313	64
1985	6	7-8-86 to 5-12-86	21-8-86 to 12-3-87	313	28	108	5**	255	65
1986	9	24-2-87 to 22-3-88	18-3-87 to 29-3-88	452	25	88	6	357	56

1	2	3(a)	3(b)	4(a)	4(b)	4(c)	4(d)	4(e)	5
1987	10	24-3-88 to 20-2-89	29-3-88 to 31-3-89	468	17	86	7	351	47
1988	Nil								
1989	5	reported to be under issue in October 1989							

* including one review.

** including two reviews each.

his successor's period. Shri A. Baksi selected 17 undertakings for appraisal but only 11 appraisal were completed, mostly out of the carried forward ones, which were incorporated in the ARs 1972-73, 1973-74, 1974-75, 1975-76 and 1976-77, which were actually countersigned by his successor. Appraisals of 21 undertakings spilled over to his successor's period. Shri Gian Prakash selected 62 undertakings for appraisal but only 30 were completed during his tenure. Appraisals of 53 undertakings spilled over to his successor's period. Shri T.N. Chaturvedi planned during 1985-86 to carry out during the next five years 96 appraisals including spill overs and by the end of 1989, twenty-three appraisals were completed and issued as ARs 1983 to 1987 and five more appraisals which have been completed were expected to be issued as AR 1989. The cumulative spill over was 21.4 per cent of the undertakings selected for appraisal, while the undertakings selected for appraisal constituted 63 per cent of the total number of PSUs in March 1988, the actual appraisals turned out was 39 per cent.

The turnover of appraisals during the tenure of each chairman, Audit Board since the induction of Audit Board was as under :

Names of the Chairmen	Tenure of the Chairman	No. of appraisals completed
S/Shri		
H.K. Maitra	April 1969 - December 1971	14
R.P. Ranga	January 1972 - September 1976	24
Y. Krishan	October 1976 - July 1977	3
T. Rengachari	August 1977 - February 1980	8
P.P. Gangadharan	March 1980 - January 1982	10
P.P. Dhir	February 1982 - August 1982	3
R.C. Suri	August 1982 - April 1984	13
M. Premkumar	April 1984 - March 1985	3
K.N. Row	April 1985 - December 1985	2
K.S. Murthy	January 1986 - April 1986	1
K. Ranganadham	June 1986 - June 1987	9
C.P. Mittal	July 1987 - March 1988	9
K. Tyagarajan	April 1988 - continuing	

The output of the appraisals during the tenure of the first two Chairmen, who had the longest tenures of 33 and 57 months, was not equalled by any of their successors but the annual turnover during the tenure of each was around 6 and 5 respectively. Shri R.C. Suri finalised 13 appraisals during 19 months tenure and Shri K. Ranganadham turned out 9 appraisals in 12 months' time. 5 Chairmen processed less than 3 appraisals during their tenure ranging from 11 to 4 months.

The Member-wise origin and finalisation of the appraisals is given in the Table below :—

Sl. Nomenclature 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 Total
No. of MAB

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
1. I New Delhi	1	2	-	1	-	-	1	-	-	1(Rev)	-	-	-	2	-	-	-	-	-	1	8
2. II New Delhi	-	-	2	1	-	-	-	-	-	-	1(f)	1(c)	-	-	1(f)	-	-	-	-	1	7
3. III New Delhi	2	2	2(c)	-	1(d)	-	-	-	-	-	-	-	-	-	1(h)	1(i)	1(i)	1(c)+	-	-	12
4. I Bombay	1	1	2	-	-	-	-	-	1	1(Rev)	-	-	-	1	1	1	-	1	1	-	11
5. II Bombay	1(a)	1	1	-	-	-	-	-	-	-	1(e)	-	-	-	1(i)	1(i)	-	-	-	1	7
6. I Calcutta	-	-	-	-	-	1(g)	-	1	1	-	1(Rev)	-	-	-	3	-	-	-	2	-	8
7. II Calcutta	-	-	-	-	-	-	-	-	-	1	2	2	2	1(g)	1	1	-	-	-	1	10
8. Ranchi	1	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	1	-	7
9. Hyderabad	1(a)	1(b)	1(b)	-	-	-	-	-	1	-	-	-	-	-	1(d)	-	1	-	1	-	7
10. Bangalore	1	1	-	-	-	-	-	-	-	-	-	-	-	1	1	-	-	1+1	1	1	8
11. Madras	-	1(k)	1	1	-	1(e)	-	1	1(Rev)	-	-	-	-	-	1	-	1(k)	-	-	2	10
12. Food, New Delhi	-	1(a)	2(a)	-	-	-	-	-	1(Rev)	-	-	-	-	-	-	-	-	-	-	-	4
Total	8	10	11	3	2	5	2	2	5	3	2	2	2	10	11	4	3	5	6	7	99

(a) Finalised by MAB, New Delhi, (b) Finalised by MAB, Calcutta, (c) One appraisal was finalised by MAB, Calcutta, (d) Finalised by MAB, Bombay, (e) Finalised by MAB, (Coal), (f) Finalised by MAB, Dehradun, (g) Finalised by MAB, Ranchi, (h) Finalised by MAB (F & C), New Delhi, (i) Finalised by MAB (P & O), Madras, (j) Finalised by MAB, Bhopal, (k) Finalised by MAB, Bangalore.

13 Chairmen, 272 permanent members, who were *ex-officio* Members of Audit Board and Directors of Commercial Audit and 192 part-time members participated in processing the 99 appraisals. The tenure of the Chairman varied from 4 months to 69 months; 4 Chairmen had tenures less than 9 months; 7 Chairmen and a good number of permanent members had worked in Public Sector Undertakings in the Union and in the State Sector earlier on deputation for varying periods before they joined the Board and few of them in the specific field covered by the Public Sector Undertakings appraised.

The large number of part-time members who participated in the functioning of Audit Boards were specialists in the particular technology of the enterprise appraised by the Board - steel, minerals and metals, coal, power, oil exploration and refinery, petroleum, chemicals, fertilizers, pharmaceuticals, heavy, medium and light engineering, instrumentation, transportation equipment, consumer goods, agro-based products, textiles, trading and marketing, contracts and construction, tourism, industrial development and technical consultancy services, etc. Most of them were retired heads of departments of Government of India and Chief Executives of Public Sector enterprises - advisers, general managers, chief engineers, administrators, marketing specialists, heads of research institutions and national laboratories. There were even few specialists from the private sector. The experience, expertise and reputation of these distinguished members of the Audit Board have left their distinct contribution in the techno-economic analysis displayed in each appraisal of diverse and complex enterprises. They have not only enhanced the techno-economic content of the appraisal but also added to its value, utility and acceptability, both by the public sector management/Ministries of the Government of India and by the Industry and attracted media attention. Even the worst critics of the government audit system in government companies have ungrudgingly recognised the worth of the appraisals in the public sector, despite attempts to derate them by protagonists of market consultancy, due to their own predilection for private consultants hired at high cost. While the national service rendered by these great specialists has been duly acknowledged by the CAG in every Report, neither the Government nor the public sector management, have recognised their silent contribution to provide useful appraisals in public sector undertakings at no expense to them. In fact, it was a unique effort to pool available best talents for carrying out neutral appraisals of complex undertakings in a developing country, for which there are no parallels elsewhere.

213 companies under the audit jurisdiction of 16 Principal Audit Officers remained to be appraised in March 1988 - 56 under the

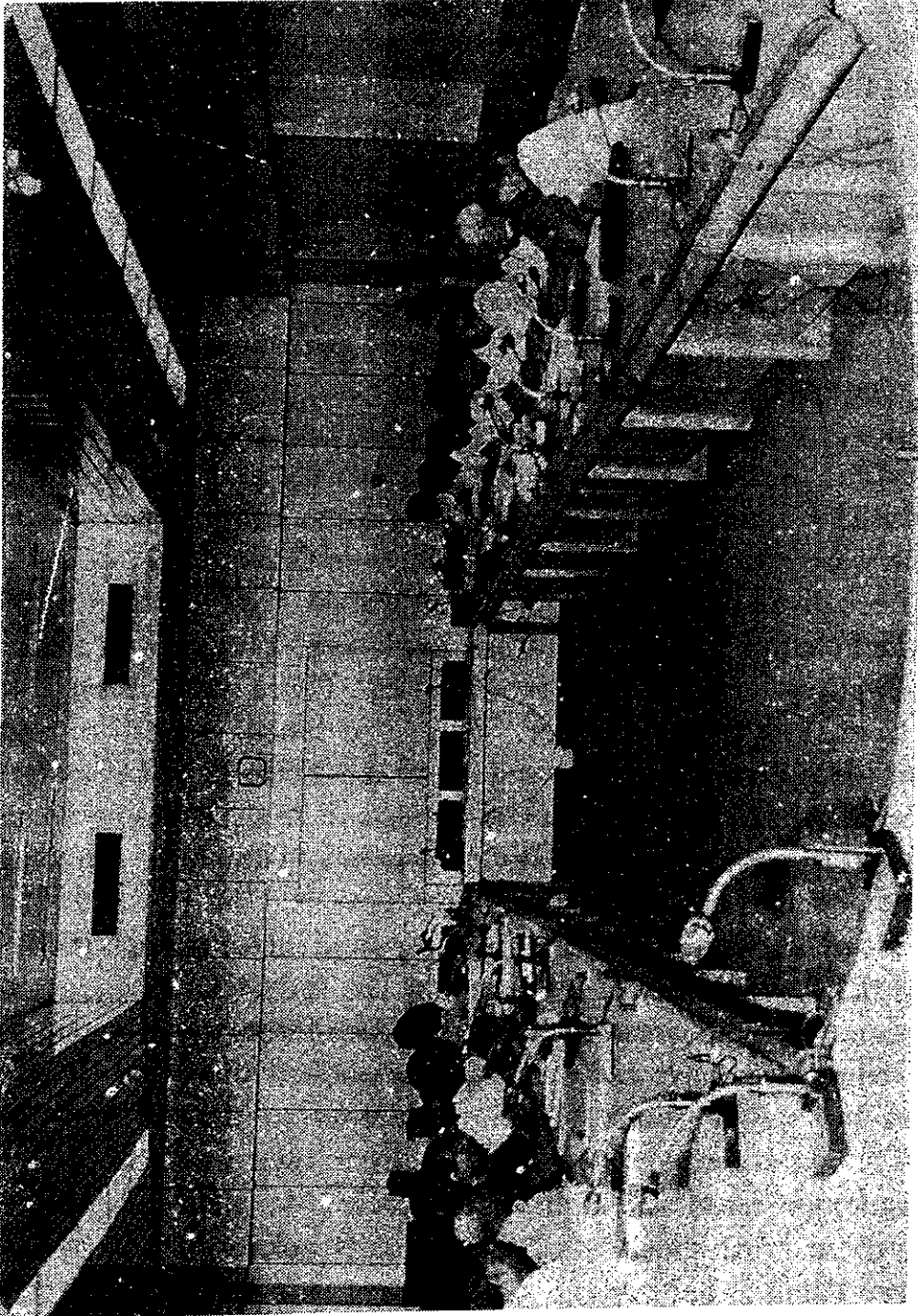


Fig. 14.1: Audit Board Meeting Held in August 1989

jurisdiction of the three DsCA stationed at New Delhi (25 - DCA I, 27 - DCA II and 18 - DCA III), 32 under two DsCA, Bombay, (20 - DCA I and 12 - DCA II), 55 under two DsCA at Calcutta (37 DCA I and 18 DCA II), 10 each under the DsCA, Madras and Hyderabad, 11 each under DsCA, Ranchi and Bangalore. In addition 2 units under DA, Food, 7 units under DACR II, New Delhi, 2 under DA, P&T and 3 under AG (Audit) Haryana remained to be appraised. Strangely, as the Audit Board gained greater experience and expertise in conducting appraisals and the industrial management in Public Sector Undertakings became more advanced and sophisticated, the turnover of appraisal reports tended to reach a plateau of not even 50 percent performance of the best efforts of earlier years.

SELECTED APPRAISALS

(i) *Indian Telephone Industries Ltd.**

The* Comprehensive Appraisal of the Indian Telephone Industries Limited was conducted by the Audit Board in a time span of 13 months and contained 11 paras spread over 48 pages and 6 Annexures on 17 pages. The Indian Telephone Industries set up with foreign collaboration in 1950 had an authorised capital of Rs. 500 lakhs and paid up capital of Rs. 466.82 lakhs in March 1969; the outstanding loans were Rs. 148.75 lakhs to Government of India and Rs. 75.05 lakhs to International Standard Electric Company of America (ISEC) including deferred credit of Rs. 259.61 lakhs. The debt - equity ratio was 1.035 : 1. The foreign collaboration in Max and Transmission Divisions expired in May 1963, after fifteen years duration and Rs. 53,78,480 (\$402854-11-10) was paid to the firm.

In the Max Division, the original targets generally exceeded the computed capacity during 3 years; actual production was less than the capacity and the targets. In Transmission Division, overall capacity in terms of value remained constant and value was less than available capacity. The shortfall was attributed by the Management to fixation of higher production target, changes in pattern of production for Max and Transmission equipments, break-up of production line to meet the Defence requirements, disturbed labour relations, continued and intermittent shortage of materials and non-availability of imported stores. Decline in efficiency of workers was more steep after the revision of the incentive scheme in December 1968, which was attributed to the

* Audit Report (Commercial) 1970 Part VI signed by Shri H.K. Maitra and counter-signed by Shri S. Ranganathan on 10th September, 1970 and presented to Parliament on 19th November, 1970.

two labour strikes, occasional material shortages, placement of additional shops under incentive and diversification of products and frequent decision changes.

The Cross Bar Project with technical collaboration and equity participation of ISEC and Bell Telephone Manufacturing Company of Belgium estimated to cost Rs. 127 lakhs actually crossed Rs. 185.75 lakhs upto March 1969 and the revised estimates were yet to be finalised. Impact of devaluation, increase in prices and increase in cost was attributed to the customs duty, and new items and additional provisions. The scope of manufacture was reduced to local and trunk exchanges - rural exchanges and line concentrators were kept in abeyance - and the shortfalls in production ranged from 97.20 to 67.19%. Performance in terms of output was lower than what was programmed in the agreement with foreign collaboration - shortfall ranging from 67% to 100%. There was delay in local manufacture of some piece parts and special relays produced. Management attributed the shortfall to various delays during each phase of the agreement period covered by the agreement. Change in the product pattern and their impact on efficiency/performance in terms of actuals, delay in execution of the Project and their effect, deficiency in capacity - 50,000 lines per annum as compared to 1,00,000 lines of penta conta equipment were commented upon along with absence of provision for liquidated damages.

There was excess employment compared to computed norm and efficiency achieved varied from 50 to 75%, which resulted in recovery of higher prices and profitability at the expense of the customer departments. The percentages of total hours lost to total hours booked was 0.77, 1.55 and 2.66 during 1967, 1968 and 1969 respectively and the value of the idle time lost was Rs. 1.07 lakhs, Rs. 2.35 lakhs and Rs. 3.74 lakhs. Division-wise loss was Max - Rs. 2.90 lakhs; Transmission - Rs. 1.05 lakhs and Cross Bar - Rs. 3.21 lakhs. Utilisation cards were maintained only in respect of 125 machines (Auto Shop) out of 3046 machines in 35 shops in the Max Division, and the percentage of utilisation varied from 69.09 to 80.77. Non-utilisation was attributed to machine repair, waiting tools and methods, absence of operator and other causes. Data for general purpose machines for five other shops maintained in the Max Division for two years was 69.30% and 68.80%. The overall targets fell short by 5.5% to 20.80%, which included shortfall under export also. Outstanding orders of P&T at the end of March 1969 were Rs. 11.94 crores, Rs. 5.60 crores and Rs. 1.07 crores in Max, Transmission and Development Divisions; from non-P&T customers was Rs. 804.57 lakhs (Defence Rs. 402.05 lakhs, Railways Rs. 279.77 lakhs and others Rs. 122.75 lakhs). Apart from commenting on the customer

composition and pricing policy, non-implementation of the guidelines laid down by B.P.E. in 1965 in regard to pricing to be followed by enterprises operating under monopolistic and semi-monopolistic conditions was highlighted.

Profitability analysis for 3 years preceding 1968-69 along with relevant ratios were given - Percentage of profit before tax to Sales was 16.2, 18.9 and 16.4, to gross fixed assets 27.1, 36.8, 31.6 and to capital employed 14.0, 20.7 and 20.0, while percentage of profit after tax to net worth was 16.3, 16.5 and 14.4 to equity capital 28.3, 32.8 and 32.8 and to Capital employed 7.1, 8.3 and 8.8 respectively. Exclusion of element profit on account of cost variations relating to P&T orders would result in reduction in profits. The rates of dividend paid were 7.25% (1966-67), 8.5% (1967-68) and 10% (1968-69).

Analysis of credit allowed and the credit enjoyed by the Company for the last 3 years showed excess credit allowed over credit enjoyed for two years (- 324.10 lakhs, - 324.10 lakhs) and +58.40 lakhs. The percentage of debtors to turnover was 20.4, 16.6 and 24.9 during the period; sundry debtors represented about 3 months' turnover in 1968-69.

The inventory level at the close of preceding three years was Rs. 1531.15, Rs. 1673.87, Rs. 1513.24 lakhs respectively. The stock of raw materials including installation and production stores was equivalent to about 15 and 3 quarters of a months' consumption for production requirements in 1968-69 compared to 19 months' in 1967-68 and 18 months' in 1966-67. The works in progress represented about one and a quarter months' value of production at cost at the end of 1968-69 and 1967-68, compared with about 2 months' at the end of 1966-67. Finished goods represented about 0.7 months' sales during 1968-69 as against 0.9 months' during 1967-68 and 1966-67. Increasing trend of dormant stocks, which amounted to 15.2% of the inventory (Rs. 277.1 lakhs), value of dormant stores having no transaction for more than 2 years amounted to Rs. 48.29 lakhs, Raw materials, Max and Transmission stores accounted for the bulk. Review by a committee resulted in writing off Rs. 6.8 lakhs during 1968-69; Rs. 15 lakhs were charged off by company in 1969-70 pending review. The value of items for which imports were substituted during last 3 years amounted to Rs. 159.74 lakhs.

There were various deficiencies in standard costing system adopted by the Company; cost control was defective in as much as costs compiled were not actual costs and did not provide a basis for effective comparison: certain analysis/cost variations showed charging higher cost than costs computed. The number of pending shop orders and their net value was Rs. 1.63 crores in March 1968 and Rs. 1.78 crores in March 1969.

(ii) *BEML*

The Appraisal* on Bharat Earth Movers Limited (BEML) was finalised in 54 months, of which the final phase took over 20 months. There were three changes of Chairman and one Member and two changes of other members during the appraisal. BEML had two principal units viz. the Rail Coach Division at Bangalore, manufacturing railcoaches, heavy duty trailers and certain earth moving equipments and the Earth Mover Division at K.G.F., manufacturing a wide range of earth moving equipments under foreign collaboration arrangements as well as its own design, a new factory at Mysore for production of wheeled earth moving equipment and a Research and Development (R & D) Cell. The authorised capital of the Company increased progressively from Rs. 7.50 crores in 1964-65 to Rs. 30.00 crores by the end of 1982-83 and the paid-up capital was Rs. 22 crores in March 1984. The Company had been making profits ever since its formation and the total profit during 20 years was Rs. 206.78 crores and the aggregate dividend paid Rs. 11.34 crores and its net worth was Rs. 107.12 crores in March 1984. The Company had not reviewed comprehensively either its Corporate Plan or its action plan and projections for 1985-86 to 1990-91. Three models of equipment viz. 40 ton pipe layers, heavy vehicles and hydraulic cranes required for the Defence Department, Mines, Petroleum producers and others due for production from 1978-79 and 1979-80 had not been introduced and the Defence Department's requirements of 45 heavy vehicles was met by import. The new factory at Mysore scheduled to produce wheeled earth moving equipment from 1982, commenced its production in 1985-86 only. Delay in taking up commercial production of heavy vehicles was due to non-availability of clear indications regarding requirements and specifications and the market demand for pipe layers did not pick up as anticipated; production of hydraulic cranes was also not taken up for want of adequate and sustained market demand; the delay in setting up the new factory at Mysore was due to adopting a cautious and careful approach lest the Company was burdened with a heavy unutilised capacity.

There was considerable delay in achieving the expected level (85%) of indigenisation of three models of crawler tractors; one model of wheeled equipment expected to achieve full level indigenisation by 1977-78 was not realised; consequently the concerned collaboration agreements had to be extended twice, for periods ranging from 5 to 10

* AR 1985 (Part V) signed by Shri K. Ranganadham and countersigned by Shri T.N. Chaturvedi on 5th December, 1986 and presented to Parliament on 12th March, 1987. It has 12 paras on 29 pages.

years, and imports of components from the foreign collaborators became necessary.

In the absence of any time schedule for the implementation of the Earth Mover Project, no monitoring of its execution was possible and production facilities were progressively set up in the Earth Mover Division at K.G.F., phasing out the capital investment over a period of 19 years from 1965-66 to 1983-84.

The rated capacity of the Earth Mover Division was not fixed either in terms of physical output or in standard manhours, after taking into account the production facilities progressively set, even after 25 years and the extent of capacity utilisation from time to time could not, therefore, be established.

The Company did not generate necessary data on machine utilisation to ascertain actual utilisation of available machine capacity and based on the estimated load forecast, the unutilised machine capacity in the Earth Mover Division during 1979-80 to 1983-84 ranged from 8 to 46% in the Machine Shop, 49 to 64% in the Gear Shop and 3 to 18% in the Plate Shop. In the Railcoach Division, the unutilised capacity during 1981-82 to 1983-84 ranged from 9 to 28%, in the Machine Shop, 19 to 36% in the Sheet Metal Shop and 16 to 42% in the Material Preparation Shop.

Of the 15 models of earth moving equipment produced during 1983-84, only 4 models were developed by the Company and the balance were of collaborator's design and production of earth moving equipment was achieved, during 1981-82 to 1983-84, in excess of the sanctioned capacity (850/890 nos.), mostly due to large scale import of components. The share of imported components in the total consumption of raw materials and components, increased from 46% in 1979-80 to 68% in 1983-84 and foreign exchange expenditure on import of components and spares during 1979-80 to 1983-84 was as high as Rs. 216.63 crores. Delay in the proposed acquisition of a running foundry necessitated purchase of 14,881 tonnes of castings from the open market during the 10 years upto 1984-85, thereby losing the estimated cost advantage of nearly Rs. 1157 to Rs. 2768 per tonne. The number of indirect workers in Railcoach Division and Supervisors/Managers in Earth Mover Division exceeded the norms envisaged in the Corporate Plan during 1979-80 to 1983-84, resulting in increased overheads and the percentage of unaccounted hours to total hours paid for increased in 1983-84 as compared to 1979-80; the value of unaccounted hours worked out to Rs. 58 crores during 1979-80 to 1983-84. Escalation claims of Rs. 1.84 crores had to be relinquished due to omission to obtain prior acceptance of customers to the escalation clause in sale contracts in respect of earth moving

equipments and claims totalling Rs. 9.03 crores were outstanding in March 1984. Due to deficiency in its in-house production range in respect of hydraulic components, hydraulic items valued at Rs.13.32 crores had to be procured during 1981-82 and 1982-83. There was excessive recourse to cash credit mostly due to heavy sundry debtors (Rs. 70.23 crores) in March 1984, heavy inventories - imported items stocked upto 18 months, surplus/non-moving raw materials and components (value Rs. 3.06 crores), locking up of funds on bonded inventories. During 1979-80 to 1984-85, interest amounting to Rs. 69.05 crores was paid to Banks on cash credit availed. Increasing incidence of interest on cash credit eroded the profits from year to year. Starting from a modest profit of Rs. 0.12 crores (before tax) in 1964-65, the profits rose to Rs. 4.87 crores in 1973-74 and to Rs. 38.83 crores in 1983-84. The total profits (before tax) from 1964-65 to 1983-84 was Rs. 206.78 crores (Rs.174.19 crores from the Earth Mover Division and Rs. 32.59 crores from the Railcoach Division) and the aggregate dividend paid during 1967-68 to 1983-84 was Rs. 11.34 crores, as against the paid-up capital of Rs. 22 crores to end of 1983-84. The huge profits of the Company did not reflect the true index of its efficiency in view of low machine utilisation, excessive reliance on imported and bought out components for achieving higher production, excessive indirect manpower, huge interest burden due to excessive recourse to cash credits, non-collection of debts and escalation claims, locked up inventories kept under bond, and surplus and non-moving stores. The customer base contributing to the profits was mainly provided by Government controlled organisations in Coal, Irrigation, Power, Steel (iron ore) and Agricultural sectors in the case of earth moving equipment and by Railways and Defence in respect of railcoaches and trailers respectively.

(iii) *Richardson and Cruddas Ltd.*

The appraisal* on Richardson and Cruddas Ltd. was completed in 53 months and during the period of appraisal there were three changes of Chairman and a few changes of one permanent member.

The Company formed in March 1973 by taking over 3 units (at Byculla, Nagpur and Madras) of a private limited company (written down value of fixed assets Rs. 143.70 lakhs, and current assets Rs. 23.30 lakhs under litigation and of doubtful recovery), took over the defunct workshop of a company in liquidation at Mulund with the objective of

* AR 1985 (Part IV) was signed by Shri K. Ranganadham and countersigned by Shri T.N. Chaturvedi on 27th November, 1986 and presented to Parliament on 10th March, 1987. It had 12 paras on 28 pages.

diversifying operations on payment of Rs. 125 lakhs in August 1975 for further development and diversification. The authorised and paid-up capital in March 1985 were Rs. 1000 lakhs and Rs. 753.57 lakhs respectively; the latter was wiped off by the accumulated loss of Rs. 1771.73 lakhs; the long term loans from Government outstanding was Rs. 2075.76 lakhs; penal interest due was Rs. 672.39 lakhs; Rs. 5.48 lakhs to financial institutions and Rs. 934.50 lakhs as cash credit to State Bank of India were also due. Debt equity ratio was 2.8 : 1 which affected its profitability and aggravated its liquidity problem.

The programme of modernisation and rehabilitation of three units of the old machinery at Byculla, Nagpur and Madras was implemented at a cost of Rs. 200 lakhs but the envisaged output level was not achieved. At Mulund, Rs. 182 lakhs (over and above the initial purchase price of Rs. 125 lakhs) was spent to rehabilitate the plant and machinery and to take up production in specified lines but actual production was lower than the capacity. Subsequent outlays on provision of balancing facilities and annual additions to plant and machinery did not bring in any significant improvement in physical performance. Low demand, non-availability of critical raw material and a constant liquidity problem and production delays were the major constraints in achieving capacity utilisation. Production was significantly affected by long periods of labour unrest and loss of orders due to loss of credibility. The strength and weakness of the units taken over were not studied to decide on a proper product-mix with the result that the large capital investments made did not yield results.

The major production line of conventional structurals in Byculla and Madras units was uneconomic due to high wage structure and fierce competition from the small scale and wayside fabricators, which compelled the units to accept orders to keep the shops occupied. The structural workshop in Madras did not earn enough even to absorb salaries and wages in full and its closure was under consideration. Though the need for phasing out the production of conventional structurals and embarking upon the manufacture of high value added items was repeatedly stressed by the Ministry as well as the Study Team appointed by Government and an *ad hoc* Committee, it was not able to branch out significantly in this direction.

No marketing strategy was developed and there was no centralised marketing cell to constantly monitor demand in a changing and competitive market in order to mobilise resources in well planned production lines. Production of hand pumps, which was earlier giving good return came down due to shrinkage in demand in the face of stiff

competition. Sufficient orders for railway points and crossings could not be secured to realise optimum utilisation of available capacity, though the Railways had been placing orders for large quantities on other suppliers and no coordination with the Railways was possible due to delay in timely supply of rails, which was a major constraint in completing production as per schedule. In the Nagpur unit the Company had large orders on hand for transmission towers and micro towers but production was below capacity due to difficulty in getting matching steel in time for want of funds. The company was not able to increase output in other profitable production lines like Rubber Machinery and Sugar Machinery due to its inability to secure a higher market share in the highly competitive market.

The absence of systematic production, planning and chasing of progress of jobs on the shop floor contributed to long production delays and caused substantial losses in a number of jobs, which in turn, affected the credibility of the Company and resulted in a lower flow of orders. Labour productivity in structurals at Byculla and Madras was lower than the average output per man month for structural fabrication industry in India, mainly due to surplus labour. The Mulund unit had excess labour and idle time, including unaccounted time, which was very high. In Nagpur unit production in the Fabrication and Galvanising Shops was below the prescribed norms.

The outstanding book debts were heavy and constituted 3.4 months' sales. Out of outstanding debts of Rs. 360.26 lakhs for more than a year in March 1985, Rs. 32.44 lakhs were pending for more than 2 years and Rs. 110.78 lakhs were outstanding for more than 3 years. Work in progress of Rs. 678 lakhs was pending for more than 2 years in September 1985. The costing system was deficient and there was no satisfactory method of booking of idle time and there was no system of regular monitoring of costs during execution of jobs. Cash losses due to low capacity utilisation, low productivity, idle and surplus labour, long production delays, high wages (in Byculla Unit), uneconomical sale prices and long periods of industrial unrest (in Mulund Unit) crippled the operations; large amounts of non-plan loans given by Government to provide needed working capital funds did not give relief; conversion of interest on Government loans into loan upto December 1981 (Rs. 328.33 lakhs) added to the interest burden; the cumulative loss of Rs. 17.72 crores eroded the paid-up capital of Rs. 7.54 crores and enhanced dependence on borrowed funds for operations. Projects for manufacture of tubes at Byculla and a Compressor Project at Madras taken up for improving viability suffered from various handicaps. The Tube Project sanctioned at an outlay of Rs. 6.6 crores was behind schedule and its

success was tied up with a single customer viz. ONGC. The Compressor Project (Capital outlay : Rs. 142.88 lakhs) was completed and production commenced in February 1986 but the open type compressors for industrial application had a restricted and highly competitive market and needed special drive to market the product.

In sum, all the efforts to rehabilitate/modernise the units at a cost of Rs. 500 lakhs had not yielded the desired results. While the production had decreased as compared to pre-takeover period, the cumulative losses have exceeded the paid-up capital and all the units worked much below the rated capacity. In order to improve the viability of the Company and other structural companies in the Public Sector, the Government intended to set up a Holding Company for the entire group, with a view to building up their corporate strength by enabling inter-company transfer of capital, manpower and resources. All the five structural engineering companies in the Public Sector collectively suffered, since nationalisation, a loss of Rs. 160.18 crores as against the total paid-up capital of Rs.73.17 crores as on 31st March, 1985.

AUDIT REPORT 1986 - PART V

An idea of the contents of Report incorporating the company auditors comments and supplementary audit comments of the CAG can be obtained from an illustrative study of one year's report. Audit Report\$, 1986 - Part V carried (i) a resume of the reports of the auditors of government companies, submitted by them under directives issued by him under Section 619(3)(a) of the Indian companies Act, 1956 and (ii) observations made by the C & AG on review of annual accounts of government companies under Section 619(4) of the Act. Special reports of the company auditors on the accounts for the year 1984-85 received in respect of 137 companies and 49 subsidiary companies upto August 1986, were found incorporated. Table below contains a summary of observations on each company classified according to the broad categories of deficiencies contained in the Report.

That 35 company auditors did not respond to C & AG's directives, including 9 companies which did not close their accounts for the year, is a measure of non-compliance by statutory auditors of the requirements of the Act. That only 17 companies out of the 137 companies for which reports were sent by statutory auditors did not attract any adverse comment, paints a dim picture of the adequacy, efficiency and soundness

§ Author's article in Financial Express dated 23rd April, 1988. The report was signed by Shri C.P. Mittal and countersigned by Shri T.N. Chaturvedi on 25th November, 1987 and presented to Parliament on 10th December, 1987.

TABLE

Sl. No.	Broad categories of directives/brief narration of deficiencies/comments reported under them	No. of companies affected
1.	System of Accounts and Book-keeping (comments on adequacy of effectiveness of the system, deficiencies in the system, non-reconciliation of books, deficiencies in maintenance of Asset Registers, mistakes in allocation of expenditure, mistakes in allocation of expenditure between capital and revenue and other defects).	112
2.	Internal control (comments on internal audit, control procedures of various functions, control on budgets and actuals).	126
3.	Manufacturing and Production Accounts (deficiencies in cost control, points thrown up by comparison of norms and actuals, comments on rejections and deficiencies in Cost Accounts).	102
4.	Profit and Loss Accounts (Comments on major items like payment of substantial demurrage, changes in distribution, unusual items affecting P & L account etc.).	115
5.	Balance Sheet (Comments on Credit Control, inventory procedure and control etc.).	129
6.	General (comments on non-maintenance of Proforma Accounts for service units for staff/ deficiencies in accounts, manpower employed and envisaged and general deficiencies etc., which are not susceptible of classification according to broad categories mentioned above.).	76

of the systems and procedures followed by the government companies and the large scope for widening and strengthening the financial accounting including costing and management in the Public Sector Undertakings.

Out of 275 companies (233 government companies, including subsidiaries, and 42 deemed Companies under Section 619(B) subject to audit by C & AG), the accounts for the year 1984-85 of 250 Companies were received upto August 1986. The accounts of 25 companies (9 government companies and 16 deemed companies) were not received despite the statutory requirements. The accounts of 195 companies (163 government companies and their subsidiaries and 32 deemed companies) had only been selected by C & AG for purposes of comments on or supplement to, the auditor's report under Section 619(4) of the Act, leaving out the accounts of 70 government companies. The mistakes/omissions noticed in 52 companies classified according to the net effect of the observations on the accounts are tabulated below :

Sl. No.	Classification of the audit observations	Number of companies in which observations were made	Net financial effect (Rs. in lakhs)
1.	Over-statement of profit	20	5460.73
2.	Under-statement of profit	7	351.71
3.	Over-statement of loss	3	203.07
4.	Under-statement of loss	17	1334.61
5.	Miscellaneous observations affecting final accounts	17	2778.73
6.	(i) Omission to make provision/under-provision	23	4858.86
	(ii) Over-statement/under-statement of assets/liabilities etc.	24	6850.60
	(iii) Miscellaneous classifications	13	2154.07
	(iv) Non-disclosures in accounts	4	3059.09

The accounts of 36 Companies were revised by the Management on receipt of audit observations. Some of the important observations of C & AG incorporated in the Report are revealing for a Public Sector Management.

In the case of Steel Authority of India, Limited, apart from over statement of profit of Rs. 224.12 lakhs, the profit of Rs. 424.06 lakhs was to be viewed in the light of financial reliefs granted to the Company aggregating Rs. 11693.73 lakhs, by Government, by way of 'interest holiday' on government loans including penal interest (Rs. 5000 lakhs), waiver of Steel Development Fund Contribution payable by Durgapur Steel Plant (Rs. 2460 lakhs), waiver of interest on Steel Development Fund loans (Rs. 2288.34 lakhs) and net benefit as a result of waiver of interest on balances of Import Price Pool Fund of Joint Plant Committee (Rs. 1945.39 lakhs). Installed capacity in terms of production of Steel ingots for Bokaro Steel Plant had remained at 2.5 MT since 1980-81, even though Gross Block had increased to the extent of about Rs. 650 crores during 1981-82 to 1984-85. Loss of Rs.188.05 lakhs in Tea Trading Corporation was to be viewed in the context of credit taken in the year's accounts for the excess quantity of 2,45,966.48 kgs. of tea found excess during physical verification mentioned in the auditor's report to the Members. In National Buildings Construction Corporation Limited, the liability of Rs. 166.35 lakhs towards income tax on payments made to foreign consultants for BPT Project was provided at the instance of Audit resulting in decrease of profit to the same extent.

In certain companies, there were overstatements and under-

statements of profits or losses due to multiple mistakes. In Hindustan Shipyard Limited, there was understatement of loss of Rs. 337.73 lakhs during the year and overstatement of cumulative losses of Rs. 280.26 lakhs due to accounting mistakes. In HMT, the profit was overstated to the extent of Rs. 43.57 lakhs and understated to the extent of Rs. 19.92 lakhs. The loss of Rs. 326.54 lakhs in Hindustan Copper Limited was to be viewed in the light of (i) write back of provision of interest accrued but not due on government loan as on 31st March, 1984 as income for the year - Rs. 695.74 lakhs, (ii) interest holiday on government loan for the year 1984-85 - Rs. 2,317.25 lakhs (interest due Rs. 1407.45 lakhs and interest accrued Rs. 909.80 lakhs), (iii) non-provision of penal interest on government loans in the expectation of waiver by the Central Government - Rs. 1111.37 lakhs and (iv) non-provision of liability for bonus/*ex-gratia* for the year 1984-85 due to its account on cash basis instead of on accrual basis, the exact amount for which was not determined (but the previous year's expenditure on payment of bonus was Rs. 152.86 lakhs). In Bridge and Roof Company (India) Limited, the Company did not follow either the "Percentage of completion method" or "the completed contract method" in recognising revenue from sales/value of work done (except in the case of Hatauda Project, Nepal). Also, the expenditure likely to be incurred on completion of the jobs had not been estimated. Instead of providing for the estimated loss on completion of the whole contract, provision was made only for the loss upto the stage completed. The provision for contingencies against work-in-progress was made at 10 per cent of profit estimated instead of the usual one third of profit. In the past, in a number of contracts, where substantial profits had been anticipated either significant losses or reduced profits were disclosed in the current accounts raising doubts on the reliability of estimation followed. In Bharat Heavy Electricals Limited, the net effect on working results of all 10 units was affected to the extent of Rs. 151.91 lakhs. While the profit of 3 units was increased by Rs. 231.67 lakhs, the profit of 8 units was decreased to the extent of Rs. 349.09 lakhs. Losses increased by Rs. 115.54 lakhs in 2 units and decreased by Rs. 1.64 lakhs in one unit. In Balmar Lawrie and Company Limited, surplus on disposal of capital assets during 1983-84, though not available for distribution as dividend in terms of Article 128 of the Articles of Association of the company, was utilised for payment as final dividend. Investment Allowance Reserve included un-committed reserve (Rs. 23.98 lakhs) due to disposal of assets. As a result of the observations of Government Audit on non-provision of depreciation on Plant and Machinery and Building in the accounts of the unit for which Profit and Loss Account was not prepared, although it had gone into commercial production, the

Cement Corporation of India revised their accounts, which altered the earlier net profit of Rs. 77.29 lakhs to a net loss of Rs. 164.89 lakhs.

In sum, while the statutory auditors' reports on 137 companies brought out the various deficiencies and shortcomings in the system of accounts and book-keeping, internal control, cost control and preparation of final accounts, which were a sad commentary on the efficiency and the effectiveness of the managements concerned, the supplementary audit of C & AG disclosed pure and simple accounting mistakes - overstatement of profit/loss, understatement of profit/loss, omission to make financial provisions affecting net results and non-disclosure of vital facts/information in accounts etc., resulting in revision of accounts of 36 companies involving an overall monetary effect of Rs. 27,051.49 lakhs. The complementary and distinctive roles of both types of audit in public sector companies are clearly discernible in the results summed up in the Report. There is neither duplication of effort, nor repetition of comments in the performance of the auditors but there are common words in evidence because of the limited vocabulary in the lexicon of accounting and auditing. A good deal of them, if not all, could have been avoided, if only an effective internal audit coupled with a responsive and alert management functioned together in the enterprises concerned, as revealed by the performance of a number of enterprises. Nearly 36 per cent of the 70 accounts received were not selected for review by the C & AG, which is a measure of his assessment of the efficiency and soundness of the statutory audit system prevailing in the enterprises. While 17 companies did not attract any adverse comments from the statutory auditors, 55 companies obtained only 'Nil' comments from the C & AG, which constitute the positive and encouraging feature of the system in operation since 1956. But the fact that three fourth of the PSEs have yet to reach this state of sophistication and development in their financial and accounting management, despite their being in operation for a number of years, indicates the distance to be travelled by them to reach their goal. That about 25 per cent of the statutory auditors failed to respond to the directives of the C & AG reinforces the need to strengthen the system by plugging the existing loopholes. The overall indications are that the system has come of age in the PSEs and by and large the managements are able to cope successfully with the dual demands of autonomy and accountability in reporting and auditing enshrined in the statute but still the glamour to dispense with government audit in PSUs surface, whenever the performance of PSUs and ways and means to improve them are discussed, particularly from those who have failed to deliver the goods in time and in full measure.

THE SHIPPING CORPORATION OF INDIA

The appraisal* of the Shipping Corporation of India (SCI) highlighted the adverse performance in its overall operations, earnings and generation of surpluses during the last few years. The major objectives and obligations of the SCI are its predominance in public sector shipping, promotion of international trade, generation of surpluses and maximisation of foreign exchange earnings. At the end of the 6th Plan Period, the Company's share in the tonnage acquisition was 52.5 per cent of the country's total tonnage. During 1984-85, the foreign exchange earnings amounted to Rs. 861.26 crores and expenditure Rs. 750.03 resulting in net foreign exchange earnings of Rs. 111.23 crores (as against Rs. 59.69 crores in 1983-84). While the company's long-term exercise is the tonnage acquisition plan, which coincides with the National Plan, it has not prepared a corporate plan, projecting long-term profitability trends, a strategy of better tonnage utilisation, cargo to be carried, diversification plans etc. The initial programme of the 6th Plan for acquisition of 47 vessels of 12.29 lakhs G.R.T. was revised in January 1984, in view of the changes in the international shipping and ship-building market to 24 vessels of 4.32 lakhs G.R.T., besides 40 vessels of 8.69 lakhs G.R.T. being on order. The operative tonnage was expected to be 159 vessels of 33.20 lakhs G.R.T. at the end of Sixth Plan and as on March 85, the operative tonnage was 158 vessels of 33.16 lakhs G.R.T., 18 vessels of 4.85 lakhs G.R.T. were on order. There were long delays in acquisition of vessels - initiating, proposing, and in obtaining approval of Government. A proposal for the purchase of 2 tankers mooted in July 1977 and approved by the Board in December 1978, was cleared by Government in July 1980 only, resulting in an additional expenditure of Rs. 736 lakhs. The outline specification for purchase of L.R. Tankers was approved by the Board in October 1982 and by Government in May 1983. Only 8 vessels out of 98 vessels acquired by the Company during 1973-74 to 1984-85 were built in India. According to the Company, indigenous shipyards could not cater to its needs and orders were, therefore, placed on foreign shipyards. To what extent a closer tie-up between SCI and the Shipyards and drawing up of need based programmes by the Government, as recommended by the COPU in its Twentieth Report would have improved the situation, is a matter of conjecture.

The scrutiny of purchase contracts brought out additional payments of Rs. 529.50 lakhs made to Romanian Shipyard for the purchase of four

* AR (Commercial) 1986 Part II signed by Shri K. Ranganadham and countersigned by Shri T.N. Chaturvedi on 24th February, 1987 and presented to Parliament on 13th April, 1987 & Author's Article in Financial Express dated 23rd April, 1988.

bulk carriers of 15,000 D.W.T. each contracted for a fixed price of Rs. 237 lakhs each to be delivered between December 1972 and June 1975 and of Rs. 354.76 lakhs made to G.D.R. Shipyard for the construction of six cargo vessels (14900 D.W.T.) contracted for at a fixed price of Rs. 412.50 lakhs each for delivery between December, 1972 and December, 1975. Premature replacement of generator engines of S.K.L. make was made due to major breakdown by engines of Japanese make in three vessels at a cost of Rs. 125.40 lakhs in 1978-79 and in the remaining three vessels at a cost of Rs. 103.53 lakhs in 1979-80 due to lack of experience of the former type of engines. The operational deficiencies of these vessels caused losses aggregating to Rs. 49.06 lakhs till 1982-83. Operation of 3 of these vessels during 1983-84 resulted in loss of Rs. 125.48 lakhs. During 1984-85, 2 vessels resulted in loss of Rs. 186.55 lakhs. A G.D.R. vessel costing Rs. 640 lakhs incurred in loss of Rs. 598 lakhs upto 1983 due to frequent failure and repair of the main engines and generators and was sold in April 1986 at a loss of Rs. 145.86 lakhs. Eight vessels bought from Yugoslavia during 1973 and 1981 at fixed price contracts was allowed price increase aggregating to U.S. \$16.29 million (Rs. 1303 lakhs) despite the delays in delivery ranging from 54 days to 733 days. Installation of four independent diesel generating sets, due to frequent break-down of the combined generating and cargo pumping plant driven by diesel prime movers in two very large crude carriers purchased from Yugoslavia in 1975 and 1976 costed Rs. 193.36 lakhs. Defective design of two ore bulk oil (OBS) carriers of deadweight of 1,08,000 tonnes procured at a price of U.S.\$ 18.80 million each on a resale contract purchased from the Split Shipyard, Yugoslavia, resulted in large losses amounting to Rs. 4723 lakhs during 1973-74 to 1984-85. One case was referred to arbitration in September, 1979. But claim has not been lodged (1986). They could be used only as bulk carriers as against their intended use of transportation of bulk cargo on the outward leg and for oil cargo on the return trip. Delay of nearly two years in taking decision for acquisition of two Medium Range tankers of 41,000 D.W.T. resulted in enhanced payment of Rs. 736 lakhs at a time when the international shipyards were willing to quote prices below cost.

The highlights of operations of the past six years indicated that the Company incurred, for the first time since inception loss of Rs. 14.74 crores in 1977-78, which increased to Rs. 37.01 crores in 1978-79 and Rs. 1.85 crores in 1979-80. Although it earned a profit of Rs. 18.36 crores in 1980-81 and Rs. 4.74 crores in 1981-82, it sustained a loss of Rs. 24.44 crores in 1982-83 and Rs. 51.64 crores in 1983-84. The year 1984-85 ended with a profit of Rs. 2.27 crores. It defaulted in the repayment of loan instalments (Rs. 81.35 crores) and payment of interest (Rs. 50.41

crores) to the Shipping Development Fund Committee. No dividend was declared since 1975-76. The poor working results were mainly due to loss in the liner services (Rs. 21 crores in 1982-83, Rs. 23 crores in 1983-84 and Rs. 7.7 crores in 1984-85), very large crude carriers (Rs. 12 crores each in 1979-80 and 1980-81 and Rs. 9 crores in 1981-82), bulk carriers (Rs. 7 crores in 1982-83, Rs. 15 crores in 1983-84 and Rs. 8 crores in 1984-85), combination carriers (Rs. 17 crores in 1981-82, Rs. 5 crores in 1982-83, Rs. 8 crores in 1983-84 and Rs. 9 crores in 1984-85) and the loss on account of Andaman and Lakshadweep Services (Rs. 6 crores in 1980-81, Rs. 8 crores in 1981-82, Rs. 5 crores in 1982-83, and Rs. 9 crores in 1984-85). Losses in the liner operations were due to high operational cost, port congestion, competition from non-conference lines etc. Increase in sailings without optimum load of cargo in some sectors and increased operational expenses and container vessels also contributed to the declining profit. The berthing delays in Indian and Foreign ports and loss of shipdays due to labour strikes enhanced the cost of operation. The loss assessed by the Company on account of berthing delays was Rs. 10.24 crores in 1982-83, Rs. 7.32 crores in 1983-84 and Rs. 10.81 crores in 1984-85. The capacity utilisation of vessels in outward direction had steadily fallen from 77 per cent in 1978-79 to 52 per cent in 1984-85. According to Audit Board, a more vigorous and dynamic marketing strategy was required to be adopted by SCI to attract more cargo and achieve better capacity utilisation, and the Company should keep effective liaison with freight brokers, clearing and forwarding agents, shipping bodies, other trading interests, etc.

The operation of bulk carriers showed mixed results. While in 1979-80, 1980-81 and 1981-82 these vessels earned profit of Rs. 8.27 crores, Rs. 18.82 crores and Rs. 8.66 crores respectively, during 1982-83, 1983-84 and 1984-85 they showed losses of Rs. 6.78 crores, Rs. 15.03 crores and Rs. 4.89 crores respectively. The losses were attributed to depressed market rates for bulk carriers. For the combination carriers, the accumulated losses for the five years period from 1980-81 to 1984-85 were Rs. 47.43 crores, which was attributed to inability to find profitable employment for them in the depressed market. In fact, uneconomic operation of two combination carriers contributed aggregate losses of Rs. 28.98 crores for 5 years due to certain inherent structural defects in designation. The tanker operations were the main profit earner for the Company, the profit earned during 1980-81 to 1984-85 being Rs. 10.34 crores, Rs. 26.96 crores, Rs. 16.30 crores, Rs. 15.31 crores and Rs. 25.33 crores respectively. Its operation with the National Oil Companies was on a cost plus basis and from the year 1980-81 onwards, this category of operations accounted for 22 per cent of the Company's total tonnage.

However, in the operations of its two VLCCs, the Company incurred losses amounting to Rs. 33.04 crores during 1979-80 to 1984-85 due to certain inherent disadvantages in the operation of these very large vessels. The coastal trade and passenger services have been 'loss centres' for the Company due to the uneconomic freight structure and high operational expenses. Long detention of these vessels in ports due to the slow rate of coal loading contributed to the losses. Passenger services have been unremunerative and instances of poor performance in the various sectors are given in the Report. The container operation with Combination Type (COMBI) vessels capable of handling both break bulk and containerised cargo actually resulted in increase in the handling expenses which declined the profitability of the services. The Company attributed lack of basic infrastructural facilities for handling container traffic in many Indian ports for not realising the full benefits. According to the Audit Board the success of the containerisation depends on a realisation that it is a total concept, which *inter-alia* includes popularisation of container traffic among shippers, improvement of handling facilities at ports, limiting the size of labour force, adequate number of Inland Container Depots, appropriate feeder transport facilities by rail/road, etc. The COPU had examined this earlier and recommended acquisition of cellular container ships specifically suitable for container traffic, augmentation of port facilities on planned basis for handling container traffic, development of integrated rail, road and sea container services, taking remedial measures for providing adequate facilities for operation of container vessels and eliminating unhealthy competition from non-conference lines and foreign ship operators through regulatory means. There was no evidence of the Govt. or Company having benefitted by the recommendations of the COPU. The margin of net foreign exchange earnings declined in two years since 1980-81 due to considerable increase in the foreign exchange component of total expenses. If loans and deferred credits are excluded from the account of foreign exchange, surplus worked by the Company would turn into negative contribution of foreign exchange of Rs. 2751 lakhs in 1983-84 and Rs. 23,509 lakhs in 1984-85.

A sizeable part of the operating expenses was repairs and maintenance, (16.1 per cent). No norms were laid down for maintenance expenditure on vessels of different age-group due to complex/multiple factors, which affected the quantum and cost of repairs. Substantial expenditure on repairs was incurred even on new vessels. Expenditure on repairs incurred in foreign countries accounted for about two third to half of the total expenditure incurred by the Company, which according to the Company was due to limited and inadequate facilities in India,

long wait, higher cost and poor quality. Though government policy was to give repair work to Government owned/controlled workshops in Calcutta, it was found that 59 per cent to 83 per cent of the work was given to private workshops. But the Company justified it on grounds of cost. Fuel cost comprised 27.87 per cent of the expenditure on operations during 1984-85. The consumption of fuel has exceeded the norms in many cases. A test check of 20 vessels for each year revealed excess consumption of fuel of Rs. 1.15 crores in respect of 17 vessels in 1979-80, Rs. 1.13 crores in respect of 13 vessels in 1980-81 and Rs. 1.23 crores in respect of 17 vessels in 1981-82. Fuel consumption of six ships acquired during 1974-75, exceeded even the norms fixed for them, which were higher than normal norms. The Company found the consumption reasonable and apparent variations were attributed to unavoidable operational reasons. But basic records for monitoring and analysing consumption and rechecking the variations pointed out by Audit were not furnished. The stevedoring cost per R/T of cargo carried has steadily increased from Rs. 170 in 1979-80 to Rs. 248 in 1984-85, which was attributed to introduction of containerisation, which has not been achieved because of labour problems and inadequate port facilities. Annual inflation and other statutory increases levied from time to time are other factors for higher handling cost.

The details of officers and staff employed and the emoluments including overtime payments made to them per annum for the past five years given in the Report indicated that while the total number of employees varied from 13,359 to 11,240, of which the floating staff element varied from 5941 officers/5834 crew to 4768 officers/4105 crew and the shore staff 1694 to 1867, involving an annual expenditure ranging from Rs. 4,539.56 lakhs to Rs. 5,756.92 lakhs, including over time payments of Rs. 2,509 to Rs. 1715 per employee. Average number of officers and crew in floating staff was 5,342 and 5,547. It was pointed out that a standard staff pattern determined on a scientific basis has not been implemented by the Company. The crew complement on the Company's foreign going cargo vessels ranged from 21 to 50. The Company stated that there was no uniform international standard for manning the ships but that ships of Japan and Scandinavian countries had a complement of only 15 to 20 officers and crew. In view of surplus man-power and unemployment amongst Indian sea men it would not, on its own, be able to secure reduction in the number of crew on its vessels. No action on the recommendation of the Committee on Public Undertakings (1982) for making a cost study of the operations of the Company by an independent agency including review of the staffing pattern with a view to evolving suitable norms has been taken by the Company. Certain cases

of loss suffered by the Company due to omission to take any guarantee or insurance cover from the agents in foreign stations were reported. A case of loss of Rs. 60.11 lakhs due to non-observance of the Protection and Indemnity Club Rules by the Company was reported. The appraisal reveals that there is no system of reporting important points raised in the internal audit reports to the Board of Directors.

In sum, the Report brought out as to how the SCI has not realised its own objectives. While its predominance in shipping was confined to its share of 52.5% of the country's total tonnage in March 1985, the operative tonnage being 158 vessels of 33.16 G.R.T., as against 159 vessels of 33.20 lakhs G.R.T expected at the end of the 6th Plan period. The share of Indian vessels was 40.85% as against 59.15% of foreign vessels, in the average total foreign trade turnover of 762.91 lakh metric tonnes during the five years ended 1983-84. The scope and the need to increase the share of indigenous shipyards and their repair facilities in SCI's programme of acquisition of ships and repair of its large fleet to sustain the growth and development of national shipping industry looms large on the appraisal. Obviously their solution depends on the initiative and action of the Corporation and the Ministry of Shipping. Instead of generating surpluses, it has been incurring losses since 1977-78 and could not repay its loan obligations amounting to Rs.131.76 crores, mainly due to decline in business turn-over, loss in 7 out of 11 segments of operation and high cost operation, average percentage of operating expenses to operating income being 80.72 during the past 6 years. Detailed cost study of the operation of the company by an independent agency, recommended by the COPU in 1982 should help reduction of cost. The average net foreign exchange earnings could be improved by eliminating avoidable instances of expenditure on acquisition and repairs abroad. Failure of the Management of the company in key operational areas and the Ministry of Shipping to make changes in policy to suit the changing scenario in international shipping industry so as to serve the long term interest of the National Shipping Industry and indigenous shipyards have costed the company perilously to the present rocky shores.

HINDUSTAN SHIPYARD LTD*

The appraisal* of the working of Hindustan Shipyard Limited (HSL) brought out that it has been incurring losses since 1980-81 onwards aggregating to Rs. 33.97 crores, which has wiped off 88.49% of its paid-

* Author's Article on 'Hindustan Shipyard in doldrums' in Commerce dated April 30 - May 6, 1988 and AR (Commercial) 1986 Part III signed by Shri K. Ranganadham and countersigned by Shri T.N. Chaturvedi on 24th February, 1987 and placed before Parliament on 6th May, 1987.

up capital of Rs. 38.38 crores. Overdue principal and interest on the loans advanced by the Government amounted to Rs. 10.34 crores. Its net worth decreased from Rs. 20.47 crores to Rs. 5.90 crores during past five years. The corporate objectives of the Company include building up a strong ship building industry with a view to contributing significantly to the growing requirements of national shipping in regard to various types of vessels, bulk carriers, tugs, oil rigs/platforms for off-shore/natural gas extraction, etc. Even after two decades of its functioning its production activities were mostly confined to construction of cargo vessels. Letters of indent for the supply of one drill were received from ONGC. Neither the future requirements of different classes of vessels for drawing up a detailed plan for meeting the needs of national shipping nor any corporate plan for implementing them have been formulated.

With a view to modernising the facilities and improving the capacity for ship construction and ship repairs, six projects were undertaken from 1967 onwards at an estimated cost of over Rs. 9,083 lakhs. Four Projects (Dry dock project, Wet Basin Project, Integrated Development Programme and Stage I-A Programme) were completed at a cost of Rs. 2,037.48 lakhs and two projects (Stage II Programme and Modernisation of Dry Dock and Ship Repair facilities) were under execution, and the expenditure incurred upto March 1985, was Rs. 4,368.76 lakhs. There was a delay of 40 months in completion of Dry Dock Project due to delay in erection and commissioning of a 40 tonne Level Luffing Crane. Although it was anticipated to be fully operative for vessels upto 640' length after the commissioning of the 40 tonne Level Luffing Crane and for vessels upto 750' length after completing the dredging work in front of the dock at a cost of Rs. 33.81 lakhs, so far vessels upto 640' length only could be berthed in the dry dock, as the Visakhapatnam Port Trust had not acquired the requisite number of tractor tugs to bring larger vessels upto 750' length in the dry dock area. The Wet Basin Project was completed after a delay of 28 months due to lack of sufficient ship repair business, the occupancy was around 88% of 300 days assumed in the Project Report upto 1982-83, which had affected the economic viability of the project. The Integrated Development Programme was completed after a delay of over 36 months due to delay in supply of cranes by the indigenous suppliers and the Company sustained a production loss of 0.15 pioneer class ship annually. Implementation of stage I-A Programme increased the production from 0.92 to 2.92 pioneer class ships during last six years. Stage II Programme, estimated to cost Rs. 6,600 lakhs commenced in November 1981 and scheduled to be completed in all respects in 1986-87, envisaged increase in production capacity from 4 to 6.5/7 ships during 1985-86 to 1989-90,

which would necessitate order level of 16 to 17 vessels at any point of time, as against orders for 10 vessels on hand. Its ultimate economic viability would depend upon the ability of the Company to secure sufficient orders in the coming years. Modernisation of Ship Repair facilities, taken up at an estimated cost of Rs. 445.70 lakhs, to be implemented in two phases in a period of four years, was under execution (December 1985). As the Company had not got enough ship repair business to fully utilise the available capacity even after offering a reduction of 40% over the 1982-83 rates, the question whether additional investment of Rs. 445.70 lakhs, would get adequate returns to make the scheme fully viable loomed large.

While the Company should have orders atleast for 10/11 pioneer class ships at any point of time to optimally utilise the production capacity of 3 vessels per annum, which would have to be enhanced to 16-17 vessels after the increase in the production capacity to 6.5/7 ships per annum progressively by 1989-90, the prospects were bleak as reflected in the order book position from time to time, which declined from 9.4 pioneer class vessels in 1974-75 to 2.70 vessels in 1981-82, but rose to 11.45 vessels in 1982-83 and 10.55 vessels in 1983-84, only to decline to 7 at the beginning of 1985-86, resulting in low capacity utilisation and low labour productivity. At the same time, the Shipping Corporation of India (SCI) acquired 51 ships from foreign ship builders during 1977-78 to 1984-85 and ordered 17 more ships from foreign ship builders between April to December 1983. SCI acquired only 2 ships from HSL during July 1981 to December 1984 and one more was in the process of supply by HSL. According to HSL it had the capacity to build 20 vessels during this period. The Indian Shipping companies purchased 35 vessels during 1981-82 to 1984-85 from foreign shipyards at a cost of Rs. 431.50 crores, although HSL had the capacity to build 22 vessels and could have also built 4 product tankers with limited transfer of technology. According to the SCI, the purchase of ships from abroad was resorted to, as HSL was not in a position to construct and supply the vessels within the required time limit. Apparently a long-term plan for acquisition of ships from Indian shipyards had not been laid down. Obviously, the recommendations of the COPU (20th Report - 5th Lok Sabha 1971-72) for a close liaison and understanding between various public sector shipping interests so that the ships required by Indian shipping companies could be built in indigenous shipyards was acted upon. The public was entitled to know what Government of India did, while ships which could have been built by the indigenous companies, were purchased from abroad. The guidelines issued by the Government in February 1977, imposing an obligation on the Indian Shipping companies purchasing ships from abroad, to place orders on the

indigenous shipyards for the tonnage equivalent to vessels purchased from abroad, known as the *Pari Passu* obligations, were not followed/discharged. The outstanding *pari passu* obligations in respect of SCI alone was 6.42 lakhs DWT and 21 private Indian Shipping companies with substantial unfulfilled *pari passu* obligations at the end of November 1985. The Ministry simply defended the non-implementation of the *Pari Passu* obligation on the ground that the international prices for ships were falling, which situation the country should exploit most by purchasing ships from abroad. Obviously, at the expense of public sector investment - both in terms of utilisation of capacity created at enormous cost and its economic viability.

The production was indicated as 3 vessels per annum from 1981-82, as against the proclaimed capacity to produce 4 ships per annum, after the introduction of full-fledged second shift in April 1976, despite the increased staff and overtime expenditure. The Company had not fixed capacities for each of the 3 main shops, viz. the Hull Shop, the Pre-fabrication Shop and the Erection Department. The determined capacity had been assessed at 13,800 tonnes per annum, taking into account the steel requirements of 4,600 tonnes each for 3 vessels. There were imbalances in capacities of various shops (12,000 tonnes in Pre-fabrication Shop, more than 20,000 tonnes in Erection Department and 30,000 tonnes in Hull Shop) resulting in mismatching of facilities, which was sought to be corrected during the Seventh Plan with an investment of Rs. 47 crores. The capacity for ship repairs had not been fixed either in physical or in financial terms to assess the extent of utilisation. 69 cargo vessels with a total tonnage of 8.92 lakhs DWT and 14 other vessels were constructed and delivered upto March 1985. But no ship was delivered during 1981-82 and 1982-83. The capacity utilisation in ship construction in terms of pioneer class vessels was more than 100% during 1974-75 to 1976-77 but came down steeply to 30.7% in 1981-82. It increased progressively to 48.3% in 1982-83, 67.3% in 1983-84 and 97.3% in 1984-85. The higher production achieved during 1982-83 to 1984-85 were after payment of overtime and production incentive aggregating Rs. 8.89 crores. The Company incurred loss of Rs. 13.33 crores during 1984-85, despite 97.3% capacity utilisation. The gradual decline in capacity utilisation was attributed to labour problems, lack of orders, low labour productivity, reduced efficiency of aged and out-moded machines/equipments, etc. Data on ship-wise utilisation for last five years showed that it varied from 19.9% to 84.8% in Hull Shop, 18.2% to 72.7% in Pre-fabrication Shop, and 27.4% to 78.1% in Erection Department. Fabrication work was off-loaded to outside parties at a cost of Rs. 139 lakhs, despite idle facilities in Pre-fabrication shop. As against the cycle time of 15 months (9 months for berthing/docking and 6

months for out fitting) for construction of 27,000 DWT bulkers, a period of 40 months (22 months for berthing/docking and 18 months for outfitting) was taken in respect of bulker vessel delivered in July 1984. In the case of 6 other bulkers under construction from October 1981 onwards, the delay in delivery upto December 1985, computed with reference to the contracted dates of delivery, ranged from 9 to 25 months. While the Company attributed delay to getting import clearance, receipt of material and low productivity, the Ministry stated that streamlining of procedures by a single window concept by constituting an empowered Committee was under consideration. Activity-wise comparison of targets and achievements in respect of the main land marks in ship construction showed that targets fixed was less than the installed capacity, which was not achieved during 1981-82 to 1984-85, due to low order position. Consequently, deliveries of ships were delayed. Out of three ships ordered by SCI in 1979, two were delivered with delays of 20 and 34 months and the third was yet to be delivered (December 1985), though it was due for delivery in May 1982. Liquidated damages for delayed deliveries were paid to the extent of Rs. 20 lakhs. Shop-wise targets in three main shops viz. Hull Shop, the Pre-fabrication Shop and the Erection Department, though lower than the installed capacity, were not achieved in most of the last five years. The Company explained away this due to uncontrollable and unavoidable factors.

There had been steep decline in ship repair business from 1977-78. The number of ships repaired came down from 146 in 1976-77 to 36 in 1984-85 and the income declined from Rs. 5.16 crores in 1982-83 to Rs. 2.43 crores in 1983-84. The reduction in ship repair business, according to the Company, was generally due to lack of sufficient patronage by Indian ship owners, world-wide recession in shipping industry, loss of work load from Navy from 1978 after commissioning of the Naval dry dock at Visakhapatnam, difficulty in obtaining ships for repairs, as Visakhapatnam was not the terminal port for any shipping company and reluctance on the part of ship owners to bring the ships in ballast all the way to Visakhapatnam. While disputes with SCI relating settlement of Bills was reported to be the cause of drop in business during 1984-85, non-availability of dry dock and wet basin, which were occupied by vessels under construction caused the loss of business during 1984-85. While the Company's ship repair facilities were lying idle, 591 ships were permitted for docking and repairs at foreign shipyards during 1980-81 to 1984-85, incurring an expenditure of more than Rs. 293 crores in foreign exchange. The Ministry has at last asked the Director General (Shipping) to draw up a quarterly programme of slots for utilisation of repair facilities in the indigenous shipyards and permit repair work abroad only

if they could not be taken up indigenously so as to improve utilisation of facilities.

Analysis of the various categories of the employees of the Company along with total expenditure on salaries, wages and welfare expenses and their utilisation for production during 1980-81 to 1984-85 given in the Report showed that per capita production (DWT) ranged from 3.05 to 8.21 during the period and the ratio of workers to officers and staff varied from 3.1 : 1 to 3.5 : 1 in the production departments, and 0.4 : 1 and 0.5 : 1 in non-production departments. The non-production employees as a percentage to total manpower increased from 22.8% in 1980-81 to 24.3% in 1984-85. Neither an integrated assessment of manpower nor fixation of yard-sticks/standards for deployment of various categories of manpower has been made. While the Management stated that the total strength of employees has been stabilised on 1st April, 1982 and no further induction of manpower has been made despite the increase in capacity utilisation, the Ministry felt that on completion of Stage II Development Programme, full utilisation of capacity with increased productivity would be achieved and the Management was making all efforts not to increase the staff strength. The cost of idle mandays during 1980-81 to 1984-85 worked out to Rs. 1.72 crores and the idle mandays as a percentage to total mandays available ranged from 2.5% (1984-85) to 9.6% (1981-82). Although the Company expected to bring down the overtime payments by April 1976, after the introduction of second shift, the overtime payments for the staff and workmen increased from Rs. 0.39 crore in 1977-78 to Rs. 4.30 crores in 1984-85. The overtime paid for staff and workmen for a DWT produced increased by about 7 times from Rs. 100 in 1977-78 to Rs. 686 in 1984-85. The overtime payment to staff as a percentage to salaries and wages increased from 6.4% in 1977-78 to 27.2% in 1984-85 and in respect of workmen the increase was from 6.9% in 1977-78 to 44.6% in 1984-85. The man hours utilised for processing a tonne of steel during 1980-81 to 1984-85 varied from 38.43 to 134.54 in Hull Shop, 69.80 to 223.33 in Pre-fabrication Shop and 69.5 to 227.52 in Erection Department in different years. The excess utilisation of mandays, according to Management, is a corollary/consequence of the fall in production/productivity. The mandays utilised for production of a DWT ranged from 18.48 to 37.60 as against the estimated 14 mandays required. Efforts to control labour utilisation and to improve the productivity are being taken. The percentage of machine utilisation varied from 76.7% to 83.9%. Utilisation of 11 of the 75 machines valuing more than Rs.1 lakh was declined for want of work load, mechanical troubles, electrical troubles, breakdowns, repairs, want of power and other reasons. The expenditure of Rs. 45.62 lakhs incurred on R & D

during last 9 years, was mostly of capital nature like collaboration agreement, tank and model tests of various vessels under construction and software design development (computer). There is no design organisation. The Ministry stated that the formation of a nucleus R & D cell has been programmed in the Seventh Plan and the production design for the ships would be prepared and made available to all the shipyards in the country. In the sphere of import substitution, only 36 items were indigenised upto March 85, while 16 items are in the pipe line. No detailed targets have been set annually for indigenisation of imported items.

The total overheads increased from Rs. 5.21 crores to Rs. 22.12 crores and the percentage of overheads to total value of production increased from 18.2% to 39.5% and then decreased to 34.8% and 29.3%. Its reliance on borrowed funds for meeting the working capital requirements has resulted in high rate of interest burden. The incidence of interest on borrowed funds increased from Rs. 0.54 crore to Rs. 4.47 crores. The total incidence of interest charges on revenue account aggregated Rs. 8.33 crores during the last five years, which is contributing to the losses of HSL. In ship repair activity, the overheads as a percentage to total cost incurred on completed jobs increased from 12.1% to 57%. Similarly in ship construction activity the overheads as a percentage to total cost incurred increased from 15.7% to 36.6% and then came down to 33.4% and 27.7%. The Company stated that efforts are being made to bring down the over-heads. The Japanese Consultants also had suggested measures to bring down the cycle time and also for allocation of over-heads. In respect of 12 pioneer class vessels constructed and delivered during six years ended 1981 the cost of construction per DWT increased from Rs. 3,640 and Rs.7,915. While the percentage of material cost to total cost ranged from 49% to 67.1%, the labour cost ranged from 9.3% to 16.1% and the overheads and other expenses from 23.6% to 36.3%. As standards for materials, labour and overheads even for similar class of ships have not been fixed, the Company is evidently not able to exercise any control over costs. In respect of 12 pioneer class constructed and delivered during 1975-1981, HSL received Government subsidy aggregating to Rs. 8.98 crores. The cost of construction ranged from 75.5% aggregating to Rs. 8.98 crores. The cost of construction ranged from 75.5% to 124.7% of the total price realised. In respect of 3 ships, a loss of Rs. 1.58 crores was incurred even after taking into account the Government subsidy of Rs. 2.20 crores. An analysis of ship repair income vis-a-vis costs during 1976-77 to 1984-85 revealed that the incidence of overheads have increased more than 4 times during 1976-77 to 1984-85 and as a percentage to total income they have increased from 10.3% in 1976-77 to 52.9% in 1984-85. During 1977-78, 1980-81 and

1983-84 there were losses in ship repair activity. The losses were attributed to high wages and rates forced on the Company in respect of Shipping Corporation of India's vessels, etc. The Company conceded that the technical evaluation of individual jobs was not done. The over heads are, according to the Company, more or less annual fixed costs subject to increase in the prices and the wage revision, etc. which could not be pegged or controlled. The scrap arising during 1974-75 to 1984-85 ranged from 9.9% (1984-85) to 16% (1979-80) as against the norm of 8% of the gross issues in respect of steel scrap arising indicated by the Production Consultants. The excess consumption worked out to 5558 tonnes valued at Rs. 1.88 crores. The total value of inventory increased from Rs. 1204.11 lakhs to Rs. 3604.92 lakhs during last five years. The inventory of stores, spares and loose tools was in excess of the norms fixed by Rs. 294.44 lakhs. The non-moving and surplus items of stores included 208 imported items valuing Rs. 2.15 lakhs.

According to the policy laid down by Government, the price payable for the ships constructed at indigenous shipyards is determined on the basis of international parity price (IPP) plus 10% of that towards partial cost of import substitution and 70% towards escalation in labour/material costs and other statutory levies. The IPP is determined by averaging the prices prevailing in the foreign shipyards. The prices fixed for the ships built indigenously have no relation to cost of construction. While the ship owners pay 10% of the IPP in excess for the ships built indigenously, Government gives a subsidy of 20% of the IPP. In some cases the IPP fixed did not even cover the material and labour costs. The high incidence of interest on working capital referred to earlier is also not covered by the prices. The prices fixed for the ships have been considered unremunerative by HSL, as in view of the world wide recession in the shipping industry, foreign shipyards have been offering ships at throwaway prices and the IPP so arrived at is very low. According to the Company, the price fixed for the ships should have relation to the costs, viz., the actual cost of materials and productivity based labour costs. The Management Information System (MIS) of the Company was found deficient as there was no system of holding co-ordination meetings at regular intervals with the officers of various departments to review the production performance with reference to the targets; no critical review reports in respect of vessels under construction and due for delivery have been submitted since March, 1975, and the vacancy position of the berths was not reported.

The Report, thus, brought out that the Company has not realised its main objective of building a strong ship building industry to meet the growing requirements of national shipping for diverse vessels, even after

modernisation of facilities and enhancement of capacity for ship construction and repairs. The prospects are bleak unless Government's policy and shipyard's competence facilitate optimum production of about 6.5/7 ships per annum at economic cost on a regular and continuous basis, which would necessitate order level of 16 to 17 vessels at any point of time, as against the prevailing orders for 10 vessels. While the Management has to improve its performance - both in manufacture of ships and repair of ships - by planning and realising optimum utilisation of capacity, manpower and material and reduce the high cost of its main activities, so as to attract business from indigenous shipping lines and also claim fair and equitable price for ships constructed and repaired in their yards, Government has to evolve a sound policy to meet the requirements of shipping industry by effective utilisation of the facilities created at the national Shipping Yards. The scope and need for close liaison and co-ordination between SCI and HSL at the level of the Ministry brook no further delay to render the massive investments on both to become economically viable and also to serve the larger interests of national shipping industry in the international arena of fluctuating fortunes and recession in industry.

AUDIT REPORT (COMMERCIAL) 1987

The Report of the CAG - Union Government (Commercial) for 1987 was issued in ten parts between March 1988 and February 1989 and presented to Parliament between March 1988 and March 1989. Part I of the Report analysed the totality of the financial performance of 225 Central Public sector enterprises whose accounts for 1985-86 were made available for audit. Accounts of 24 enterprises had not been received till the end of March 1987. The investments of the Central Government in the public sector enterprises, their profitability, capacity utilisation, production, contributions in the form of Central excise duty, sales, foreign exchange earned through exports, as well as subsidies received by them were commented upon in this part. A resume of the company auditors' reports and comments on accounts of Government companies was included in Part VII. Parts II, III, IV, V and VI of the Report contained comprehensive audit appraisals of individual public enterprises, viz., Indian Airlines, Bharat Pumps and Compressors Limited, Sudamdih Mine and Washery of Bharat Coking Coal Limited, Lubrizol India Limited and Cochin Refineries Limited. Some of important points brought out in the Reports were as below :

Indian Airlines : Indian Airlines earned a profit of Rs. 63.52 crores during the year 1985-86. The Airlines continued to face problems of (a) multiplicity of types of aircraft due to frequent changes in phasing out/

replacement plans, (b) non-achievement of optimal levels of aircraft utilisation, and (c) operation of uneconomic routes. The profits of Indian Airlines were contributed solely by the Air bus and more than one third of the services/routes operated by IA during 1981—86 did not cover even the direct operating cost. Despite earning substantial profits during the last 3 years ending 31st March, 1986, no dividend was declared by IA. Besides substantial surplus manpower in all the workshops, there were idle hours in several workshops. The cost of idle hours in all the workshops worked out to Rs. 2.06 crores during 1981-82 to 1985-86. As regards passenger and cargo booking, IA had depended more on agents' efforts to promote its sales than on its own booking offices. The commission paid to agents consequently increased from Rs. 7 crores in 1981-82 to Rs. 13.73 crores in 1985-86. There was no systematic assessment of available cargo capacity, resulting in considerable cargo capacity remaining unused. No exercise was carried out to explore avenues for utilising spare cargo capacity. There was excess inventory holding of aircraft spares. The value of non-moving and slow moving inventory was Rs. 13.45 crores and that of surplus inventory was Rs. 1.49 crores as on 31st March, 1986.

Sudamdih Mine and Washery of Bharat Coking Coal Limited : The initial project report prepared in 1962 envisaged a total capital outlay of Rs. 17.57 crores for an anticipated production of 2.16 million tonnes of coal. The report was revised five times during the period 1973 to 1982 at the end of which the estimated capital cost stood at Rs. 94.55 crores for a production of 1.65 million tonnes of coal. The development of the mines had also been lagging behind the expectations and the shortfall in the achievement of the targets set for the years 1979-80 to 1986-87 ranged between 19.34 per cent to 60.79 per cent. Further, an expenditure of Rs. 4.17 crores had been incurred on the purchase of six road headers to accelerate development of the mines. No records to indicate actual utilisation were, however, maintained. Production of coal projected to commence in 1966-67 and achieve full production of 2.16 million tonnes in 1971-72, actually started only in 1968-69 and ranged between 0.39 million tonnes to 0.49 million tonnes during 1979-80 to 1986-87. The actual cost of production per tonne of coal amounted to Rs. 569.25 in 1986-87 as against the projected cost of Rs. 192.82 per tonne. The mine is expected to achieve the present objective of 'break-even without cash loss' by 1991-92 when the production level is expected to touch 0.60 million tonnes. BCCL took over the management of the Sudamdih Washery from NCDC in April 1975. The actual input of raw coal into the washery during 1981-82 to 1985-86 ranged from 7.48 lakh tonnes to 11.14

lakh tonnes and the clean coal output therefrom was between 3.48 lakh tonnes and 5.56 lakh tonnes. The middlings obtained were of the order of 1.75 lakh tonnes to 3.50 lakh tonnes. These achievements were against the projected input of 16 lakh tonnes of raw coal, 12.00 lakh tonnes of clean coal and 2.40 lakh tonnes of middlings. In terms of input, the efficiency achieved was between 37.40 and 55.70 per cent against the expected level of 80 per cent.

Bharat Pumps and Compressors Limited : The Company has two divisions, namely, Pumps and Compressors Division and Gas Cylinders Division. An Audit appraisal of the company revealed, *inter alia*, that in Pumps and Compressors Division, against the rated capacity of the division for manufacture of 660 centrifugal Pumps, 60 reciprocating pumps and 60 reciprocating compressors, the actual utilisation ranged from 10 to 26 per cent in the case of centrifugal pumps and 13 to 38 per cent in the case of reciprocating compressors during 1978-79 to 1985-86. Actual labour hours utilised in the machine shop of the division during 1980-81 to 1985-86 were more than double the standard hours required for completion of jobs and the efficiency of labour varied from 33 per cent in 1980-81 to 52 per cent in 1985-86. In Gas Cylinder Division, against the estimated capital cost of Rs. 378 lakhs for completion of the project in 1972, the project was actually completed in 1976-77 at a cost of Rs. 752 lakhs. The company fixed an overall norm of 5 per cent for rejection of cylinders only in October 1984. The percentage of rejection, however, exceeded the norms in the case of industrial cylinders and the company suffered a loss of Rs. 63.97 lakhs on account of excess rejections during 1982-83 to 1985-86 alone. The revised profitability analysis for gas cylinders project envisaged the use of steel billets for manufacture of gas cylinders. In practice, the cylinders are mainly manufactured from seamless tubes thereby leading to under-utilisation of facilities already created (valued at Rs. 501.08 lakhs). The utilisation of these facilities during 1977-78 to 1985-86 ranged from 1.11 per cent to 21.16 per cent. As a result, fixed overhead expenditure of the order of Rs. 115.62 lakhs remained unabsorbed.

Lubrizol India Limited : The implementation of phase II of the project, consisting of construction of oxidation and corrosion inhibitor and detergent and dispersant plants suffered from both cost and time overruns. The delay in completion of the programme resulted in loss of consequential profit (Rs. 63.76 lakhs) and foreign exchange savings (Rs. 576.40 lakhs) as envisaged in the feasibility report. There was excess consumption of raw materials to the extent of Rs. 260.28 lakhs in 1985-86 alone, which worked out to 2.26 per cent of the cost of production of the

year. Pre-determination of overheads was introduced in 1982-83 and the unabsorbed overheads worked out to Rs. 144.79 lakhs.

Cochin Refineries Limited (CRL) : The rated capacity of the refinery (3.3 MTPA upto 1983-84 and 4.5 MTPA from 1984-85 onwards) could not be achieved. Though additional facilities at a cost of Rs. 69.61 lakhs were provided for production and processing of Bombay High (BH) crude, these were not utilised fully and imported crude was used instead, involving outgo of much needed foreign exchange. Besides, this entailed disposal of LSHS, with which neither the refinery nor its marketing counterpart was fully prepared to cope. While reviewing the performance of the Company in 1967-68 the Estimates Committee (Fourth Lok Sabha) had observed that the production of LPG was not included in the original product pattern of the refinery, despite the product being in great demand and being imported periodically. Although a TSA was available on a continuous basis, additional concurrent facilities were not devised to fully tap the yield potential of LPG from imported crudes, with the result that during the three years ending 31st March, 1984, 76562 MTs of LPG (Rs. 1907.72 lakhs) had to be flared.

AR 1986-87*

As on 31st March 1987, there were 235 Government companies, including 66 subsidiaries, 10 Statutory corporations and 5 Insurance companies. Out of these, 24 companies and 2 statutory corporations have not submitted their accounts even upto April 1988, and accounts of 2 companies were not due. The share capital, long term loans and profits earned in respect of the undertakings were as under :

(Rupees in crores)

	Share capital	Long term loans	Profit (Before Tax)
Companies	197\$ 25,971.57	29,615.24	605.35
Statutory corporations	8 1,473.08	5,706.42	2,371.15
Insurance companies	5 168.40		279.86

\$ excluding 12 companies under construction.

Out of 197 companies, 107 companies in which capital employed was Rs. 28,195.05 crores, earned profit of Rs. 2,129.44 crores during 1986-87, Rs. 1,232.38 crores by 29 companies in (a) Petroleum and Oil (11 companies; Rs. 594.66 crores), (b) Power (3 companies; Rs. 226.85 crores) and (c) Trading and Services (15 companies; Rs. 410.87 crores). 54 companies declared dividend amounting to Rs. 256.90 crores. Of this, Petroleum and Oil (9 companies) and Mahanagar Telephone Nigam Limited alone contributed Rs. 51.70 crores and Rs. 84 crores respectively. 90 companies in which capital employed was Rs. 13,213.74 crores incurred loss of Rs. 1,524.09 crores, 55 companies had accumulated losses exceeding their paid-up capital and the cumulative losses of Rs. 6,802.66 crores of these 55 companies worked out to 222.9 per cent of their paid-up capital of Rs. 3,052.44 crores. The return on capital invested in 209 companies amounted to 4.3% in 1986-87. The long term loans obtained by 209 companies (197 in operation and 12 in various stages of construction) stood at Rs. 30,144.37 crores at the end of March 1987 which represented an increase of 22% over the loans of 212 companies amounting to Rs. 24,676.80 crores outstanding at the end of March 1986. Government had given various financial reliefs to the undertakings. Loans amounting Rs.166.88 crores in respect of 5 companies were written off by the Government. Penal interest amounting Rs. 7.55 crores in respect of 2 companies was not charged. Rs. 21.01 crores was written off by way of reduction in capital and interest amounting Rs. 129.92 crores in respect of 9 companies was waived off. Moratorium for repayment of loans aggregating Rs. 1,307.57 crores for the period ranging from 1 to 9 years in respect of 42 companies was granted. 46 companies defaulted in repayment/payment of the instalment of Government loan and interest thereon amounting Rs.1,020.80 crores. The write off of loans, waiver of interest etc., had their own impact on the resources of the Central Government. During 1986-87, Government gave subsidy amounting Rs. 795.93 crores to 70 companies in the field of fertilizer production, export, coal mining and purposes like supply of controlled cloth and reimbursement of losses on import of sugar.

General Insurance Corporation and its 4 subsidiaries earned a profit of Rs. 279.86 crores (before tax) during 1986. However, profit from underwriting business was only Rs. 30.46 crores which represented 10.9% of its total profit. More than 89% of profit of Insurance industry came from interest, dividends, and rental income. While the 5 Insurance Companies together made profit of Rs. 64.67 crores in fire insurance and Rs. 50.60 crores in marine insurance during 1986, they suffered a loss of Rs. 84.81 crores under miscellaneous insurance portfolio

as a result of which overall profit in underwriting business was only Rs. 30.46 crores.

Out of 39 Companies falling under 619-B of the Act, the accounts of only 24 companies were made available for audit; the accounts of remaining 15 companies were in arrears for periods ranging from 1 to 10 years. Out of the 24 companies, 16 earned a total profit of Rs. 87 crores (before tax). One company *viz.* Industrial Credit and Investment Corporation of India alone accounted for a profit of Rs. 72.94 crores. 8 companies incurred a total loss of Rs. 11.35 crores. Of these, one company *viz.* Ashoka Paper Mills alone incurred loss of Rs. 8.45 crores. The cumulative losses of 4 companies amounting Rs. 92.15 crores exceeded their paid up capital of Rs. 6.86 crores as on 31st March, 1987.

Of the 8 statutory corporations, 7 (excluding Delhi Transport Corporation which has no equity capital) in which capital employed was Rs. 13,461.61 crores, earned profit of Rs. 2,534.91 crores, out of which profit of Rs. 2,294.30 crores was earned by ONGC alone, in which capital employed was Rs. 5,782.65 crores. The remaining 6 corporations in which capital employed was Rs. 7,678.96 crores, earned profit of Rs. 240.61 crores. Delhi Transport Corporation in which Central Government had an investment of Rs. 483.55 crores by way of long term loans incurred a loss of Rs. 163.76 crores; the cumulative losses of the corporation upto March 1987 amounting Rs. 863.50 crores exceeded Central Government investment. In case of Air India, profit declined from Rs. 66 crores in 1985-86 to Rs. 30.16 crores in 1986-87, Similarly, in the case of Indian Airlines, the profit declined to Rs. 38.73 crores in 1986-87 from Rs. 63.22 crores in 1985-86. In case of International Airports Authority of India, while the profit (before tax) increased from Rs. 40.49 crores in 1985-86 to Rs. 55.80 crores in 1986-87, the Authority had not paid to Government a sum of Rs. 40.13 crores which represents the balance of annual net profits payable to the Central Government after making provision for General Reserve permitted by Government to be retained by the Corporation. Out of profit of Rs. 1,448.46 crores (after tax) of ONGC during 1986-87, a sum of Rs. 480.59 crores was attributable due to change in accounting policy relating to exploratory and developmental wells. While the certified accounts of the Food Corporation of India showed a net profit of Rs. 81.10 crores, the corporation's working results showed a loss of Rs. 1.62 crores after making prior period adjustments. Some other indicators of financial performance of these corporations during 1986-87 declined to 21.9% as compared to 26.4% during 1985-86. The rate of return on capital employed also marginally declined to 25.4% during 1986-87 as compared to 27.9% in previous year.

EXAMINATION OF PSUs BY COPU

During the years from 1972-73 to 1988-89 the COPU had examined, in the course of their examination of the performance of public undertakings, 47 out of the 99 Audit Appraisals/Reviews submitted by the CAG and presented 48 Reports which incorporated in all 2131 recommendations. Analysis of the action taken reports on them indicated that 1124 of them were accepted by the Government, 545 were not pursued by the Committee after receipt of Government replies, replies furnished by Govt. in respect of 230 recommendations were not acceptable to the committee who reiterated their position and in 232 cases action was still awaited (March 1989).

CRITICISM OF THE SYSTEM

The CAG's audit of Government Companies and Corporations has been in vogue for over three decades by now and is a unique feature in the development of Public Sector Undertakings in India. The system has been subject to criticism by *ad hoc* Commissions and Committees constituted by Government of India.

JHA COMMISSION

The Economic Administration Reforms Commission chaired by Shri L.K. Jha had observed* on the overall appraisal of Public Sector Enterprises that every investment decision was taken with reference to certain objectives - a principal objective, perhaps of (profitable) production or of trading, and a number of subsidiary objectives, social, economic or other - and it was necessary to see in due course what relationship the actual achievements and costs bore to the projections made at the time of the investment decision. Such an appraisal could be entrusted to a specialised agency such as a Management Institute or a consultancy organisation or even a professional group within the Government, such as the Project Appraisal Division of the Planning Commission, but the Audit Department in India has, in fact, been undertaking such appraisals, and the Commission supported it. The most important factor to be recognised was that such an activity should go beyond audit in the usual sense, and must involve several other techniques and skills in addition to those of auditors and the orientation of such overall appraisals should be different from that of the normal audit function. According to him, the purpose of audit was essentially fault-finding, whereas an appraisal attempted to compare results with

* Report on Government and Public Enterprises Autonomy and Accountability submitted to the Prime Minister on 1st January, 1984.

objectives and came to a finding, favourable or unfavourable. An audit paragraph implied an adverse comment and the process of audit was essentially a search for points on which adverse comments could be formulated. If no such points were found, no audit comment appeared. If a development bank undertook an appraisal of a project financed by it and found that all the objectives had been realised at reasonable cost, its appraisal report would express satisfaction, whereas in such an instance, an auditor would either refrain from publishing any report or mention only those instances in which there was some shortfall or deficiency. Appraisal reports on public enterprises, even if carried out by the Audit Department, should be guided by the kind of approach and orientation that a development bank or a Management consultancy organisation would bring to the task. Also a proper appraisal or evaluation would require a multi-disciplinary team. Some technical experts or specialists or eminent persons with relevant experience were doubtless associated with the sittings of the Audit Board, but according to Mr. Jha, that was too late a stage for such association, as the Board could only consider a draft report, which had already been compiled by a body of auditors. It was necessary to constitute a multi-disciplinary appraisal team right from the start, which should consist of technologists, engineers, economists, project evaluators, financial analysts and accountants and the leader of the team should be an experienced project evaluator and not an auditor. In view of the considerable amount of work involved on the part of both the Audit Department and the Managements of Public Enterprises and considering the need to allow a reasonable period of time for a study of the appraisal report and the taking of appropriate remedial action in the light of such study, he suggested that an appraisal of each enterprise should be taken up once in three years. In the case of very large organisations, where even a comprehensive appraisal report once in three years would be an enormous task, particular units or aspects or operations for appraisal reports could be taken up, but intervals between reports should be such as to allow a reasonable period for study and action. He also suggested that the appraisal report should be completed within a reasonable period of time and should be susceptible of fairly quick study, as a prolonged lapse of time in the completion of the appraisal report or in its examination by those concerned would result in the report becoming out of date and have to be updated from time to time and such updating exercises could add to the delays and become a never-ending process.

Such overall appraisals of the performance of public enterprises should extend not merely to what the Management had done or not done but also to decisions, directives, guidelines, etc., provided by the Government, which might have a bearing on production, profitability and

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the general performance of the enterprise including delays in governmental clearances, directives in regard to pricing, which was not part of any statutory price control, the incidence of taxation and other similar factors, which hampered the fulfilment of the basic objectives of the enterprise.

Although the Commission supported the system of appraisal by the Audit Board, some of its observations or presumption tended to degrade the Audit Boards' competence or performance in conducting appraisals of Public Sector Undertakings. Even a cursory glance of the appraisals during the last decade would convince anyone that they were neither fault finding reports of auditors nor mere catalogue of adverse comments of auditors. Their entire make-up and contents were totally different from normal Audit Reports on commercial enterprises. Wherever the performance, total or in parts, or realisation of objectives, macro or micro, or long term or short term - merited appreciation, they were recorded unreservedly. An increasing trend of techno-economic contents - both qualitatively and quantitatively - declining presence of comments on transaction audit, and deliberate display of financial, accounting, and audit comments in a section or chapter of the Report - the minimum required to add meaning and effect to the techno-economic and operational analysis of the undertaking appraised, were the distinguishing characteristics in these Reports, which no discerning observer can fail to observe. The Audit Board has always been a multidisciplinary body and the part time technical members nominated by Government were the best available or willing to render such service to the PSUs. They had neither any stake in the enterprise appraised nor were hired on any attractive remuneration, since only travelling expenses and small sitting fees were given to them for attending the meetings. No better voluntary substitutes could have been found or hired even on payment of handsome fees, from private sector consulting firms. The Audit Board meetings did not have either festivity or publicity normally associated with Company Board meetings. What they rendered was self effacing and selfless service to the PSUs. Skill and knowledge freely given did not diminish their worth or value. It is equally unfair to those Chairmen and members who functioned in the Audit Boards to allege that they were heavily loaded with auditors and part time members only considered the draft reports. No self respecting management expert or technologist or economist - even if retired from active service, will agree to be a dummy for no obvious reasons. As explained earlier, bulk of the auditors, who formed the Board, for nearly one and a half decades, were experts in their own field in Public Sector at one stage of their official career - more than a hundred members of IAAS served in Public Sector Undertakings at the most crucial phase of their growth, development and operation - and the Board was free to

carry out its investigations, studies and form their own opinions on various aspects of the appraisals. In fact, the appraisals reports contain most of the objectives envisaged for a model appraisal summed up by Shri L.K. Jha. He had recognised the time limit of three years for a large enterprise as an enormous job but still wished the study to be completed during a reasonable period. If an Audit Board backed up with all the statutory and technical and administrative resources of CAG cannot achieve it in three years, it is doubtful, whether any external consultant or firm or agency can produce it in lesser time to the satisfaction of the Executive and the Legislative Wings of Government, without violating the code of management of Government enterprises in a democratic set up.

SENGUPTA COMMITTEE

The Government of India constituted in September 1984 a Committee* to review the policy for public enterprises - to analyse the performance of public enterprises, to identify constraints and suggest measures to improve their functioning and to provide a base for policy formulation

* The composition of the Committee was - Dr. Arjun Sengupta, Special Secretary to the Prime Minister, Chairman, Shri R. Ganapati, Secretary, Dept. of Expenditure, Member, Shri D.V. Kapur, Secretary, Dept. of Heavy Industry, Member, Dr. Bimal Jalan, Special Secretary and Chief Economic Adviser, Ministry of Finance, Member, Shri S.D. Srivastava, Special Secretary and Director General, Bureau of Public Enterprises, Member, Dr. Y.K. Alagh, Chairman, Bureau of Industrial Costs and Prices, Member, Shri Nitin Desai, Adviser (PAD) Planning commission, Member, Shri S.V.S. Raghavan, Chairman, Minerals and Metals Trading Corporation, Member, and Shri B. Swaminathan, Adviser (Finance), Bureau of Public enterprises - Member Secretary.

The terms of reference of the Committee were as under -

- (i) to review the role of public enterprises in the context of the economic structure and overall planning;
- (ii) to analyse the performance of the public enterprises in different sectors of the economy so as to identify the critical problems and constraints on their operation;
- (iii) to select a set of performance evaluation criteria for different groups and sectors of public enterprises;
- (iv) to review the present system and institutions of governmental controls and monitoring for public enterprises, accountability of the management to the Government of India and Parliament;
- (v) to examine alternative organisation structures and suggest appropriate changes so as to impart greater autonomy and responsibility to the management of public enterprises; and
- (vi) to suggest an appropriate policy framework and simplified procedures for investment decisions, technological upgradation, incentives and productivity increase, cost and pricing, labour relations, wage structure including wage negotiations, employment and personnel policy, closure of non-viable units etc. - with the objective of improving the performance of public sector units.

for public enterprises in the medium and long-term under the Chairmanship of Dr. Arjun Sengupta. The Sengupta committee submitted its report to the Prime Minister in December 1984. While recommending the measures for enhancing the degree of autonomy to be given to public enterprises, the Sengupta Committee felt the need to make public enterprises more accountable for their performance and suggested that the present processes of accountability, which operated through the evaluation of performances in the Government, Audit and parliamentary scrutiny should be modified and strengthened by more specific performance evaluation. The Committee observed that the performance audit of the CAG should be continued, as they served a very useful purpose and generally earned the respect and admiration of the Legislature and the discerning public. However, in regard to supplementary audit on the annual accounts of the public enterprises by the CAG, a large number of chief executives had suggested to them to dispense with the audit, as certificate of a firm of Chartered Accountants regarding "a true and fair" view of a Company, which was in accordance with the statutes of the country should be acceptable in the case of public enterprises also, and the additional certificate given by the Auditor General was superfluous. The committee felt that by framing common accounting policies and standards for the public enterprises the supplementary audit by the CAG might be dispensed with in respect of profitable non-core companies by suitably amending the Companies Act. Continuance of supplementary audit in the enterprises in the core sector was suggested but while recommending it, the Committee could not resist focussing attention on major lapses. As in the case of Statutory Corporations like Air-India, Indian Airlines, etc. where regular audit was done by the CAG - and not by the Chartered Accountants - and on the same analogy the Committee felt that "Two Audits" can be avoided by dispensing with the regular audit by chartered Accountants and providing for CAG's audit only.

The Committee's recommendation for dispensing with the Supplementary Audit of the CAG in profitable non-core enterprises is a brazen attempt to put the clock back by reversing the developments achieved during the last three decades. The Committee's recommendation to substitute regular audit of the Chartered Accountants in the core sector enterprises by audit of CAG - even if intended to be a quid pro quo for the changes in statute hinted by them - is yet another panacea for no known malady afflicting the Chartered Accountants in the companies concerned. Apart from apparent inconsistency in its recommendations, the Committee seems to be more concerned with elimination of existing tiers of audit in profitable enterprises, without

caring to look into the merits of the distinct roles played by them or their achievements in the demarcated areas, to meet the demands of some chief executives. The present three tier audit system in vogue in the PSEs *i.e.* internal audit, statutory audit and Government audit, has been evolved over a time since 1956 and each agency had distinct, positive, and useful role to play in the successful functioning of the enterprises to the satisfaction of the management, shareholders and the people at large, who have financed the massive investment in the public sector. The criteria of profitable non-core enterprises or large core sectors can hardly be the basis for inclusion or elimination of one type of audit by another. Nor can the managers decide their auditors in any enterprise - private or public, even by amending the statute! In fact, the Report of the CAG brings out as to how even after audit by the statutory auditors, pure and simple accounting mistakes can be detected in a sizeable number of PSEs, both profit making and large core sector enterprises exposing over statement or under statement of profit/loss, which necessitated revision of certified accounts. Neither sanctity nor utility of certificates is questioned. Bulk of the statutory auditors' comments on a large number of companies - large and small - are traceable to inefficient, weak and ineffective internal audit prevailing in the enterprises concerned. The results of audit of both statutory auditors and the CAG are available to the shareholders, the parliament, and the people at large to judge the health, efficiency and soundness of the system prevailing in the PSEs during the last three decades. As already explained, the Administrative Reforms Commission had gone into the system of audit in PSEs in greater depth and recommended in 1968 the continuance of supplementary audit by CAG under the Act and the functioning of the system since then, as reflected in the Reports of CAG submitted to Parliament year after year, bear ample testimony to the efficiency, effectiveness and utility of the prevailing system, which is unique in PSUs in developing countries all over the world. Had COPU examined the annual reports presented by the CAG to the Parliament, necessary backing of the system in operation would have been given by Parliament, which had repeatedly demanded for CAG's audit of PSUs right from 1950s.

PERSPECTIVE

Coverage and result of the appraisals conducted by the Audit Board have not measured up to the objectives set at the time of its formation. Completion of one cycle of appraisals of the undertakings remaining to be done would call for increased efforts on the part of the Department. It has been proved beyond doubt that the existing organisation, structure,

composition and disposition of offices and the Audit Board set-up will not be able to turn out increased number of appraisals. The backlog of appraisals in the pipeline as also the new ones to be undertaken call for new and bold approach, strategy and programme, if the mandate given to the CAG is to be fulfilled in toto in the foreseeable future. Not only the augmentation of the commercially qualified personnel at all levels - SOs/AAOs/AOs and IAAS is called for but also a thorough overhauling of the system and procedure for conducting appraisals and finalising Reports by the Audit Board will have to be carried out, if a proper plan and programme for turning out appraisals as warranted by the present position is to be realised. A common Chairman and a single Board, though sitting in benches, has not proved effective and efficient in turning out the requisite number of appraisals during a year and the mechanism has to be modified so as to have as many Boards with separate Chairmen, as are needed for the programmed turnover of appraisals per annum. Simultaneously, Parliament has also to devise suitable system for examination of the Reports presented by the CAG during a year, so as to ensure that the accountability enshrined in the system is complete and total. A single COPU with emphasis on *suo motu* studies of its own of public sector undertakings has not been able to examine and report on all the Audit Reports of CAG presented to Parliament and to that extent only partially fulfilled its own mandate. The reasoning based on which the Committee decided not to confine its examination to Audit Reports only has completely changed since such a procedure has not enabled even the COPU to cover all the public sector undertakings so far and the appraisals programmed by the Audit Board are no longer mere audit reports, as has already been explained earlier. There is need for either more number of COPUs or entrusting the examination of the Audit Reports (Commercial) to separate Committees under the new system devised by the 8th Lok Sabha at its fag end. Suggestions made in the past for more Committees have not found favour either with the Speaker or the Government and the Committee has proved by its performance what it can handle by way of *suo motu* examination and examination of Audit Reports. This has to be recognised and accepted and remedial measures taken to improve the area of examination either by more number of COPUs or by formation of new Committees, like Subjects Committees. A suitable mechanism to follow-up the Audit Reports not examined by the COPU has to be evolved in the Lok Sabha Secretariat and CAG's organisation, so as to prevent such Reports gathering dust at the receiving ends. The cost of an appraisal, if executed reasonably promptly works out to Rs. 3 lakhs and at present the public sector undertakings are not required to pay for the

appraisals on them prepared by the IAAD. The public sector undertakings are remunerating 1506 chartered accountants of the order of Rs 2.7 crores per annum. No remuneration either for supplementary audit or for appraisal is paid to the IAAD. If expenditure of these audits and appraisals are reimbursed by the public sector undertakings, whatever extra expenditure is required to meet the proposed changes will not be a burden on the exchequer of the Government of India.

LIST OF ABBREVIATIONS

1. BEML	— Bharat Earth Movers Limited
2. BH	— Bombay High
3. BPE	— Bureau of Public Enterprises
4. DWT	— Dead Weight
5. GDR	— German Democratic Republic
6. GRT	— Gross Revenue Tonnage
7. HSL	— Hindustan Shipyard Limited
8. ISEC	— International Standard Electric Company of America
9. ITI	— Indian Telephone Industries Limited
10. KGF	— Kolar Gold Fields
11. LPG	— Liquefied Petroleum Gas
12. LSHS	— Low Sulphur Heavy Stock
13. MIS	— Management Information System
14. MT	— Metric Tonne
15. MTPA	— Metric Ton Per Annum
16. OBS	— Ore Bulk Oil
17. PSE	— Public Sector Enterprise
18. R&D	— Research and Development
19. Rev	— Review
20. SCI	— Shipping Corporation of India Limited

SOURCES AND REFERENCES

1. Audit Reports (Commercial) 1970 to 1989
2. Reports of COPU presented during 1972-73 to 1988-89
3. Report on Government and Public Enterprises Autonomy and Accountability (Jha Commission)
4. Report of the Committee to review the Policy for Public Enterprises (Sen Gupta Committee)
5. Classified Lists of IAAS Officers

15 Railway Audit

THE INDIAN RAILWAYS

The first railway line in India covering 21 miles (33.82 kms.) between Boribunder (Bombay) and Thana was opened for traffic on 16th April, 1853, which was extended to Kalyan within a year. The experimental line between Howrah and Pandooah, covering a distance of about 37 miles (59.58 kms.) was opened to traffic in September 1854. A line between Vyasarpadi to Wallajah Road in Madras was opened to traffic in July 1856 and Allahabad to Kanpur line was opened to traffic on 3rd March, 1859. These marked the dawn of the railway age in India and the next 50 years witnessed the construction of a whole network of railway system spread over the length and breadth of the country. By the end of the century, the Railways had a track-length of 16,346 miles (26,322 kms.), 9738 miles (15,681 kms.) of broad gauge and 6608 miles (10,641 kms.) of metre-gauge and narrow-gauge, managed by the Companies, guaranteed Companies owned by native States but worked by State Railway Agency. Initially, the supervision of construction and working was secured through the appointment of a Consulting Engineer for Railways in the Public Works Department at Calcutta, which was extended to the States later. Act XVIII of 1854 passed within a year of the opening of the first railway line applicable to the Railways in British Territory and to those "under Government control only" gave legal effect to the rules and regulations such as were then in force on English Railways. Act IX of 1890 provided for the settlement of disputes and claims between companies or between them and the public and for traffic facilities. The Indian Railway Board Act, 1905, vested the functions and powers of the Central Government on the Railway Board consisting of a President and two members, who were vested with the general control and the management of the Railways. The Board was reorganised in 1919, when a Financial Adviser was inducted to provide the links between the President and the Board and the Financial Member of the Governor General's Council. Appointment of a Chief Commissioner for Railways in November 1922, who was solely responsible to the Government of India for arriving at decisions on technical railway questions and for advising Government on matters of railway policy, virtually saw the end of the Board system of control. The Chief Commissioner was the President of the Board and also Secretary to the Government of India and divided the functions between the Financial Commissioner and other members, technical and general, who were assisted by four Directors for Civil Engineering, Mechanical Engineering, Traffic and Establishment. Based

on the recommendations of Acworth Committee, Railway Finances were separated from the General Finances of the Government of India, which brought about complete separation of the Railway Budget from the General Budget of the country and released the Railway management from the control of the Finance Department of the Government of India.

The Convention separated the railway finances from the general finances of the country and the general revenues received a definite annual contribution from Railways, which was a first charge on the net receipts of the railways. The railway contribution was based on the capital-at charge and the working results of commercial lines (excluding capital contributed by Indian States and district boards, etc.) at the end of the penultimate financial year plus one-fifth of any surplus profits remaining after payment of this fixed return, subject to the condition that, if in any year railway revenues were insufficient to provide one per cent on the capital-at-charge, surplus profits in the next or subsequent years were not deemed to have accrued for purposes of division until such deficiency had been made good. The interest on the capital-at-charge and the loss on working of strategic lines were borne by General Revenues and were consequently deducted from the contribution so calculated in order to arrive at the net amount payable from Railway to General Revenues each year. Any surplus, remaining after this payment to General Revenues, was transferred to a railway reserve, provided that, if the amount available for transfer to the Railway Reserve exceeded in any year Rs. 30 crores, only two thirds of the excess over Rs. 30 crores was transferred to Railway Reserve and the remaining one third accrued to General Revenues. The Railway Reserve Fund could be used to secure the payment of the annual contribution to General Revenues, to provide, if necessary, for arrears of depreciation and for writing down and writing off capital and to strengthen the financial position of Railways in order that the services rendered to the public could be improved and rates reduced. The Railway Board was authorised, subject to such conditions as were prescribed by the Government of India, to borrow temporarily from capital or from the reserve for the purpose of meeting expenditure for which there was no provision or insufficient provision in the revenue budget, subject to the obligation to make repayment of such borrowings out of the revenue budgets of subsequent years. A Standing Finance Committee for Railways, consisting of one nominated official member of the Legislative Assembly, who was the chairman and eleven members elected by the Legislative Assembly from their body, was to examine the estimates of railway expenditure, which the Railway Board had to place before it, on some date prior to the date for the discussion of the demands for grants for Railways in the

Legislative Assembly. The expenditure chargeable till 31 March, 1923 to Programme Revenue was shown from 1 April, 1924 under a Depreciation Fund created to meet the cost of replacements and renewals. The Railway Budget was presented to the Legislative Assembly in advance of the General Budget, separate days being allotted for its discussion, the Minister for Railways and Transport making a general statement of railway accounts and working. The expenditure proposed in the Railway Budget, including expenditure from the Depreciation Fund and the Railway Reserve, was to be placed before the Legislative Assembly in the form of Demands for Grants. The form of the Railway Budget, its details and the number of demands into which the total vote was divided were to be considered by the Railway Board in consultation with the Standing Finance Committee for Railways.

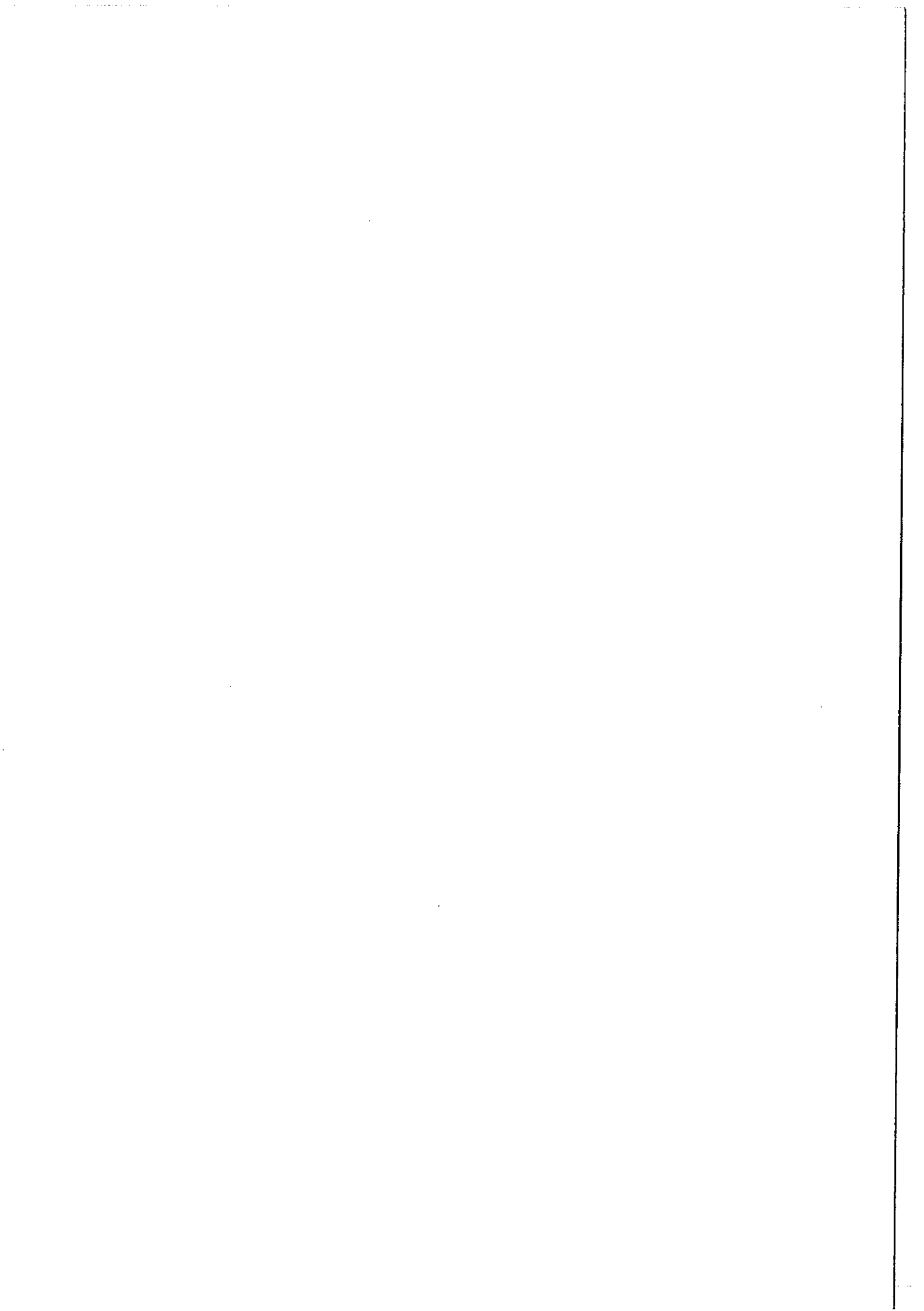
This was followed by separation of audit and accounts in the Railways, which provided for internal accounting and checks and external audit by the Auditor General with a view to ensure speedy compilation of accounts and returns and also to help the Executive and the Administration in the day to day management of the Railways. It defined the extent of contributions to be made from the Railway Revenues to the General Revenues after providing for their working expenses, depreciation, interest charges, as a first charge on surplus profits to the extent of a sum equivalent to five sixths of 1 per cent of their capital together with a substantial share of any residual profits.

INTEGRATION AND ZONALISATION

At the time of independence, the Indian Railways had a track length of 40,518 miles (65,246 kms.), of which 6539 miles (10530 kms.) went over to the new State of Pakistan. The system consisted of state-owned and company managed railways, state-owned and state managed railways, railways owned by the former princely states and private railways. There were 42 railways, 9 nationalised and 33 state railways, which were classified under class I, II and III railways, depending upon their annual earnings. Thirteen were class I railways with a route mileage of 30,000 and annual earnings of Rs. 50 lakhs, and above, 10 class II railways with a route mileage of 2600 and annual income between Rs. 15 lakhs and 50 lakhs, and 19 class III railways with a route mileage of 1500 with annual revenue of less than Rs. 15 lakhs. In addition, there were ten private railways, which were mainly running services on narrow gauges. The Railways were managed by the Railway Board consisting of a Chief Commissioner, a Financial Commissioner and three members in charge of engineering, staff and transportation, who were assisted by six directors, holding charge of Civil Engineering, Establishment, Finance,

Accounts, Engineering and Traffic. In addition, there was the Secretary and the Deputy Secretary, 8 Joint Directors, 9 Deputy Directors and 5 Assistant Directors. Integration and administration of the various Railways and their efficient operation was the major problem faced after independence. Government decided on consolidation of the large number of smaller units into small number of viable and efficient systems, since it was felt that such reorganisation would bring about reduction in the overloads, lead to elimination of duplication of work, unnecessary correspondence and inter-railway adjustments between numerous units and facilitate more expeditious transaction of business. With the formation of larger units, the large number of inter-change junctions, the transshipment points and the extent of dual control was expected to get substantially reduced. Increased scope for intensive and balanced utilisation of power and equipment was expected to flow out of pooling of locomotives and rolling stock in the larger jurisdiction of new system. These, along with other advantages, were to contribute towards considerable improvement in operating arrangement and to result in economy and efficiency. A plan was prepared for regrouping and integrating various railway units during the Ministership of Shri N. Gopaldaswamy Iyengar. The principles adopted for zonalisation of the railways were to have units with route mileage of 5000 to 6000 serving a population of about 5 crores and earning an amount of Rs. 50 crores during one year and least dislocation to the employees of the Railways. Six zonal railways were formed in 1951-52 namely - the Southern Railway consisting of the erstwhile Madras Southern Maharatta, South Indian and Mysore State Railways, Western Railway consisting of major portions of BB & CI, Saurashtra, Rajasthan and Jaipur and parts of Jodhpur State Railways, Central Railway consisting of GIP, Scindia and Dholpur and Nizam State Railways, Northern Railway comprising Eastern Punjab, Jodhpur State, Bikaner State, upper division of East Indian and small parts of BB & CI Railways, Eastern Railway consisting of major parts of East Indian and B.N. Railways, and North Eastern Railway consisting of Oudh Tirhut, Assam and small parts of BB & CI Railways. All the private railways, except one, were closed. South Eastern Railway was formed later in August 1955, out of the Eastern Railway covering portions of erstwhile B.N. Railway. North-East Frontier Railway was formed in January 1958, consisting of Pandu region of North-Eastern Railway. South Central Railway consisting of 2 divisions of Southern and Central Railways with some marginal adjustments was added in October 1966. The overall growth, development and achievements of Railways for selective years are exhibited in figure 15.1.

Please see the attached Chart



ORGANISATION AND MANAGEMENT

There was no major change in the composition of the Railway Board except that the Presiding Officer, previously designated as President and later as Chief Commissioner was designated Chairman of the Railway Board. The Railway Board had in its establishment other officers to perform diverse functions. A Deputy Chief Controller was in charge of Central Standards Office. An Economic Adviser was inducted to the Railway Board to guide investigations of fiscal and other trends which had a bearing on the demands for railway transportation. In 1960, five additional members to assist the Railway Board in the Commercial, Finance, Mechanical, Staff and Works Departments were appointed, which increased to seven by addition of Health and Electrical Engineering, and later vigilance. The posts of additional members were abolished in 1977 and partially resurrected and redesignated as Advisers, Finance, Industrial Relations and Electrical Engineering. Two Directors General, one in charge of Security and the other for supervising the health services were added. Based on the recommendations of the Administrative Reforms Commission, to let the largest public sector utility to function on sound business principles within the framework of the policy laid down by Parliament, an Efficiency Bureau was set up to conduct specific studies and reviews concerning operation, traction, economics, trends of staff strength, evolution of norms of certain categories of staff, etc. In 1985, the Ministry of Railways was merged with the Ministry of Transport, which dealt with all modes of transport viz. the Railways, Surface Transport and Civil Aviation under the Minister of State, who reported to the Cabinet Minister of Transport, which was abolished in 1986. The Ministry of Railways became the Department of Railways and the Chairman of the Railway Board held the additional charge as Coordinating Secretary in the Ministry of Transport and was relieved of functional responsibility in the Board. The Board's decisions on important matters were taken by a Committee of five or six members. The financial powers of the Board were exercised by the Financial Commissioner subject to the general control of the Minister for Transport and the Minister of Finance. The Board performed dual functions - as the highest executive for the technical supervision and direction of railways and as a Department of the Central Government. As a Department, the Board exercised full powers of the Government of India including control of the Railway budget and finances. The Railway Board was responsible not only for the control and coordination of maintenance and operation of the railways but also for planning, development of the system and future construction. The Board

worked in close coordination with the Planning Commission and other economic Ministries including the Ministry of Defence. The organisational chart of the Railway Board is given in Figure 15.2.

Separation convention of 1924 was revised in 1949 and the general exchequer was to receive for a period of 5 years an annual dividend at the rate of 4 per cent of the capital invested out of the General Revenues. A Development Fund was then created for financing expenditure on passenger amenities and labour welfare and also unremunerative lines. The convention was further revised and modified in 1955 to provide for a lower rate of dividend on over capitalised portion and on outlays on construction of new lines. The rate of dividend was increased in 1965 to 5.5 per cent of capital invested upto 31st March, 1964 and 6 per cent of capital invested thereafter. The convention of 1971 gave certain relief to the Railways.

ZONAL ADMINISTRATION

Each zone is headed by a General Manager, who is responsible to the Railway Board for the operation, maintenance and financial viability of the zones and has been delegated with wide powers in matters relating to engineering works, purchase of stores, establishment, public claims for compensation and refunds. Each General Manager was helped by a Senior Deputy in the discharge of his enlarged responsibility. After reorganisation in 1979, certain additional senior level posts were created at the headquarters of each zonal railway and under the Divisional Railway Managers. A General Manager in charge of a territory is now assisted by two Additional General Managers and several functional heads of Department at the headquarters and in the offices of the Divisional Railway Managers. The principal heads of departments are the Financial Adviser and the Chief Accounts Officer, Chief Operating Superintendent, Chief Commercial Superintendent, Chief Engineer (Civil) and Chief Mechanical Engineer. Other heads of departments are designated as Chief Personnel Officer, Chief Signal and Telecommunications Engineer, Chief Electrical Engineer, Chief Mechanical Officer, Controller of Stores and Chief Security Officer.

The zonal railway operates on the departmental system evolved over half a century, under which, there are a number of divisions, each headed by a Divisional Railway Manager. A Divisional Railway Manager has under him a Senior Divisional Officer in charge of each department corresponding to the organisation at zonal headquarter. He has with him under the same roof all functional heads for the divisional administration. In short, a Divisional Railway Manager functioned on

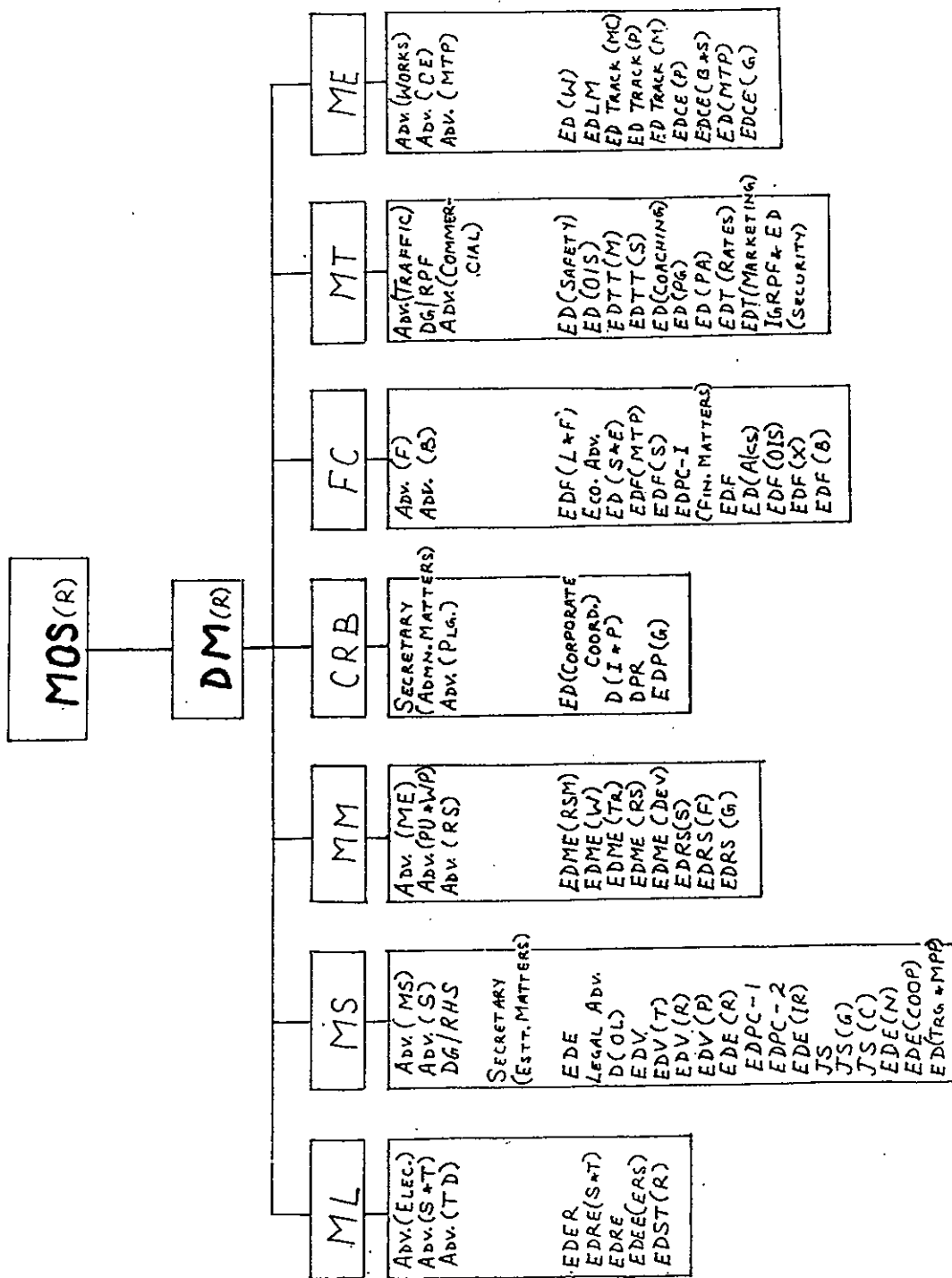


Fig. 15.2: Organisational Chart of the Railway Board

the same lines, as the General Manager, on a smaller plane both working for common objectives. Divisional system brought in a conceptual change in the machinery of management. Apart from territorial zones, there are four production and some construction units each under a General Manager. The production units are the Chittaranjan Locomotive Works, Diesel Locomotive Works, Integral Coach Factory and Wheel and Axle Plant. The Metropolitan Transport Project, Calcutta, is the major construction unit engaged in completing the underground railway in the city and there are similar organisations in Southern and North East Frontier Railways. The Wheel and Axle Plant at Bangalore was set-up in 1984. A Central Organisation for modernisation of workshops was set up in 1979. The Central Standards Office set-up in 1930 under the Railway Board to standardise designs and specifications for all classes of materials, equipment and rolling stock used by the Railways and Railway Design and Research Centre set-up in 1952 were merged with the Designs and Standards Organisation in 1957, which has become a unique organisation among the Railway Research institutions in the world with all the disciplines under one umbrella undertaking a multitude of functions in the field of research, design, standards, specifications, inspection, service engineering, consultancy and test and trials for the benefit of the zonal railways and the production units. The functions of the Indian Railway Conference Association set-up as far back as 1879 have been assumed gradually by the Railway Board and the various technical committees performed the diverse functions. At present, besides nine Indian Government Railways, three Port Trust Railways at Calcutta, Bombay and Madras and two light railways are members of the Association.

PLANS AND PERFORMANCE

Apart from integration and regrouping of railways, the planning and execution on a long-term basis of projects, programmes and works was another facet of the growth and development of the Railways since independence. The Railway Plans were part of the National Plans and a Planning Cell in each Zonal Railway under the Chief Planning Officers initiated the plans and a Director, Railway Planning in the Railway Board coordinated them. The Railway Board kept liaison with the Transport and Communication Division of the Planning Commission since the Railways constituted part of the transport and communication sector of the Economy. During the First Plan (April 1951 to March 1956), priority was given to rehabilitation and replacement of dilapidated assets and provision for some staff and passenger amenities and the total

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outlay was Rs. 424 crores. A few major projects - Chittaranjan Locomotive Works, Integral Coach Factory and Railway Electrification in and around Calcutta and remodelling of major yards like Ratlam, Vijayawada, etc. and construction of additional new lines, line capacity works, quarters, etc., came up during the First Plan period. The primary objective of the Second Plan (April 1956 to March 1961) was to develop capacity to meet the coalmining and industrial requirements and the outlay was Rs. 1,044 crores. Diesel Loco Works, R.D.S.O., addition of Furnishing division to I.C.F., modernisation of Mughalsarai yard and construction of new lines like Dandakaranya-Bolangir Kiruburu line for movement of iron-ore from Kirandul to Vizag Port, line capacity works and quarters came up during the Second Plan. The Third Plan (April 1961 to March 1966) aimed to attain self-sufficiency and to increase capacity ahead of demand and modernisation and Rs. 1686 crores were spent.

During the Fourth Plan (April 1969 to 1974) priority was accorded to improving operational efficiency, more intensive utilisation of assets and further modernisation of the system. Rupees 1428 crores were spent mostly on new lines and additions of line capacity works. The Fifth Plan (April 1974 to March 1979) was oriented to attain self-sufficiency and setting up of Rapid Transit Systems in Metropolitan cities and Rs. 2202 crores were spent upto 1978, when a new concept of Rolling plan was introduced by the Government. The National Transport Policy Committee headed by Shri B.D. Pandey and the Tariff Enquiry Committee headed by Dr. H.K. Paranjape extensively enquired into the working of the railways in 1978 and concluded that unless the railway assets were rehabilitated, there was a danger of the system collapsing. The Sixth Plan (April 1980 to March 1985) aimed at rehabilitation of the assets and railway electrification and the outlay was Rs. 6573 crores. Electrification, workshop modernisation, Calcutta Metro Railways and construction of new lines and line capacity works were the few achievements. The Seventh Plan (April 1985 to March 1990) outlay kept at Rs. 12,334 crores (at 1984-85 price level) envisaged production of 96,000 wagons in terms of four wheelers, 6,970 passenger coaches, 950 electrical multiple units, 1235 diesel/electric loco-motives, 20,000 kms. track renewals and 3400 route kms. of electrification. The expenditure incurred upto 1987-88 was Rs. 7,337.52 crores.

The balance-sheet of the Indian Railways for the five year period ended March 1988 is given in the table below :—

	Rs. in crores (As on 31st March)				
	1984	1985	1986	1987	1988
Block Assets	9401.41	10377.33	11492.01	13306.87	15177.55
Funds with Central Government					
Reserve Funds	579.48	639.27	569.24	613.35	694.41
Banker's Accounts	1486.63	1631.78	1713.81	1993.45	2480.86
Sundry Debtors	344.29	335.61	339.61	337.74	359.67
Cash in hand	246.75	181.16	214.36	304.63	321.76
	<u>12058.56</u>	<u>13165.15</u>	<u>14329.03</u>	<u>16556.04</u>	<u>19034.25</u>
Represented by Capital at charge	7567.80	8285.65	9078.07	10373.10	11622.22
Investments financed from internal resources etc.	1833.61	2091.68	2413.94	2933.77	3555.33
Reserve Funds	579.48	639.27	569.24	613.35	694.41
Banking Accounts - Provident Fund	1064.31	1127.45	1180.78	1383.65	1561.70
Miscellaneous Deposits	422.32	504.33	533.03	609.80	919.16
Sundry Creditors	591.04	516.77	553.97	642.37	681.43
	<u>12058.56</u>	<u>13165.15</u>	<u>14329.03</u>	<u>16556.04</u>	<u>19034.25</u>

Source : Annual Report and Accounts of the respective years published by the Directorate of statistics and Economics, Ministry of Railways (Railway Board).

ACCOUNTING AND AUDIT

The Auditor General was responsible for the audit of (i) all expenditure both in India and outside India on Railways from the revenues of India, expenditure incurred on the working or maintenance of Indian Railways, managed by an outside agency under contract, as also expenditure from the revenues of India, (ii) all transactions of railways relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business, (iii) all trading, manufacturing, profit and loss accounts and balance sheets of Railways and Indian Government railway collieries, (iv) receipts and the accounts of stores and stock relating to Railways, (v) specified matters relating to certain contract lines under the Audit and Accounts Order 1936. He ensured the correctness of the dividend payable from railway finances to the general revenues of India made under the convention for the separation of railway from general finances. His responsibility was discharged through the Director of Railway Audit, stationed at Shimla, who was the executive head of the Railway Audit Department, and conducted audit on behalf of and under the direction of the Auditor General. Shri C. Bhaskaraiya was the DRA in 1947. At

headquarters he was assisted by a Deputy Director of Railway Audit and one Assistant Audit Officer and, in the field, by four Chief Auditors of the level of Accountant General, who were stationed at the headquarters of each Railway system, namely, (i) East Indian, Bengal, Nagpur and Assam Railways at Calcutta, (ii) Great Indian peninsular and Bombay Baroda Central Indian Railways at Bombay, (iii) Eastern Punjab, Oudh-Tirhut Railways, including Railway Clearing Accounts Office at Delhi and (iv) Madras and South Maharatta Railways at Madras. In 1950, CA, BNR Assam Railway at Pandu and Nizam State Railway Hyderabad and Controller of Coal Accounts at Calcutta were added.

The Chief Auditors were assisted by Deputy Chief Auditors/Assistant Chief Auditors and Assistant Audit Officers. In addition, there was a Controller of Accounts, under the administrative control of the DRA, who functioned as a combined Accounts and Audit Officer in charge of the accounts of the Indian Railways Coal Department and accounts work connected with the special activities of the Coal Commissioner in regard to private Collieries. The Railway Audit Department had 23 IAAS officers, 29 Assistant Audit officers, 148 SRAS accountants, 590 UDCs including SG, 14 stenos and 112 LDCs/typists in 1950 and its expenditure was Rs. 28.33 lakhs, which was charged to the major head "15-D Miscellaneous Railway Expenditure".

THE DIRECTOR OF RAILWAY AUDIT

The DRA scrutinised all instructions relating to the compilation of the railway accounts and the internal check procedure, whether issued in the form of codes or otherwise, their adequacy, suitability and consistency with the relevant statutory rules and with the requirements of audit and accounts. The accounts maintained in the office of the Railway Board (Accounts Branch) were audited by the Railway Clearing Accounts Office at Delhi. The DRA audited sanctions having financial effect accorded by the Government of India other than those pertaining solely to an individual railway or the railway accounts offices, sanctions regarding financial rules and general orders issued by the President, which were not of a general nature but were applicable exclusively to the Railway Department and tenders invited by the Railway Board for the purchase of coal, rolling-stock and other materials. The monthly and annual accounts of railways and the railway section of the "Combined Finance and Revenue Accounts of the Union and States" were generally audited by him. The railway portion of the Finance Accounts of the Union Government including the annual Review of Balances as compiled by the Railway Board (Accounts) was checked by him before sending to the Accountant General, Central Revenues, New Delhi. He examined

the appropriation accounts prepared by the Railway Board and certified their accuracy and submitted the Audit Report thereon to the CAG for further action. The annual accounts of railways submitted by him for incorporation in the Combined Finance and Revenue Accounts of the Union and State Governments and the Review of Balances carried his certificate. The Appropriation Accounts of Railways were certified by him before forwarding to the CAG.

The DRA audited the various budgetary orders issued at the commencement of the financial year, subsequent orders of re-appropriation against the vote of the Parliament, orders of appropriation and re-appropriation issued by the President and orders of regularisation of excesses issued after consideration of the Appropriation Accounts and the Audit Report.

CHIEF AUDITORS

The CAs carried out the detailed audit of the accounts of the Railways to which they were attached and worked under the overall supervision and direction of the Director of Railway Audit. They were delegated with both financial and administrative powers and were responsible for the efficient administration of the offices at their headquarters and the efficiency of the subordinate formations. Detailed instructions on division of work and responsibility among their subordinate staff and other matters relating to the organisation of their offices were issued by them. They carried out periodical inspections of the accounts records of executive offices. They visited their own subordinate offices also, as frequently as was necessary, and kept themselves informed of all matters of importance and interest relating to the local Railway Administrations. Deputy CAs were responsible for the administration of the offices under them and for the general control and conduct of all audit work devolving on the CAs so as to relieve them as far as possible from the details of the office administration and the routine audit. The scrutiny and audit of financial sanctions pertaining to their respective railways and offices under their audit control accorded by the Government of India, Ministry of Railways (Railway Board), or the General Managers, the allocation of estimates sanctioned by the same authorities, general orders issued by the General Manager under the powers delegated to them, all sanctions pertaining to local traffic and sanctions issued by Railway Administrations relating to inter-changed traffic between two railways, neither of which was a party to the Railway Clearing Accounts Office, were carried out by the CAs. The scrutiny and audit of sanctions issued by the President or Government of India relating to through traffic, whether they were issued at the instance of the Indian Railway

Conference Association or not, sanctions of Railway Administrations relating to inter-changed traffic between two or more railways, at least one of which was a party railway, and rules and modifications issued by the Indian Railway Conference Association and all correction slips to tariffs and other publications issued by the Association were also carried out by them. All serious irregularities and losses and embezzlements of cash or of stores noticed by them were reported to the DRA. A monthly confidential letter bringing out the important objections taken up by them during the preceding month and also the important developments and final results of objections taken up in earlier months or any other matter of general interest was sent by each CA to the DRA. The CAs ensured that the accounts were correctly compiled by the Chief Accounts Officers and were in proper form, that no alteration in the form of the accounts or in classification was made without the approval of competent authority and that the system of internal check was efficient and that all appropriations or re-appropriations sanctioned by the General Manager or by Subordinate authorities were in order. Audit of allocation of expenditure divisible between two or more sections of a railway was conducted to satisfy that the division between the different sections was made correctly. The annual review of balances and the appropriation accounts were audited and certified as to their correctness in the prescribed form. The format of certificate recorded on the Balance Sheet was modified.

Payment of all charges relating to the Railway Audit Offices was made after the usual internal check was carried out by a Railway Accounts Officer nominated by the Railway Board. The audit of charges relating to Railway Audit Offices was conducted by the designated Audit Officers - namely, AGCR for DRA and the various Chief Auditors for other offices. Director of Railway Audit was responsible for preparing the budget and revised estimates for the Railway Audit branch and for submitting them to the Railway Department after approval by the CAG. The expenditure incurred by Railway Audit Branch was Rs. 40.62 lakhs in 1955-56 and constituted 0.07% of the total turnover of Railways.

OBJECTIVES AND THE MODUS OPERANDI

The main objectives of audit of Railways were (a) to test the numerical accuracy of the accounts which formed the basis of the Combined Finance and Revenue Accounts of the Union and State Governments, the accuracy of which was ensured by CAG, (b) to test the compliance of executive authorities with the various financial and accounting rules, which had been laid down for their guidance as well as to bring to light instances of improper expenditure or waste of public money or stores

according to the general principles, which had long been recognised as standards of financial propriety, and (c) to satisfy that the rules or instructions consistent with correct financial principles had been laid down and promulgated in suitable form for the guidance of executive and accounting authorities. To achieve these objectives, the modus operandi adopted was (i) to conduct a continuous test audit of the documents in the central office, (ii) to scrutinise financial and account rules, codes, manuals, procedural orders and their practical application, (iii) to periodically inspect central and local accounts offices in order to examine the general internal accounting organisation and to scrutinise individual accounts processes, (iv) to conduct local audit of documents and accounts which were not rendered to the central accounts office or which could more conveniently be examined on the spot, (v) to carry out general reviews of accounts or of administrative or other reports and (vi) to undertake special investigations, as may be considered necessary.

While the DRA scrutinised the Codes issued by the Government of India in the Ministry of Railways, the CAs examined the manuals issued by the Accounts Department and Railway Administrations, insofar as they affected financial accounting checks to ensure that (i) the material required for the preparation of the Combined Finance and Revenue Accounts of the Union and State Governments was not affected in any way, (ii) the calculation of the dividend payable by Ministry of Railways to General Revenues under the convention for the separation of railway from general finances was not affected, (iii) any of the existing safeguards against irregularity, fraud or overpayment were not impaired and that no fresh loop-hole for irregularity, fraud or overpayment was introduced, (iv) the changes were not likely to lead to deterioration in the accuracy of the accounts or in the punctuality of their presentation, and (v) any changes in audit procedure required in consequence were prescribed and brought into force.

Although the primary responsibility for the issue of rules and orders governing accounts classification rested with the Ministry of Railways, all rules and orders, which affected the form of the Combined Finance and Revenue Accounts were issued with the concurrence of the CAG. The extent of audit to be undertaken in the Railway Audit Offices was prescribed by the DRA and the CAs were not at liberty to make any relaxation in the extent of prescribed audit and prior orders of the DRA had to be obtained in any case of individual relaxation. Dates of completion of audit were fixed by the CAs taking into account the local circumstances, which were laid down in their office manuals. An item of work was not considered as completed until the vouchers had been reviewed in audit and the Test Audit Note, if any, on the results of audit,

issued. Special investigations were carried out whenever necessary with great thoroughness, circumspection and patience and the DRA was consulted and kept advised about them. In scrutinising sanctions, the files or papers leading to the sanctions were looked into as far as practicable. Sanctions for the write off of losses were completely investigated and traced into the Register of Losses or the Register of Serious Irregularities maintained by the Accounts Officer. An annual review of the work of the Accounts Office was carried out in the prescribed manner and the more important items affecting the efficiency of the working of the Accounts Branch were reported to the DRA.

ADMINISTRATION AND AUDIT

The CAs determined the distribution of the work of the office between themselves and other Gazetted Officers and generally kept one or two important sections under them by rotation with a view to maintain direct contact with the original work of the audit sections. They personally examined the final disposal of the agenda for the periodical official meetings attended by them, communications sent personally by the Financial Adviser and Chief Accounts Officer and letters containing important audit observations, draft paras for the Railway Audit Report any special report called for by the DRA or any higher authority. All Gazetted Officers and members of the Subordinate Railway Audit Service did some original work, in addition to the supervision and direction and review of audit work done by the clerks/auditors, in accordance with the directions issued by the DRA. Great care was exercised in selection of documents for audit within the quantum prescribed by the CAG. All the accounts and vouchers audited were subjected to concurrent and post review according to the rules laid down in the Department. After completion of the audit of documents and of accounting by the clerks, the auditor reviewed them generally to see that no important points had escaped the clerk's scrutiny, and conducted detailed audit in respect of items selected for his current review according to the percentage prescribed by the CAG. A Senior Auditor carried out current review of the original audit work done by the Junior Auditors in independent charge of Sections. Current reviews were carried out within the time prescribed. Both the Gazetted Officers and Senior Auditors conducted post review of the audit work done in their offices. The CAs occasionally arranged for a post review of the work of one section by the auditor of another section with a view to satisfy generally that not only the documents and accounts had been properly audited and all objections taken, but also to subject the accounts as a whole to an examination from a broad angle to discover types of

irregularities and defects in procedure and elicit points for special investigations. The selection of documents and vouchers for post-review was made personally by the Gazetted Officers. The results of reviews were suitably recorded.

The audit of earnings was carried out with reference to orders, rules and regulations issued by the President or the Railway Board, the Indian Railways Act, 1890 and rules, etc., made thereunder, the Conference Regulations framed by the Indian Railway Conference Association, the tariffs, rate circulars issued either by Indian Railway Conference Association or Railway Administration and the relevant contracts between the main and worked lines. Audit was conducted in general keeping in view the system of internal check in force in the department. Audit of all major stations was completed within a cycle of 50 months and of all minor stations within 66 months. The correctness of the apportionment between main and worked lines was checked with reference to rules and contracts and verified up to the final stage of compilation of the earnings of the worked lines. The returns of the out-agencies were also checked to ensure the correctness of apportionment of the earnings from traffic interchanged between the railway and the out agencies. Review of the lists of unaccounted invoices and way bills received from foreign railways, remission of wharfage and demurrage charges, compensation for goods lost, traffic book, refund lists and overcharge sheets, rate circulars and tariff changes, terminal and other taxes, siding charges, routing, etc. and agreements was carried out in audit.

The audit of works transactions involved audit of sanctioned estimates, abandoned assets, assisted sidings estimates, revised estimates, material modifications of estimates, estimates of residences, grouping of works, amenities for employees, amenities for passengers and other operating improvements, unremunerative new projects, system of allotments, utilisation of un-anticipated credits, new services, scrutiny of rates, general examination of procedure regarding estimates and control, audit of contracts, vouchers in support of payment of contractors' bills, contractors' ledgers, measurement books, labour pay sheets, law charges, audit of journal vouchers, departmental manufactures, works registers and revenue allocation registers, land registers, objectionable items register, completion reports, joint station accounts, bills for rent of telegraph wires, financial reviews and tests to judge productivity of Capital expenditure.

Audit of stores accounts covered purchases of stores and scrutiny of stores contracts, accounting of stores receipts, returned stores, receipts from work shops, London Stores, inter-depot transfers and issues

ledgers, stores journal, stores accounts current, suspense registers, revaluation of stores, scrutiny of yearly statement of stores transactions, yearly statement of stores purchases, accounts, custody and disposal of scrap materials, stock verification, auction sale account, locomotive coal account, stores manufacture account, clothing manufacture account, account current and outturn statement of the printing press.

Audit of workshop was conducted with reference to Indian Railway Code for the Mechanical Department and the instructions relating to the audit of estimates while auditing the workshop estimates. Instructions for audit of saloons, completion reports, workshop accounts, labour charges, stores, advice notes of returned stores, work orders, bonus and piece-work bills, on-cost were also seen during audit. Manufacture Accounts, cost accounts and job costing sheets, electrical manufacturing account, timber purchases, foundry accounts, paint accounts, laboratory accounts and compiled accounts were seen during audit. Proforma capital and revenue accounts, wherever maintained, were also looked into during audit. Audit of general books and accounts of the railways maintained in accordance with the State Railway Code of the accounts department was conducted as prescribed.

Audit against grants and appropriations was conducted according to the general principles and rules laid down in the Audit Code. The CAs checked completely, the accuracy of the Appropriation Accounts submitted to them by the Chief Accounts Officers and examined the explanations of variations. They arranged to secure such amplifications or modifications as were deemed necessary by them. It was verified whether all excesses in the various sub-heads of accounts were covered by re-appropriations sanctioned by the competent authority. Broadly the work was twofold namely, the checking of the figures and the explanations in the Appropriation Accounts submitted by the Accounting Officer and the drafting of comments thereon.

Higher audit, which devolved on the more responsible members of the office, was intended to assist the Government and the Parliament in protecting the interests of the tax-payer and in developing revenue and effecting economies in expenditure, wherever possible. There were three higher audit sections in the Railway Audit Offices, one for each circle comprising of more than one CA, each with one auditor and one UDC. The Senior Auditors were attached to the office and worked under the supervision and control of the Head of the Railway Audit Office in which they worked and were assisted by an UDC of that office. The programme of work of the senior auditors of the higher audit section was drawn by the CAs of the circle concerned and sent to the DRA. Areas for higher audit investigations were identified generally for the guidance

of the field staff. In forming higher audit objections based on statistics, due weight was given to all factors which might vitiate direct comparison of results, whether obtained on different railways or at different times on the same railways e.g. different methods, different conditions, different nature of equipment and machinery, etc. As various railways traversed territories widely different in character, due care was taken to avoid hasty conclusions. When suggestions were made or any defects were pointed out, they were couched in such terms as to be received in the same friendly spirit in which the remarks were made by the Administration and such communications were sent over the signature of the CA of the Railway, if necessary after discussion with the Chief Accounts Officer and the Administration concerned. When a big project or Government Trading Scheme or other enterprise was launched by Government, the CA considered whether adequate arrangements for accounting had been provided and whether it would be necessary to set up a special section for conducting higher audit or whether an already existing section needed to be strengthened for the purpose. When an important irregularity was established, a reduction of expenditure or increase in revenue was secured or any important suggestion having specially financial implications regarding the organisation and working was got accepted by the Administration for their adoption, a draft para, for the Railway Audit Report or the Administrative Report, as the case may be, was prepared and the acceptance of the Administration was obtained for inclusion in the Railway Audit Report. Audit drew attention to financial considerations, which, according to it, had been over looked by the Administration in coming to a decision. Audit also assured itself that various considerations and not merely technical ones, were kept in view by the department concerned.

The DRA scrutinised and reviewed the appropriation accounts and the consolidated appropriation accounts prepared by the Railway Board. The CAs reported to the DRA, cases of non-compliance of the Constitutional requirements, namely, that the money voted by the Parliament has been spent within the scope of the demand granted by the Parliament, that no reappropriation was made from one grant to another and that no re-appropriation was made within a grant, which was not in accordance with the rules prescribed by the Railway Board.

The figures in the appropriation accounts of Railways were carefully checked as also the explanations for their correctness and completeness and their accuracy was verified with the initial accounts records. That the expenditure figures separately for both voted and charged sections - were duly reconciled with those recorded in the initial accounts, was looked into during audit. The expenditure figures in the

appropriation accounts compiled by the Railway Board were reconciled with those given in the Combined Finance and Revenue Accounts of the Union and State Governments (railway portion) and the statement of voted and charged expenditure furnished to the CAG. All statements appended to the appropriation accounts were also checked in detail. The CA prepared draft comments on the accounts after completion of the scrutiny of the appropriation accounts bringing out important defects in the method of budgeting and control over expenditure, excluding those which were included by the administration in the appropriation accounts or the Railway Board's review, and forwarded them to the CAOs for remarks. These were sent to the DRA within the prescribed dates *i.e.* 15th March and 15th April for appropriation accounts and Audit Report respectively. Special care was taken to ensure that the check of the accounts proceeded strictly in accordance with the programme and that no room was given for complaint that any delay in submission of the audited copies of the accounts was attributable to audit. Personal discussion, avoidance of meticulous correspondence, prompt carrying out of modifications, etc. were resorted to so as to eliminate delays.

During local inspections, test audit of the accounts and vouchers, as were not audited in Central office or as could not be completely audited except at local audit, was carried out to satisfy that initial documents from which the bills and accounts rendered by the local officers were compiled, were properly maintained. The system and procedure for inspections, right from the programming stage till the issue of inspection reports, was laid down for the guidance of the officers and staff of the inspection parties.

PROCESSING OF RESULTS

Results of audit were intimated to the CAO in the form of special report, inspection report or audit note. More important and serious irregularities like questions of procedure and principle, questions affecting the efficiency of internal check, individual irregularities of an important and serious nature, and expenditure or other financial transactions not covered by the sanction of competent authority or by sufficient appropriation were incorporated in a specific report. Other irregularities were dealt through the medium of an inspection report or an audit note. An inspection report consisted of two parts, Part I dealt with the more important matters and Part II dealt with minor, and routine ones. The points were discussed by the inspecting officers with the executive officers before the reports were finalised. The audit notes contained mainly procedural irregularities of a routine nature, which could not be settled on the spot. Reports and notes were issued promptly. While the disposal of specific reports and Part I of inspection

reports were pursued by the CA, the disposal of Part II of inspection reports and audit notes was left to the CAO but periodical inspection of the records of the Accounts Office was carried out to ensure that reasonably adequate action was taken on them.

Preparation of the Audit Report and the Appropriation Accounts of the Railways formed the main responsibility of the DRA and the CAs sent the requisite material in respect of each system under their audit. The DRA selected and edited the material as he thought fit incorporating the results of his own check of the accounts prepared by the Railway Board. The Audit Report on Railways was signed by the DRA and counter signed by the CAG, who submitted it along with the Appropriation Accounts of the Railways and connected documents prepared by the Railway Board to the President, who caused them to be laid before the Parliament.

The material to be presented to the Public Accounts Committee was a mix of Railway Board's review (Part-I of the Appropriation Accounts of the Railways) and the Railway Audit Report. The Railway Board's review mentioned financial results, changes in the form and classification of accounts, general financial results of the year, analysis of the broad results of appropriation audit, excesses requiring regularisation and observations on miscellaneous financial topics. The Audit Report (Railways) included comments on the Appropriation Accounts and the connected documents including Railway Board's review thereon, important financial irregularities and cases of losses, writes-off or nugatory expenditure and other topics of interest. The draft of the Railway Board's review was shown to the DRA, who suggested important items, if any, considered by him for inclusion. The Audit Report received the personal attention of both the DRA and the CAs and represented the sum and substance of audit on Railways conducted in each year.

The material included in the Railway Audit Report was of real financial import, the mention of which had beneficial results or contained some useful practical lessons of general importance to the Railways. Old irregularities or comments on principles, where financial considerations involved were unimportant, were omitted. However, cases which were not of sufficient importance to be mentioned as individual paragraphs but when clubbed together with other irregularities of the same kind enabled drawing general conclusions for mention, were included. The material for possible inclusion in the Railway Audit Report was sent in the form of draft paras - a statement of facts and Audit Department's comments or deductions. The monetary limits generally observed were Rs. 500/- in cases of non-recovery of rent and other dues, Rs. 1000/- in establishment matters, Rs. 5000/- in the case of frauds and

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misappropriations and Rs. 10000/- in all other cases. The monetary ceilings did not preclude inclusion of any case of real financial importance, which had far reaching beneficial results. While the para did not indicate whether a particular irregularity was discovered or pursued by Accounts or Audit, it did bring out the part played by the Account or Audit staff in bringing out the irregularity. Paragraphs contained all relevant data, all relevant and important aspects of a case in a precise and concise manner and the language used was simple and indirect and avoided all slang expressions. While mentioning about cases of losses, writes-off or nugatory expenditure, it indicated a brief statement of the circumstances, which led to the losses, etc., disciplinary action and audit comment. Attention was not focussed on internal differences of opinion between the Railway Administration and the Railway Board. No comment was made unless it was useful, which left the impression that, if there was no audit comment it could be assumed that audit was satisfied on the action taken on the case. The Railway Board was given an opportunity for examining each case and recording their conclusions. In compliance with the wishes of the Public Accounts Committee, the Railway Board had issued instructions to the effect that not more than a period of six weeks was to be allowed to the departments to accept or modify the terms of paragraphs, failing which Audit Department was at liberty to consider its own draft as final. After obtaining the concurrence or remarks of the Railway Administration, the accepted or finally modified paragraphs were sent to the DRA. Draft paras were to be approved by the DRA by 15th January each year. A copy of each draft para, as finally accepted by the Railway Administration, was sent to the Railway Board at the earliest opportunity and after considering action taken by the Railway Board on each case and also their remarks, if any, the DRA finally decided the material to be included in the Railway Audit Report for the year. The DRA decided action to be taken on cases of extreme importance to be brought to the notice of the Railway Board or the Public Accounts Committee at the earliest opportunity and where unreasonable delay on the part of the Administration for passing the necessary orders was witnessed. Memorandum on Railway Accounts received by the DRA was got checked expeditiously in consultation with the CAOs concerned, where necessary.

A·D·A·I·(RAILWAYS)

Shri A.K. Chanda merged the office of the DRA in his office in July 1955, so as to achieve greater speed, efficiency and economy in the functioning of the Railway Audit Wing and also to place the CAs on the same footing as the AsG and vesting them with the same authority. The

Railway Audit wing in the CAG's office was headed by an Additional Deputy CAG (Railways) and *ex-officio* Director of Railway Audit, who was assisted by a Deputy Director. Shri S. Gupta was the last DRA and the first ADAI (Rlys.). In all, 29 officers held the post of DRA/ADAI (Rlys.) till 1989. The charge of ADAI(R) was added on to the DAI on four occasions and to the ADAI(R) on two occasions for a total period of 91 months. Except for few cosmetic changes in the set up of the head of the Railway Audit organisation, there was no perceptible change in the jurisdiction, duties or functions of the CAs working under him. A new unit of CA, North-Eastern and North-East Frontier Railway was created at Gorakhpur in 1958. The certificates required to be given by the ADAI (Railways) on the annual accounts and Balance sheet were modified.

The responsibility for the scrutiny and audit of all sanctions and orders issued by the President or Government of India relating to through traffic and foreign traffic transactions with Pakistan, sanctions of Railway Administrations relating to inter-changed traffic between two or more Railways and rules and modifications issued by the Indian Railway Conference Association and all correction slips to tariffs and publications issued by the Association was entrusted to the CA, Northern Railway. The audit of Foreign Traffic earnings of Western Railway, which was previously performed by the Railway Clearing Accounts Office, Delhi was also entrusted to him. The organisation of each CA's office continued more or less on the same pattern except the addition of a new Central Section and direct supervision of the work of the auditors engaged on higher audit work by CA. The audit officers attached to CAs could be changed by the ADAI(Rlys.) from time to time depending upon the necessity therefor. The budget and the revised estimates of the Railway Audit branch was prepared by ADAI (Railways) and sent to the Railway Department. The CAs sent the Appropriation Accounts for the audit of grants to the A.G.C.R. with the necessary Audit Certificate. The expenditure of the Railway Branch of the Audit Department was met from the Railway Revenues and was charged to the new Major Head '26 Audit'. Railway Account Officers functioned as Treasury Officers and Accounting Officers in regard to expenditure of the Railway Audit Office and exercised only such checks as were prescribed from time to time by the Railways. The remaining checks of the transactions and the local inspections of the audit offices was performed once in three years by other Railway Officers, who conducted *expost facto* audit of their expenditure.

RATIONALISATION AND REFORMS

In view of the volume of arbitration cases in each Railways, all sanctions for payments arising out of arbitration awards were scrutinised with

reference to files leading to such sanctions, keeping in view that (i) the proper legal and financial advice was obtained before deciding on the necessity for arbitrations, and that the points for arbitration were reduced to specific terms and were not in any way left ambiguous or vague, (ii) the Railway's case was properly prepared and presented, utilising all available evidence for the purpose and that there was no joint submission with the contractor, (iii) the points of defence were based on the actual conditions, (iv) claims of the nature of 'ex-gratia' payments did not form a matter for settlement by arbitration, and if such claims were pressed by the contractor, they were firmly opposed, and the fact that they were not contractual was prominently placed before the arbitrator, (v) arbitration was not rendered necessary on account of any lack of precision in terms of the contract, (vi) adequate steps were taken by the Administration to rectify any defects in procedure revealed by the case and (vii) necessary report of cases exceeding payment of Rs. 10,000 was duly sent to the Railway Board. Objections in respect of sanctions issued by the Railway Board or any higher authority were reported to the ADAI (Railways) for necessary action. The system of checking the net proceeds of the taxes levied under Article 269(1)(c) and (d) of the Constitution was introduced as a part of the Constitutional obligation vested in the CAG of India.

The responsibility for check of Foreign Traffic Accounts of the Indian Railways was modified after regrouping of Indian Railways and the decentralisation of the Railway Clearing Accounts Office as under:

Name of Railway	Chief Auditor entrusted with audit and name of the office
Northern and Western	Chief Auditor, Northern Railway & Foreign Traffic Audit, Delhi.
Central	Chief Auditor, Central Railway, Bombay.
Eastern	Chief Auditor, Eastern Railway, Calcutta.
South Eastern	Chief Auditor, South Eastern Railway, Calcutta.
North Eastern	
(a) Goods	Chief Auditor, N.E. Railway, Gorakhpur.
(b) Coaching	Chief Auditor, N.E. Railway, Izatnagar.
North East Frontier	Chief Auditor, N.E.F. Railway, Pandu.
Southern	Chief Auditor, Southern Railway, Madras.

The Foreign Traffic Accounts Offices were responsible for the check of accounting and apportionment of earnings of all through traffic of the Railways entrusted to their charge, as also for the verification and compilation of other figures and statements, as may be required of them by the CAOs. The CAOs became responsible for conducting the scale audit in respect of local cadres sanctioned for each Railway Accounts

Office after Indian Railway Accounts Service was decentralised. Work registers and revenue allocation registers were checked during audit. Tracing of all pay and travelling allowance bills of accounts officers and AAO working in each division into the allocation registers was carried out once in a month by the divisional audit office after the introduction of divisional system and recording of payments of other gazetted officers. The divisional officers were informed in advance of the pay bills selected for the purpose. Consequent on the introduction of the revised system of procurement of sleepers by Railway Board's instructions in 1954, accounts relating to the supply of wooden sleepers were checked to ensure that the new instructions were strictly followed and tenders were invited from private parties and the lowest tenders accepted. The system of inspection of such sleepers by Railway Officers was examined to see whether it was satisfactory and adequate arrangements existed to ensure that the same sleepers which were inspected were despatched to the Railway Depots and paid for after receipt. Negotiated rates with State Governments were compared with the tendered rates, while conducting stores audit and local scrutiny of the purchase orders in the office of the Controller of Stores, simultaneously with the review of stores contracts, as prescribed, was done to see *inter alia*, that there was no intentional splitting up of purchases, that recourse to purchases was rare and to meet emergent requirements only, and that financial limits as laid down by the competent authority were not exceeded. Revised instructions for check of Appropriation Accounts of Railways were issued after changes in presentation of demands for grants and changes in budgetary heads were made. Mention of the period of the accounts audited in audit note or inspection report was given up and a general statement that test check was conducted was made. However, a note was kept of periods selected and subjected to detailed audit in the selection register for subsequent departmental reference and use.

Guidelines for preparation of draft paragraphs were modified. The factual statements were prepared only after collecting sufficient data and eliciting replies from the administration, except in rare cases, where a dead end was reached in obtaining information or the risk of subject matter becoming stale existed, if further delay in reporting was permitted. There was shift in emphasis from routine transaction audit and sanction/regulation audit to higher audit or propriety audit and higher audit sections were constituted in each office with one senior most auditor and one UDC who worked under the direct supervision and control of the CAs who drew up their work so as to cover both head office and the investigations relating to regional/divisional audit offices. In lieu of the existing HAD a new section called ECPA/special

investigation section was formed in each office for conducting efficiency-cum-performance audit of plans, programmes, projects and specific areas of performance of Railways.

The procedures for audit of the transactions of the Railways were reviewed in detail and rationalised in 1966. The salient features of the rationalisation measures introduced were (a) reduction in the quanta of routine audit checks mainly for the purpose of certifying the accounts; (b) intensification of local inspections to cover aspects having direct or indirect relation to economy and effective utilisation of available resources; (c) enlarging the scope of efficiency-cum-performance audit to examine that capital assets created were adequately and usefully utilised and that the anticipated results in fact accrued, comprehensively auditing schemes selected each year on the basis of Railway budget and reviewing collaboration agreements, contracts, involving large values, and contracts entered on the basis of negotiations; (d) study of the reports of inspections by the Travelling Inspector of Accounts, and other officers of the headquarters of the Railways, in the audit of traffic receipts; (e) inspection of stations having special features such as sidings, heavy pilgrims traffic, heavy parcels or goods loading, and review of handling contracts and their execution; (f) intelligent scrutiny of recovery of siding charges, demurrage and wharfage, refund of freight and payment of compensation claims; and (g) rotation of divisional audit staff periodically after three to five years to enable them to have background knowledge of the working of the Railways as a whole. The financial limit of reporting to Railway Board the sanctions for payments arising out of arbitration awards was raised to Rs. 50,000 (earlier it was Rs. 10,000). The audit officers were authorised to select the items of original work to be done by them as well as section officers working under them from the list of items approved by the Directors of Railway Audit (based on CAs' Conference held in 1967). The branch officers selected one unit to be reviewed by them every month from the list of post review units and specified the documents or registers comprising the unit to be reviewed by section officers working under them. Documents so selected were retained until review had been completed within stipulated time.

The procedure for audit of earnings was modified after introduction of computerised system of traffic accounts. In view of the limited scope of audit in checking arithmetical accuracy of the compiled accounts, more emphasis was laid on the check of initial records and station accounts, which formed the nucleus input of the machine compiled accounts. Under passenger accounting, listing of passenger fares paid was undertaken to satisfy that rates of fares were in accordance with rates notified by the Railway Board. The statement "Checking Passenger

Fares" was examined to see that corrections to PALL CARDS TAPE were made without delay and there was no loss of revenue due to undiluted under-charges and incorrect rates on PALL CARDS TAPE. The periodicity of the checks conformed to the periodicity of the programmes run by the Railways. Under goods accounting, it was seen that run-to-run totals prescribed for processing integrity were actually agreed, the total number of invoices as shown in the station forwarding memo for the selected stations agreed with the number of cards in the card to tape programme and the grand total of the number of cards in the programme agreed with the station memo of invoices and the register of missing invoices in respect of the selected stations. Errors noticed in the various statements were analysed to see, whether they were due to wrong code punching, or defects in the programme and such cases were taken up with administration and reports sent to headquarters. Changes were also made in the scope and procedure of respect of individual items/documents pertaining to passenger and goods traffic, particularly, in regard to passenger classification, rail travel facilities, pilgrim tax statements, out wards and inwards returns, paid parcels traffic and invoices. The audit of earnings relating to through traffic *i.e.* traffic originating on one railway as distinct from local railway, originating and terminating at stations within the limits of the same Railways was modified. The system of audit of establishment charges was also modified so as to facilitate checking of source documents and compilation of output with the source documents. Checking of computer programme was carried out from 1969. The provident fund transactions in the list of updated items were reviewed in audit and corrections made for genuine and unposted items only.

Internal audit was introduced in the CA's offices in May 1970 to see that the audit sections of the office followed the procedural rules and regulations, applied prescribed percentage of checks, maintained various registers prescribed, submitted returns on the due dates and generally functioned as efficient units of the office and its programme was arranged by the DA so as to cover each section in a cycle of two years.

The enactment of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, did not materially alter the duties and functions of either the ADAI (Railways) or the CAs, except the formal changes in the statutory recognition and authority governing their functions and duties introduced by the Act and change in emphasis of receipt, stores and stock and grants-in-aid audit in the Railways. While the existing AAOs were designated as AOs in April 1968, the designation of senior auditor was changed to section officer (Audit), SG upper division clerks/upper division clerks to SG auditors/auditors and lower division clerks to

clerks/typists, in April 1973. Based on the recommendations of the Committee headed by Shri A.K. Mukherjee, the scope of efficiency-cum-performance audit was enlarged to cover audit of the efficiency of the various operations of the Railways, after intensive study of the statistical and other data produced by the Railway statistics department. Big stations depending on the volume of traffic receipts and peculiar features like existence of siding, big handling contracts etc. were inspected at least once in a cycle of 5 years and other major stations to the extent of 20 in a year and minor stations upto a maximum of 18 a year by the CA of each Zonal railway to ensure a larger coverage of traffic receipts. Review of accounts of major works in the course of execution was conducted twice or thrice depending on the period taken for their completion and all major works costing Rs. 50 lakhs or over were subjected to full review after their completion. In respect of orders or contracts for purchases valued at Rs. 20 lakhs and over for the supply of plant and machinery and Rs. 10 lakhs and over in other cases, the execution of contracts was reviewed annually. System of special cells in some of the offices of CAs of Railways to take up special investigations more intensively was extended to the offices of other CAs. The railway employees insurance scheme and the productivity linked bonus were checked in accordance with the extent and quantum laid down in the departmental instructions. The need to bring to notice cases of failure to follow the prescribed rules and procedures was emphasised during stores audit. The scope and coverage of appropriation audit was modified in view of the increased delegation to the General Managers of Railways. Defects in estimating and in expenditure classified in the budget and the accounts were included in the statements submitted by the administration to the Railway Board and individual comments on them were sent by DRA to them, if they were important. Items amounting to less than Rs. 10 lakhs in the case of works grants, and Rs. 5 lakhs in the case of other grants which did not present any special feature were left out for comment. Huge variations (of not less than Rs. 20 lakhs) were examined and commented upon, if it was considered that they could have been avoided, had timely action been taken by the authorities (previously the amount was Rs.1 lakh). In the case of adjustment between capital and depreciation reserve funds, variations in detailed heads between capital and depreciation reserve funds over Rs. 10 lakhs were examined. Items involving Rs. 25,000 each or more were listed individually, while those below Rs. 25,000 each were clubbed together under grants in the statement of losses annexed to the Appropriation Accounts.

The heads of offices were empowered to fix the frequency and duration of the local inspections considering the needs of each case.

Emphasis was more on intensive audit of offices visited rather than on coverage of offices to be inspected. The total number of stations to be inspected in a year and the frequency of inspection of the catering units conformed to that prescribed in the Memorandum of Instructions regarding the extent of audit. Important points to be seen during audit of marshalling yards/transshipment sheds including the connected running sheds and head train examiners' office were laid down. The designation of the CAs was modified as Directors of Railway Audit in October 1979. The growth of receipts and working expenses of Railways for selective years is exhibited in figure 15.3.

Table below gives the composition of officers and staff of the Railway Audit Department for selective years.

		Total Stren- gth	IAAS Offi- cers	AAOs/ AOs	SAS Acctts/ SOs	UDCs	SGCs	PAs/ Ste- nos	Cler- ks/ Typi- sts	Gro- up D
April	1958	1513	25	45	222	740	71	24	113	273
Oct.	1962	1838	35	51	274	887	93	29	151	318
Oct.	1967	2058	37	67	314	880	185	34	180	361
March	1973	2473	44	98	381	1038	239	47	213	413
March	1975	2593	41	119	429	1056	253	66	202	431
March	1982	2876	40	152	488	1173	259	48	273	460

DEVELOPMENTS IN REPORTING

Significant changes in the contents of Audit Reports were perceptible from late sixties. Reviews on schemes/projects of individual Railways and comments on individual transactions under broad categories of functional audit carried out from year to year, which embodied the quintessence of audit findings dominated the Reports. The contents were designed to display adequately the role of Audit in rendering service to the Parliament and as an aid to the management. Gradually, emphasis shifted to comprehensive reviews of major schemes and projects undertaken by the Railways, so as to apprise the Parliament how far the schemes/projects sanctioned by it had been efficiently and economically executed to yield the results expected of them and also the Railway Administration of the short-comings in planning and execution of the schemes and the resultant deficiencies in realisation of their objectives. Each DA was required to select a few significant schemes/projects or aspects of railway operations and send his proposals along with a brief note indicating the background of the scheme/project, guidelines formulated for conducting the review, points sought to be

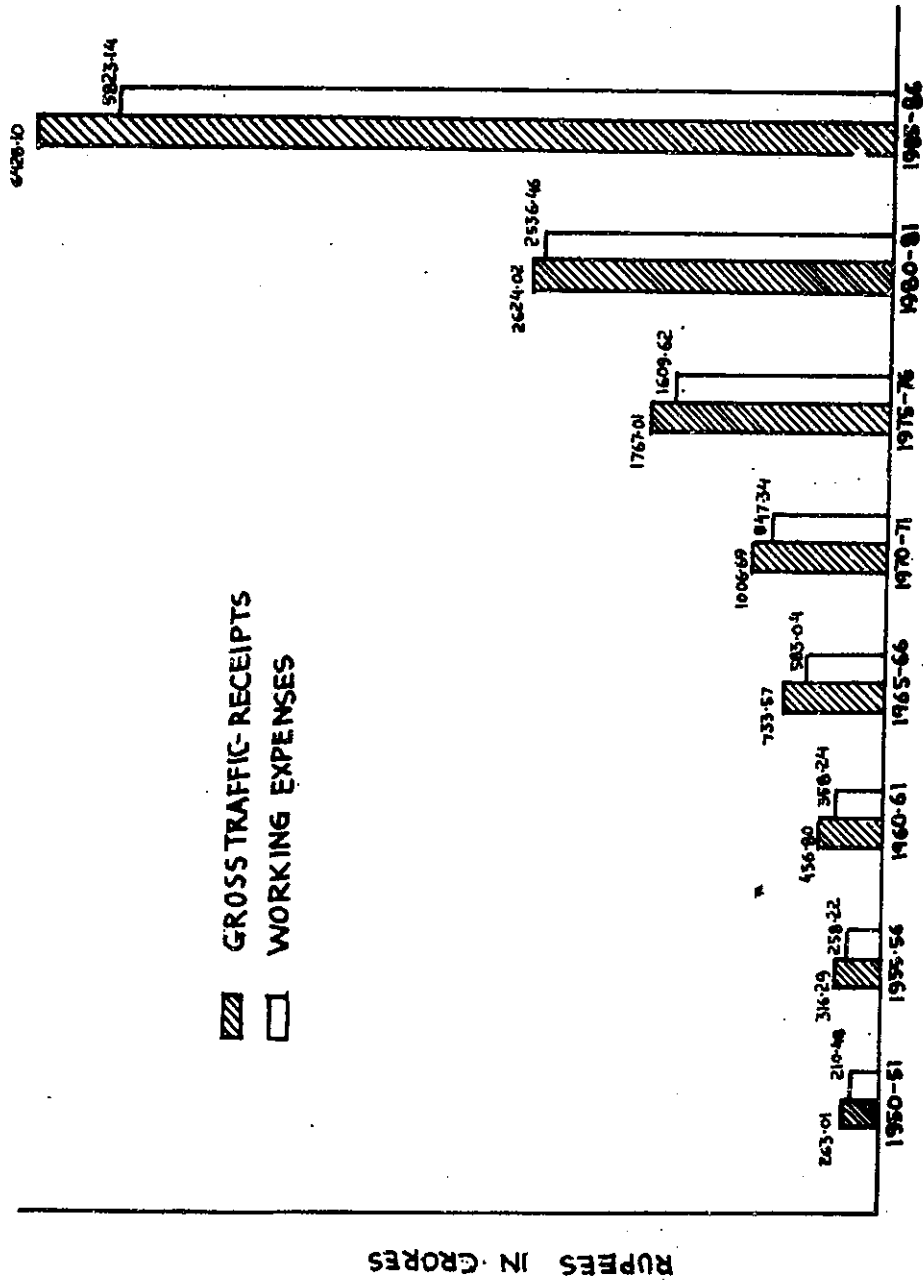


Fig. 15.3: Gross Traffic-Receipts & Working Expenses—Railways

highlighted etc., to the headquarters office by 15th January every year for final approval by the headquarters and for seeing Railway Board's files and supplementing the guidelines with additional directions/guidelines to the field offices. Before selecting schemes/projects for performance review, Directors of Audit studied the budget papers, schemes/projects files, performance budget, administrative reports relating thereto and material from other sources like debates/questions in Parliament, discussions/comments in newspapers, periodicals and journals. While selecting subjects for comprehensive reviews the DA discussed them, where necessary, with the GM/FA & CAO of the zonal railway and considered their suggestions before embarking on the work. The criteria for selection of various programmes for review were normally the volume of expenditure incurred, progress of projects/schemes, benefits anticipated and realised, etc., and not merely the possibility of highlighting a few irregularities. The object was to assess how effectively the moneys and resources were utilised, to find out the shortcomings in planning and execution and organisational weakness etc., if any, and to quantify the deficiency in expected benefits so that a positive contribution could be made by audit review. After the schemes/projects were selected for review, the collection of material required was planned and undertaken by the DA. The relevant files of the headquarters of zonal railways and the Railway Board, wherever necessary, were looked into and plan papers, documents, connected information and progress reports received by the Railway Administration by way of follow up of the schemes together with the results thereof were also examined in detail. The reviews were based on indepth studies, penetrating analysis of the facts and figures with adequate coverage of the schemes/projects so as to enable dependable conclusions being drawn.

The review of a particular scheme/project/topic brought out background leading to the undertaking of the scheme/project financial details, sanctioned expenditure, variations in the estimates etc., summarised version of actual realisation of the objectives or the extent of such realisation, specific points noticed during scrutiny of records of the executive organisation at various levels, grouped subject-wise, alongwith reasons for situations obtaining and their analysis. The review was not loaded with unnecessary or irrelevant details and paragraphs in each section were so developed as to lead to a particular point or aspect intended to be brought out therein. The results of regularity and accountancy audit, as sharpened by the expertise gathered during several decades of functioning of exclusive audit offices, continued to form bulk of the Reports. Individual cases of wasteful and extravagant expenditure,

loss, fraud or mismanagement of funds either by omission or commission, leakage of revenue, etc., highlighted inadequacies in the departmental rules and procedures or lapses in observing the prescribed procedures. Objections of repetitive nature were not included in the Audit Report year after year, unless they presented some special features or serious irregularities or inadequacy of the corrective measures taken by the Railway Administration on the irregularities commented upon in earlier Reports. Same criteria applied to cases dealing with irregularities which occurred some years ago and were likely to evoke less interest to the Public Accounts Committee. The earlier tendency to include cases relating to points of principles so long as they came under the financial ceiling prescribed for them, dwindled. However, cases not of sufficient importance to merit mention individually but, when clubbed together with other irregularities of the same or similar nature, permitted drawing up general conclusions, were mentioned. Monetary limits for inclusion of cases in the Audit Report was raised to Rs. 1 lakh in case of expenditure and Rs. 50,000 in revenue cases. Cases involving irregularities of similar nature on the same or on different railways were clubbed together for the purpose of applying the monetary limit. The monetary limit did not preclude consideration of the cases presenting special features like serious procedural irregularities, lapses etc., or of lasting beneficial results.

All important cases noticed during inspections or regular audit, which merited inclusion in the Audit Report were personally scrutinised by the DA, who gave suitable guidance right from the initial stage to ensure that investigations were complete and all aspects were gone into and brought out in their proper perspective. As the draft paragraphs were generally the outcome of earlier audit notes, inspection reports, special letters and correspondence with the Railway Administration, the DA, while reviewing them, ensured that the important objections were pursued expeditiously so as to include them in the Audit Report with the least delay. Wherever Railway Board's files were to be reviewed for processing a draft paragraph, the DAs deputed their staff for the purpose and assistance of Headquarter's Office, was sought, whenever necessary. The ADAI(Railways) was freely consulted regarding the suitability of a particular subject or irregularity for comment in the Audit Report.

The system of processing draft paras was modified to give greater freedom to DAs. To enable proper and expeditious finalisation of cases for the Audit Report the facts were got thoroughly investigated and accepted at a fairly high level of the Railway Administration before a draft paragraph was issued. In respect of reviews and potential cases of draft paragraphs, the DAs forwarded initially a factual statement or a

rough tentative draft para along with copies of supporting documents, *demi-officially* to the FA & CAO and the Head of the concerned department of the Railway, soliciting the Railway Administration's remarks including verification of facts and figures mentioned therein within a period of usually 4 weeks. Four copies of the factual statements, duly referenced as to facts, figures, dates, etc., were sent simultaneously to the ADAI(Railways) to enable him to review them and issue supplementary instructions regarding matters to be looked into further.

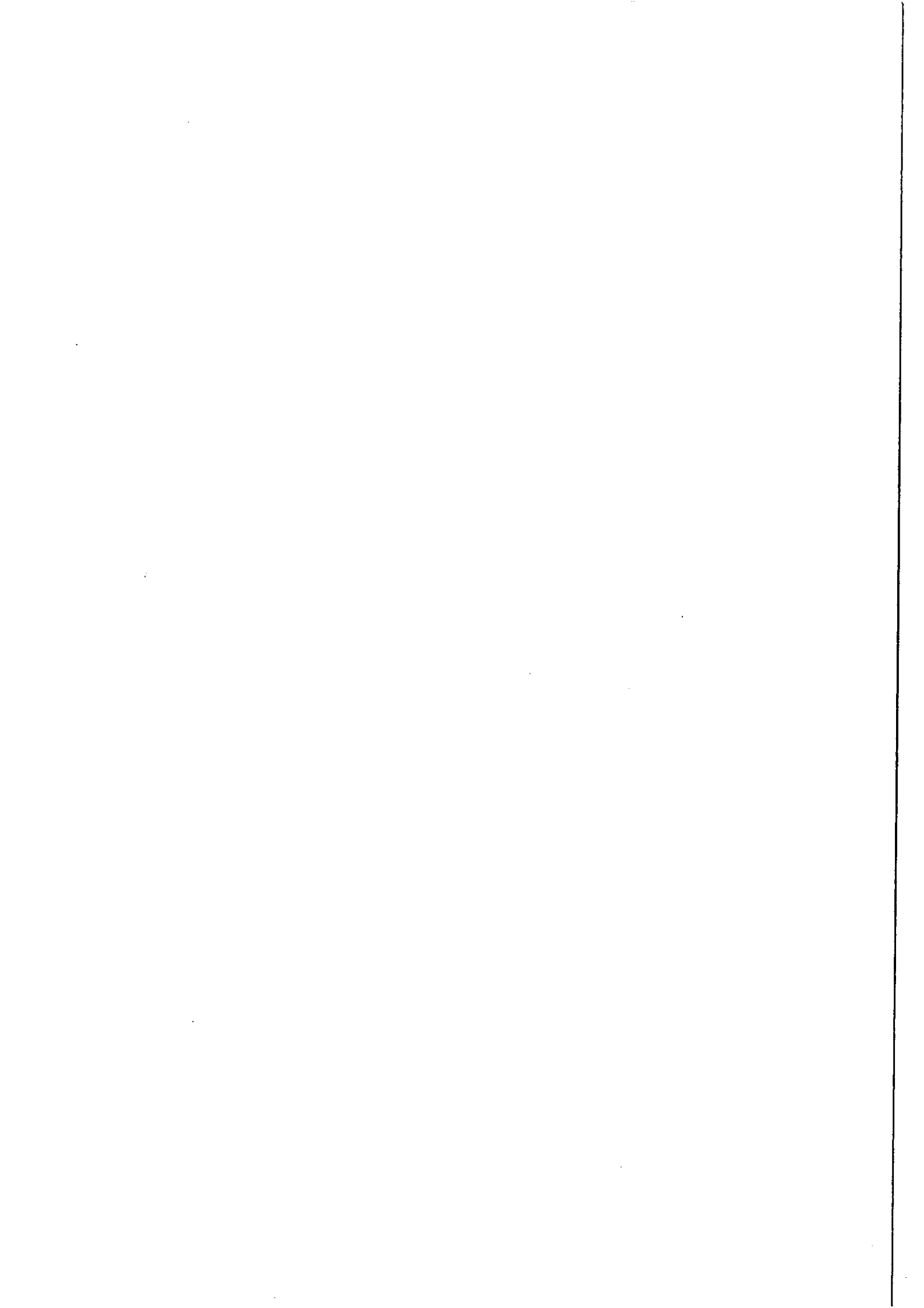
With the restructuring of cadres in the IAAD in March 1984 and consequent changes in the status, composition and emoluments of line functionaries, duties and responsibilities of different categories of staff were redefined to secure accountability and identification of their contribution in terms of quality and quantity. Voucher audit, workshop audit, traffic audit and check of estimates and completion reports were re-oriented after discussion in the conference of Directors of Audit (Railways) in 1984 with a view to ensuring indepth check in a co-ordinated and integrated manner. Accordingly, for the purpose of voucher audit and work shop audit, all the departments were divided into twelve suitable units and one unit was taken up every month, so as to cover the whole field in a year. The selection of shops for workshop audit was made in sequence of the various operational stages like moulding, casting, machining, assembly etc. Central audit programme during a year was correlated to the extent possible with the local inspection programme for the same year. Monetary limits for monthly percentage check in the case of estimates and completion reports were revised so as to correspond to the classification of major works adopted by Railways.

The total strength of the Railway Audit offices including the wing of ADAI (Rlys.) at headquarters in April 1984 was 38 IAAS Officers - 179 AOs, 400 AAOs, 102 SOs, 1209 senior auditors, 301 auditors, 63 PAs/stenos, 269 clerks/typists, 68 record keepers, and 416 group D and other staff. The expenditure incurred by the Department was Rs. 5.30 crores in 1984-85, which constituted 0.05% of the total turn-over of the Railways for the year.

Table at page 570 shows the strength of Railway Audit Department in March 1988.

Figure 15.4 exhibits the organisation of Railway Audit in March 1988.

The expenditure incurred by the Railway Audit Department in 1987-88 was Rs.7.60 crores; the expenditure incurred by the FA & CAO's organisation was Rs. 100.42 crores and the total turn-over of the Railways subjected to audit was Rs. 16635.77 crores. The cost of audit



	IAAS AOs		AAOs SOs		Sr.Ars./ Ars.	PAs/ Stenos	Clerks/ Typists	Rec. Keepers	Others	Group D
ADAI(Rlys)	2	6	12	-	10	4	8	-	-	4
DA, C. Rly	2	28	59	15	216	7-	29	8	1	47
DA, E. Rly	2	22	54	13	223	5	36	7	1	45
DA, N. Rly	5	32	63	16	228	9	47	11	2	69
DA, NE. Rly	2	21	36	9	130	6	23	5	1	33
DA., NEF. Rly	2	16	36	9	131	6	23	4	1	28
DA, S. Rly	2	29	50	13	160	8	30	8	1	46
DA, SC, Rly	3	27	46	12	138	9	21	6	1	42
DA, SE, Rly	2	20	39	10	170	5	35	7	2	44
DA, W. Rly	4	30	51	13	179	4	27	8	1	50
DA, RPU	4	11	24	6	97	8	14	4	1	21
Total	30	242	470	116	1682	71	293	68	12	429

was 7.57% of the expenditure incurred by the Railway finance and account wing and 0.05% of the total turnover of the Railways.

NORTHERN RAILWAY

ORIGIN, GROWTH AND EXPANSION

Northern Railway with its Headquarters at New Delhi was formed in April 1952 by amalgamating the entire Eastern Punjab Railway, Jodhpur Railway, except Marwar Phulad Section, the entire Bikaner Railway, Lucknow, Moradabad and Allahabad Divisions of East Indian Railway and the Delhi-Rewari-Fazilka sections with a route kilometrage of 9719.99 kms and a running track kilometrage of 10776.90 kms. and the capital out-lay was Rs.135.18 crores. It traversed through seven States, Jammu and Kashmir, Himachal Pradesh, Punjab, Haryana, Rajasthan, parts of U.P., parts of Gujarat and the two Union Territories namely Chandigarh and Delhi, serving a total population of about 8 crores. The general economic conditions in these states determined the volume of originating traffic, transportation, earnings etc. of the Railway. Besides being the biggest railway system, it had the advantage of being in the capital of the country, where the Railway Board and the Ministry of Railways were located. The railway net work touched the holy cities of Varanasi and Amritsar, the enchanting valley of Kashmir and Kulu, historical places like Lucknow - the city of Shan-e-Avadh with its Imambaras (Mausoleums), Allahabad - the confluence of three rivers, the Ganga, the Yamuna and the Saraswati, Kurukshetra - the battle field of the epic Mahabharata, Haridwar and Rishikesh - the holy gateway to Badrinath and Kedarnath, Delhi, the capital of the country

and important hill stations like Dalhousie, Mussorie and Shimla. There were 8 divisions - at Ambala, Allahabad, Bikaner, Delhi, Ferozepur, Jodhpur, Lucknow and Moradabad, seven workshops - at Alambagh, Charbagh, Amritsar, Jagadhri, Ghaziabad, Bikaner and Jodhpur and two production units at Patiala and Kapurthala. It has expanded, during the last 34 years, reaching a route kilometrage of 10,977 kms. and running track kilometrage of 12,982 kms. by 31st March, 1987. Eight new lines, conversion of 3 metre gauge lines into broad gauge, doubling of 4 lines, augmentation of the capacity of 3 workshops and providing additional facilities at 5 places involving a total financial outlay of Rs. 251.92 crores were the major works completed during 1962 to 1988. Five other works, each costing less than Rs. 1 crore were also executed during this period. 27 major works were in progress in which Rs. 86.74 crores had been spent upto March 1988. A central organisation for modernisation of workshops (COFMOW) was set up in 1978 to draw a comprehensive modernisation plan for rehabilitating maintenance infrastructure in different workshops and to execute it in a phased manner as the overaged machines rose to 77% by 1977, as compared to 47% in 1952. A Diesel Component Works (DCW) at Patiala with a total estimated cost of Rs. 133.84 crores was set up in April 1983 to be executed in phases - 11 shops in Phase I and 8 in phase II. An expenditure of Rs. 124.10 crores was incurred till December 1988. Six shops included in phase I had started production and the value of products manufactured during 1986-87 to 1988-89 (upto December 1988) was Rs. 13.73 crores. The total strength of the project in June 1988 was 2095 - 80 officers and 2015 staff. Work on a Railway Coach Factory (RCF), Kapurthala with an installed capacity of 1000 coaches per year at an estimated cost of Rs. 310.99 crores was started in August 1985. Rs. 99.48 crores had been spent till December 1987. The coaches proposed to be manufactured were expected to correspond to the specification of the current design being produced at Integral Coach Factory but it had necessary infrastructure to diversify and manufacture coaches of highly advanced design and technology. Facilities for manufacture of light weight coaches with higher carrying capacity suitable for high speed, improved safety and better riding comfort were also provided. Central Organisation for Freight Operations Information System (COFOIS) started functioning from July 1985 for design, development and implementation of freight operations information system of Indian Railways alongwith its associated communication net work project etc., on the basis of an urgency certificate for Rs. 2.77 crores received from the Railway Board. In September 1986 another urgency certificate for Rs. 7.89 crores was received from Railway Board for Telecom segment. From Jun. 1987, the

Centre for Railway Information System (CRIS), which was registered as a society, took over the entire work of COFOIS while the Telecom segment namely Indian Railway Central Organisation for Telecom Consultancy (IRCOT) continued to work independently. In March 1988, the capital investment was Rs. 1908.62 crores, the gross revenue earnings were Rs. 1330.66 crores, the working expenses Rs. 1099.92 crores, the operating ratio was 86.5% and, dividend paid to General Revenues was Rs. 61.30 crores. The net surplus was Rs. 169.44 crores.

THE CHIEF AUDITOR

The Chief Auditor, Northern Railway audited the accounts of Northern Railway, the Railway Board and its attached offices and the Indian Railway Conference Association as also the expenditure on the subordinate establishment and other charges relating to the offices of the Eastern and North Eastern Railway. Audit conducted by him included audit of the general books and accounts including appropriation audit, establishment charges, P.F. accounts, works expenditure, stores and workshops, and grainshops. Audit of catering units was started from 1955, which included local inspection of the units at selected stations, inspection of central purchase organisation and contracts entered into by them. In 1952, the CA was Shri Kalicharan and since then 38 officers held charge of CA/DA and their tenures ranged from 21 days to 4 years and 2 months, held by Shri T. Chinzah. The CA was assisted by one DCA, one ACA and six AAOs. Four of the AAOs held charge of six divisions and were posted at Delhi, Jodhpur, Lucknow and Jullundur (Ferozepore) and carried out the audit of the divisional, workshop and stores accounts of Delhi, Bikaner, Jodhpur, Lucknow, Allahabad and Ferozepore divisions and also conducted inspection of the field units under these divisions. The accounts of Moradabad division was audited by headquarters office. While the CA was in overall charge of the office and directly supervised the audit of Railway Board, the higher audit and the work relating to Central, appropriation audit and budget and administration sections, the DCA was in charge of general control and co-ordination of all divisional audit and workshop audit offices, office administration and office budget, training of staff and circle administration. The ACA carried out the routine work of central book and appropriation audit sections, establishment work and P.F. audit, work relating to Moradabad division and audit of Indian Railway Centenary Exhibition accounts. The AAO (Headquarters) looked after the workshop, stores and grainshop audit of ex-E.P. Railway, expenditure and construction (other than Chunar Robertsganj Construction) audit, routine sections of the office and Calcutta circle audit. The AAO, Foreign Traffic Audit supervised the

Foreign Traffic Audit Branch, Delhi Kishangang - Delhi, local Traffic (Coaching) audit and compensation claims audit, Delhi.

In 1962, the strength of the office was 314 (5 IA & AS Officers, 7 AAOs, 44 SRAS Accountants, 170 SGCs and UDCs, 3 Stenos, 27 Clerks and 58 class IV). In September 1971, a special investigation cell was set up in order to improve the quality of the material for the Audit Report (Railways) and to intensify special investigation of the selected topics for review purposes. With the setting up of an independent accounts organisation for the Metropolitan Transport Project at Delhi, a small auditing unit was also formed in 1971. The strength of the office rose to 328 in 1972 (5 IA & AS Officers, 13 AAOs, 47 SRAS Accountants, 164 SGCs and UDCs, 4 stenos, 30 clerks and 65 class IV). Whereas audit of the accounts of Railway Electrification Projects was the responsibility of the Chief Auditor of the particular Railway, where the projects were executed, the audit of the Central Organisation for Railway Electrification at Nagpur (since shifted to Allahabad) was carried out by DA, Northern Railway, who also audited Mathura Project. In July 1980, a small auditing unit was set up under an AO for audit of the COFMOW, which included audit of contracts placed for supply of machinery and plants to various workshops of zonal railways, establishment expenditure including that on training of personnel for the machines acquired under the modernisation programme and efficiency-cum-performance audit. The strength of the office rose to 412 by 1982 (5 IAAS officers, 23 AOs, 70 S.Os., 192 S.G. auditors/auditors, 5 stenographers, 42 clerks and 75 group D). For auditing the transactions relating to DCW, Patiala, a separate auditing unit consisting of 1 AO, 1 AAO, 2 auditors, 1 clerk was set up in April 1983. After restructuring of cadres from March 1984, the reorganised strength of the office was 443 (5 IAAS officers 26 AOs, 58 AAOs, 14 SOs, 207 Sr. auditors/auditors, 9 PAs, 46 clerks, 11 record keepers and 67 group D). Separate auditing units for audit of RCF Kapurthala were set up in June-July 1986. From August, 1987, a nucleus of trained personnel for audit of all computerised application systems was formed with two audit Officers, who were given suitable training in computers. These trained audit officers imparted basic training in computer to other officers and staff by holding seminars at various places located in and out of Delhi. They also conducted audit of computer systems/records, besides formulating effective audit procedures relating to computerised accounting systems/records. In March 1988 the strength of the Office was 482 (5 IAAS Officers, 31 AOs, 81 AAOs/SOs, 228 Sr. auditors/auditors, 10 PAs, 47 clerks, 11 record keepers and 69 group D) and its expenditure was Rs. 110.20 lakhs in 1987-88. The expenditure incurred by the FA & CAO's

Organisation in that year was Rs. 1493 lakhs and the proportion of audit expenditure accounts expenditure was 7.38%.

The contribution of the office for the AR (Rlys.) during 1955 to 1987-88 was 112 paras and 26 reviews during 1979-80 to 1987-88. The number of paras per Report ranged from 1 to 12. The highest number of reviews - six was contributed for the Audit Reports 1982-83 and 1987-88 when S/Shri R.S. Maunder and T. Chinzah were the Directors of Audit. During the scrutiny of appropriation accounts, various irregularities were pointed out, like, fictitious adjustments of Rs. 1.01 crores to transfer excess expenditure (1978-79), incorrect adjustment of Rs. 25.17 lakhs under miscellaneous advance (Rev.) (1979-80), irregular adjustment of Rs. 8.37 lakhs in previous years (1979-80), credit for return of stores amounting to Rs. 26 lakhs taken as deduction from expenditure of the Grant resulting in defective accounting (1984-85), irregular advance payment of Rs. 1.07 crores to avoid savings in the Grant (1986-87) and excess over the Grant relating to provident fund, pension fund and other retirement benefits due to failure of the Accounts Office in assessing the requirements properly (1986-87) which were accepted by the Railway Administration, 4,563 special letters and test audit notes containing 5,093 items (1037 with money value of Rs. 30.14 crores and 4056 without money value) and 2,277 inspection reports containing 15,990 items (2,345 with money value of Rs. 56.48 crores and 13,645 without money value) were issued during 1982-83 to 1986-87. The average turnover per year was around 713 special letters and 455 audit notes. 1425 special letters and test audit notes containing 1,573 items (347 with money value of Rs. 16.48 crores and 1,226 without money value) and 486 inspection reports containing 2,490 items (645 with money value of Rs. 30.70 crores and 1,845 without money value) were outstanding for settlement in March 1987. Recoveries effected at the instance of audit during the last three years ended 1987-88 were Rs. 5.77 crores, of which about 25% related to transactions already checked by the Accounts Department.

NORTH EASTERN RAILWAY

ORIGIN AND GROWTH

The North Eastern Railway was formed in 1952 by integration of the former Oudh Tirhut Railway, Assam Railways, Kanpur Achnera section of Bombay, Baroda and Central Indian Railway with a total mileage of 4,767 miles/7675 kilometrage. At the time of formation, the capital at charge was Rs. 38.5 crores, gross earnings Rs. 14.36 crores, working expenses Rs. 13.04 crores and operating ratio 88.7. In 1958, it was bifurcated into two zonal administrative units, namely, North East

Frontier Railway and North Eastern Railway. The newly formed North Eastern Railway had a route kilometrage of 842 kms. (BG) and 4,437 kms. (MG). The regional offices were abolished and the district system came into being with district headquarters at Katihar, Samastipur, Sonepur, Varanasi, Gonda, Lucknow, Izatnagar and Fategarh. The Accounts and Audit Offices were centralised at Gorakhpur. From May 1969, the divisional system was introduced with divisional headquarters at Izatnagar, Lucknow, Varanasi and Samastipur and a fifth division at Sonepur from October 1978, which covered parts of Samastipur division and Varanasi division. A separate construction organisation was constituted in 1973 for accelerating the construction activities. Construction of new lines involving a total length of 80.05 kms. was completed during 1975-76 and 1976-77 at a total cost of Rs. 6.16 crores. A new 29.95 kms. long M.G. rail link on Katarniaghat-Kauriyalaghat section was constructed. Subsequently, as part of Bara Banki - Samastipur conversion project, two new lines (159.66 kms.) were constructed at an estimated capital outlay of Rs. 59.37 crores. Six projects to convert MG into BG (1152.96 kms.) at an estimated cost of Rs. 267.19 crores, restoration of one M. G. line (28.41 kms.) estimated to cost Rs. 79.94 crores, construction of four road overbridges estimated to cost Rs. 10.60 crores, construction of two diesel sheds estimated to cost Rs. 8.70 crores were the other works under execution. Survey works for construction of seven new lines (2859.53 kms.) and for one project of guage conversion (310 kms.) were also underway. Railway workshops were located at Gorakhpur, Samastipur and Izatnagar for undertaking periodical overhaul/intermediate overhaul/special repairs of engines, coaches and wagons and a signal workshop and a bridge workshop were set up at Gorakhpur. Stores depots at Gorakhpur, Samastipur and Izatnagar were controlled centrally by the Chief Controller of Stores stationed at Gorakhpur. The zone covered a wide spectrum of 5,163 kms. spread over 1,911 kms. in 19 districts of North Bihar and 3,252 kms. in 33 districts of Uttar Pradesh. It has a network of 844 kms. of broadgauge from Lucknow to Katihar and 4,319 kms. of metre-gauge covering 729 stations, from Achnera near Agra in the West, Katihar in the East and from Raxaul, the gateway to Nepal in the North to Allahabad in the South. It served the regions, which are agriculturally rich and poised for industrial development and traversed through places of tourist pilgrimage and historical importance. In March 1987, the investment was Rs. 623.5 crores and the total route kilometrage 5163; the aggregate earnings were Rs. 227.89 crores; and working expenses Rs. 390.74 crores; the operating ratio was 170.50 per cent; Rs. 23.04 crores were paid as dividend to general revenues and the net deficit was Rs. 136.68 crores.

The total number of employees was 1,01,613. The growth and development of Railway determined the scope and coverage of audit in the last 26 years.

THE CHIEF AUDITOR

Initially, started as the office of the Government Examiner of Company Railways, it came to be known as the office of the Chief Auditor in 1918, and was stationed at Delhi both for O.T. Railway and E.P. Railway with headquarters at Delhi and a Deputy Chief Auditor at Gorakhpur. A Chief Auditor, Shri Keshav Dayal, was posted for auditing the transactions of the entire North Eastern Railway at Gorakhpur from 1952, who was assisted by one Deputy Chief Auditor at Gorakhpur and another at Pandu. Since then 26 CAs/DAs headed the office upto March 1989, the longest tenure being 3 years 7 months and 5 days of Shri R.P. Srivastava. Even after the bifurcation of the North Eastern Railway into two in July 1958, the arrangement of having a single CA continued and a separate Chief Auditor for North East Frontier Railway was appointed in 1962. After the introduction of divisional system, the divisional audit officer functioned at Izatnagar, Lucknow, Varanasi and Samastipur and later Sonapur. The strength of the office was 156 in 1971 and its expenditure Rs. 8.09 lakhs, which was 0.08% of the turnover of the Railway. In March 1988 there were 2 IAAS officers, 21 AOs, 46 AAOs/SOs, 130 auditors, 6 stenographers, 24 lower division clerks, 13 record keepers and 38 group D officials in headquarters at Gorakhpur and in the four divisional offices. The expenditure incurred was Rs. 70.04 lakhs which constituted 0.10% of the total turnover of the Railway.

The average number of audit notes and special letters issued per year during the five years ended March 1987 was 72 (34 without money value and 38 with money value of Rs. 0.99 crores) and the average number of inspection reports was 268 (148 without money value and 120 with money value of Rs. 12.33 crores). The aggregate outstanding in March 1987 was 300 audit notes and 769 inspection reports with a total monetary effect of Rs. 45.05 crores and the oldest pending one related to 1973-74. Recoveries made at the instance of Audit for the last five years ended 1987-88 ranged from Rs. 9.49 lakhs in 1983-84 to Rs. 52.25 lakhs in 1987-88 and the total recoveries amounted to Rs. 1.17 crores, bulk of which were transactions already audited by the FA & CAO. The contribution to the Audit Reports 1947-48 upto 1987-88 was 147 paragraphs, including 16 reviews which were contributed for ARs 1980-81 to 1987-88. The maximum number of paras was contributed for ARs 1959-60 and 1981-82 - 12 and 11 respectively - when S/Shri T. Rengachari and S.C. Mookherjee headed the Office. The maximum

number of reviews - five - appeared in AR 1987-88 during the tenure of Shri P.K. Bandopadhyay.

NORTH EAST FRONTIER RAILWAY

FORMATION AND EXPANSION

The Assam railways at the time of independence with headquarters at Pandu became a part of North Eastern railways on its formation in April 1952, with a route mileage of 1774 miles. The North Eastern Railway was bifurcated in July 1958 into two units and one of the units was the newly created North East Frontier Railway, which consisted of the Pandu Region of the former North Eastern Railway excluding Purnea-Nurliganj and Bankankhi-Bahariganj sections. Two company owned metre-gauge Railways viz., Katakhal-Lalbazar and Chaparmukh-Silghat with a route kilometrage of 38.11 and 81.08 respectively were also worked by the North East Frontier Railway. In 1958-59, the capital at charge was Rs. 61.80 crores, the gross receipts Rs.12.19 crores, the working expenses Rs. 16.75 crores and the operating ratio 135.18 per cent. In March 1987 the route kilometrage was 3,763.01 (BG 768.15Kms., MG 2,907.38 Kms. and NG 87.48 Kms.). Construction of new lines, Rangapara North-North Lakhimpur - Murkongselek (estimated cost Rs. 28.89 crores), Khejuriaghat-Malda (estimated cost Rs. 3.68 crores), Kalkalighat-Dharma nagar (estimated cost Rs. 2.3 crores) and Kumedpur- Barsoi-new railway link (estimated cost Rs. 94.45 lakhs) and extension or doubling of existing lines namely, BG line from near Siliguri to Jogighopa in Assam (estimated cost Rs. 32 crores) and extension of BG line from New Bongaigaon to New Gauhati (estimated cost Rs. 89.5 crores), expanded the route kilometrage in the next two decades. The Railway served North Bengal and portion of North Bihar and constituted the life line for sustaining north east frontier region comprising Assam along with the States of Tripura, Mizoram, Manipur, Nagaland, Arunachal Pradesh and Meghalaya and traversed through the plain and the hilly regions and Brahmaputra and Barak rivers and their tributories. The headquarters of North East Frontier Railway are situated at Maligaon (Guwahati) and has four divisions with their headquarters at Katihar, Alipurduar, Luamding and Tinsukia. It has four workshops, eleven stores depots, one ticket and general printing press and one cloth cutting factory. In 1986-87, the total route kilometrage under it was 3768.80 kms. and the number of stations 468. The Railway has 83000 employees. The gross revenue receipts were Rs. 184.86 crores and working expenses Rs. 350.87 crores. The capital at charge was Rs. 468.18 crores and the percentage of net revenue to capital at charge was 29.14.

The net deficit was Rs. 139.92 crores. The growth and development of the Railway formed the arena in which the Chief Auditor played his statutory role.

THE CHIEF AUDITOR

The Chief Auditor at Calcutta audited the transactions of the Assam Railways prior to the formation of the North Eastern Railway in 1952. After the creation of North Eastern Railway, the Chief Auditor at Gorakhpur held jurisdiction over Assam Railways as well, with a Deputy Chief Auditor at Pandu. A separate Chief Auditor for NEF Railway at Maligaon was appointed in April 1962 and Shri M.P. Gupta, joined as the first Chief Auditor. Since then 23 CAs/DAs headed the office, the longest tenure of 4 years and 8 months being that of Shri N.G. Mallick. The audit officers functioned at the headquarters of three divisions and branch audit officers at Maligaon, Tezpur, Silchar and New Jalpaiguri, one each at Dibrugarh Town and New Bongaigaon for workshop and stores and one at Jalpaiguri for workshop and stores, printing press and Old BG construction and establishment and some openline offices. The strength of the office which was 62 in 1958-59, became 137 in 1971-72 (1 IAAS officer, 4 AOs, 24 SRAS Accountants, 72 SG auditors/auditors, 4 stenos, 13 clerks and 19 class IV). In March 1987, the strength was 250, 2 IAAS officers, 11 AOs, 26 AAOs, 37 SOs, 113 Sr. auditors/auditors, 6 stenos, 21 clerks, 2 PAs, 1 welfare assistant, 4 record keepers and 27 group D. The expenditure was Rs. 57.40 lakhs, which constituted 9.33% of the expenditure of FA & CAO and 0.10% of the turnover of the NEF Railway. The average number of special letters issued during the last five years (upto 1986-87) was 52 with an average monetary effect of Rs. 2.59 crores per year. The average number per year of inspection reports issued was 195 with the monetary effect of Rs. 1.98 crores. The average number of audit notes issued was 203 with the objections of the monetary value of Rs. 0.06 crores. The aggregate outstanding in March 1987 was 314 special letters, 1247 inspection reports and 569 audit notes with a total monetary effect of Rs. 26.39 crores. The contribution for Audit Reports (Railways) for the years 1959-60 to 1987-88 was 107 paras. 15 reviews were contributed for the ARs 1975-76 to 1987-88. The maximum number of paras - three each - was contributed for the ARs 1971-72 and 1983-84 during the tenure of Shri U.D. Acharya and Shri N.G. Mallick. The maximum number of reviews were contributed to ARs 1971-72, 1978-79, 1980-81, 1983-84, 1986-87 and 1987-88 during the tenures of Shri U.D. Acharya, Shri G.M. Mani, Shri S. Chandrasekhar and Shri N.G. Mallick respectively.

EASTERN RAILWAY

THE BEGINNING

The Eastern Railway, successor to the East Indian Railway set up as far back as 1854, comprising Moradabad, Lucknow and Allahabad divisions of the present Northern Railway and portions of the Ex-Bengal and Assam Railway taken over after partition, was formed on 14th April, 1924 when Bengal-Nagpur Railway was merged into it and Moradabad, Lucknow and Allahabad Divisions were transferred to Northern Railway. The total mileage was 5667 and kilometrage was 9124. The ex-B.N. Railway portion and Adra District, which formed part of the Ex-Bengal and Assam Railway were transferred to the newly formed South Eastern Railway in 1955. Total route kilometrage was reduced to 3707.1 (B.G) and 27.6 (N.G) by 1955-56. There were four divisions - Sealdah, Howrah, Asansol and Danapur. Dhanbad Division was formed in 1963-64 and two more were added - Mughalsarai in April 1978 and Malda in July 1984 and the portion of N.F. Railway from Farakka to Malda town was transferred to Malda Division. A construction organisation set up in Eastern Railway in 1956 undertook and completed construction of various important works and projects during the last three decades. Chandrapura-Muri-Ranchi-Nawagaon project, Barasat - Basirhat, Bakhtiarpur-Rajgir, Richuguta-Tori, Karaila Road - Bina - Jayant, Tori-Kumandih doubling, bridges on Damodar and Ganga at Farakka, Maniktola under bridge with jacking technique, Buckland Bridge across Howrah yard, yard remodellings and sidings etc. were completed. In all, 1170 kms. including new lines, doubling, and sidings etc. were added. Calcutta circular railway was completed and opened to public traffic from August 1984 over 10.5 Kms. Work on Garwa Road-Sonnagar doubling, Kiul-Bhagalpur and Link cabin-Malda Town doublings and on a new line from Lakshikantapur to Namkhana 47.5 Kms.) was under construction. There were three workshops - at Jamalpur, Liluah and Kanchrapara- for undertaking overhaul and special repairs of steam and diesel locos, conventional coaches, EMU motor coaches and trailer coaches as also steam and diesel cranes, manufacture and repair of steam and diesel loco spares and assemblies etc. Jamalpur workshop also undertook manufacture of the ticket printing machines in 1961, rail travelling cranes in 1962, synchronised electrically operated jacks in 1964, and tower cars during 1984. Its route kilometrage at the end of 1986-87 was of 4,281.25 Kms. and track kilometrage 6582.07 Kms, of which 1255.06 and 2584.69 Kms. respectively was electrified. There were 730 stations including the major passenger terminals on Howrah and Sealdah and about 14.5 lakhs originating passengers were handled daily. About

1236 passenger trains were run daily of which about two third were suburban. It operated a fleet of nearly 1118 locomotives, 3000 passenger coaches, 1000 EMU coaches and over 82,000 wagons to cater to the needs of passenger and freight services. The total staff strength was around 2.4 lakhs. The coal traffic constituted over 80% of the originating traffic of the Railway - serving the major coal fields-Asansol, Jharia, Karanpura and Singrauli - which covered almost 45% of the entire coal carried by rail in the country. The total investment in March 1987 was Rs.15.18 crores. The gross earnings were Rs. 900.55 crores and running expenses Rs. 953.69 crores. The operating ratio was 105.90%

THE CHIEF AUDITOR

An audit office functioned in some form or other from the beginning for conducting the test audit of the accounts of the changing railway, including the portions of the ex-Bengal and Assam Railway taken over by the East Indian Railway, after partition. The Audit Officer was also the auditor for the expenditure in respect of Class III and IV services of the offices of the Chief Auditors, Great Indian Peninsula, Bombay, Baroda and Central India, Madras and Southern Mahratta and South Indian Railways. The audit of the accounts of Locomotive Manufacturing Workshop at Chittaranjan was added in May 1948 and Shri C.S. Rao was the CA in 1949, who was assisted by a Dy. CA, an assistant chief auditor and six assistant audit officers and the total strength of the office was 186. The headquarter's office was organised into 13 sections - Records and correspondence, administration and localisation, Central (Main) Section including appropriation audit, book and budget, stores (Central) audit, establishment audit, provident fund audit, traffic audit, electrical and expenditure audit, construction audit, grainshop (Central) audit, construction audit/Barwadih, construction audit, Loco Manufacturing, CLW (A.R.L.P.) Kurseong and Darjeeling Himalayan Railway Audit Office/Kurseong. There were seven divisional and four workshop units. Test audit was conducted by small units attached to the accounts offices in the divisions and workshops. The divisional Audit offices audited the accounts maintained and the work done in the respective Divisional Accounts Offices and carried out inspection of the accounts and records maintained in the Executive Offices under the Divisional Superintendents. The Workshop Audit Offices audited the workshop accounts maintained by the accounts offices attached to the work shops. The audit of Stores Accounts of Howrah and Liluah depots was carried out by the workshop and stores audit section, Liluah, and Jamalpur and Lucknow depots by the attached workshop and stores audit sections. Stores audit, Central with Headquarters at Calcutta conducted the audit

of accounts of stationery depot/Howrah, Asansol sleeper depot and Pig Iron maintained at Howrah, CE's stock of mathematical instruments and the registers and accounts maintained by the central stores accounts branch, Calcutta. The audit of stores accounts of the two depots of Haliashahar and Kanchrapara was carried out by the workshop Audit Office, Kanchrapara. A divisional audit office at Dhanbad was opened in 1964. Audit of Railway Production Units at Chittaranjan and Varanasi was transferred to the newly formed CA (RPU) in 1969 and Metro Railway in October 1974 but the CA, E.Rly., Calcutta continued to function as the cadre controlling authority in respect of the staff working in RPU Head Office at Calcutta and the branch offices at CLW/Chittaranjan and DLW/Varanasi. A new divisional audit office was set up at Mughalsarai from April 1979 and another one was formed at Malda in January 1986. The total strength of the office increased to 301 in March 1958 and 356 in 1978.

In 1988, there were twelve sections at Headquarters, seven Divisional Offices at Howrah, Sealdah, Dhanbad, Danapur, Asansol, Mughalsarai and Malda and three workshops and Stores Audit Offices at Jamalpur, Liluah and Kanchrapara and the total staff strength was 406 (audit Officers 22, assistant audit officers/SOs 67, welfare assistant 1, Sr. auditors/auditors 223, clerks/typists 36, stenographers 5, record keepers 7 and group D employees 45) besides 2 IAAS officers. The expenditure incurred in 1987-88 was Rs. 112.13 lakhs, which constituted 8.2% of the total expenditure of the FA & CAO and 0.06% of the total turnover of the Eastern Railway. Forty nine officers held the posts of CA/DA till March 1989, the longest tenure being that of Shri N.G. Sen (5 years and 23 days).

Twenty five special letters containing 32 items (including 29 with money value of Rs. 3.74 crores and 64 audit notes containing 87 items (including 55 with money value of Rs. 1.09 crores) were issued during 1982-83 to 1986-87. Twenty two special letters containing 25 items (22 with money value of Rs. 2.37 crores, 341 inspection reports containing 851 items (625 with money value of Rs. 124.33 crores) and 33 Audit notes containing 38 items (19 with money value of Rs. 0.64 crore) were outstanding for settlement at the end of March, 1987. Some of the objections related to the years 1976-77, 1978-79 and 1981-82. Total recoveries pointed out by audit after check of transactions already checked by the internal accounts department were around Rs.1.26 crores during the six years ending 1986-87. 166 paras were contributed for the Audit Reports from 1947 to 1987-88. Except during 1955, 1973-74, 1978-79 and 1983-84, paras were contributed regularly, which ranged from one to nine (1961, 1962 and 1974-75 Reports). The average number of paras for each year's Report was four. Three reviews - performance of three

Marshalling Yards - Chitpur, Naihati and Andal, import of spare parts for WAG-2 Electric Locomotives and procurement of tyres for electric multiple unit (EMU) coaches, (paras 7, 13 and 18) appeared in the Audit Report 1974-75, when Shri N. G. Sen was the Chief Auditor. Except for the year 1977-78, 1978-79 and 1983-84, reviews appeared regularly in each year's Report and in all 25 reviews appeared in 11 years' Audit Report. The maximum of five reviews appeared in 1986-87 as well as 1987-88 Reports, which were proposed by Shri A.S. Mohindra.

SOUTH EASTERN RAILWAY

FORMATION

The South Eastern Railway was formed in 1955, after the bifurcation of Eastern Railway, with a total kilometrage of 5470 and covered six States, namely, West Bengal, Orissa, Andhra Pradesh, Bihar, Madhya Pradesh and Maharashtra. At the time of its formation, the capital investment was Rs. 104.01 crores, gross earnings Rs. 32.30 crores, working expenses Rs. 28.74 crores operating ratio 88.72% and the net earnings were Rs. 3.56 crores. As part of the national development plan, to serve the vital steel sector - Bhilai, Rourkela, Tatanagar, Bokaro, Burnpur, and partly Durgapur as well as the ports of Calcutta, Haldia, Paradeep and Vishakapatnam, several sections were doubled and new lines constructed, major construction works being Noamundi-Bhadrasai (Banspani) section (28.64 Kms.), Bhilai-Dalli-Rajhara section (85.50 Kms.), Sambalpur-Titlagarh section (183.83 Kms.), Talgaria - Tupkadi section (33 Kms.), Kottavalasa-Karandul section (445 Kms.), Panskura-Haldia section (69.61 Kms.), Jakha pura-Daitari section (33 Kms. and Cuttack-Paradeep section (84.31 Kms.) involving a total capital outlay of Rs.131.29 crores. Bankura-Damodar Railway, a narrow - guage section of 96.4 kms. taken over by the Government of India from Messrs. Mc-Leod & Co. Ltd., in 1967 was merged with the South Eastern Railway system. Construction of broad-gauged line upto Howrah-Amta-Champadanga section (73.53 Kms.) in replacement of the obsolete railway line belonging to Martin Railway Company was also under construction at an estimated cost of Rs. 31.43 crores; Phase I costing Rs. 16.15 crores had been completed, Phase II was in progress. Similarly, construction of broad-guage lines from Koraput to Rayagada (164 Kms.) and from Tamluk to Digha (87.50 Kms.) at an estimated cost totalling Rs. 99.79 crores was in progress. The route kilometrage of the railway expanded to 9182 kms. and the train kilometrage to 60850 in 1987-88. With only 10% of the country's total route kilometerage, 12% of the Indian Railways' track kilometrage and less than 10% of the country's

railway stations, the South Eastern Railway provides facilities for nearly one third of the total originating freight traffic of the Indian Railways. In 1985-86, out of a total of 286.38 million tonnes loaded and moved on the Indian Railways, the South Eastern's share was 89.12 million tonnes, mostly because of the location of steel plants, coal fields, thermal power stations, cement factories, paper mills and adjacent four ports in the region. In 1987-88, the capital at charge was Rs. 1680 crores, the gross earnings Rs. 1441 crores, working expenses Rs. 1065 crores, operating ratio 73.97% and the net earnings were Rs. 376 crores. The Railway employed 2.07 lakhs persons in different levels.

THE CHIEF AUDITOR

The CA, South Eastern Railway, was appointed in 1955, and Shri N. Narayanaswamy took over the duties and functions of the then DCA for B.N. Railway region. The CA was assisted by two DCAs. In October 1958, two regional offices started functioning at Chakradharpur and Bilaspur. Branch offices at divisional headquarters namely, Kharagpur, Waltair, Nagpur, Adra and Khurda Road, were started from October 1962. Centralised construction audit office at Garden Reach was opened in 1953 for audit of railway construction projects and later, two more offices were opened at Bilaspur and Waltair. The strength of the office was 170 in 1959 (8 officers and 162 staff) and the expenditure incurred Rs. 22.25 lakhs which was 0.3% of the turnover of Railway. In March 1988, the strength was 340 (65 officers and 275 staff) and the expenditure incurred Rs. 83.84 lakhs, which constituted 5.57% of the expenditure of FA & CAO of the SE Railways and 0.05% of the total turnover of Railways. Up to March 1989, there were 32 CAs/DCA and the longest tenure was of Shri E.R.A. Dent (4 years 1 month and 26 days). The average turnover of objections during the last four years (1984-85 to 1987-88) was 33 special letters, with average monetary value of Rs. 4.77 crores per year, 71 inspection reports with monetary value of Rs. 10.52 crores and 6 audit notes with monetary value of Rs. 6.9 lakhs. One hundred and forty nine special letters, 275 inspection reports and 17 audit notes of the aggregate monetary value of Rs. 117.36 crores were outstanding in March 1988. In addition, 23 special letters, 57 inspection reports and one audit note, whose monetary value was not known, were also outstanding. Recoveries made at the instance of Audit ranged from Rs. 4.75 lakhs in 1983-84 to Rs. 19.43 lakhs in 1987-88. The aggregate recoveries during five years ended 1987-88 were Rs. 0.49 crores. 141 paragraphs and 25 reviews were contributed for the Audit Reports (Railways) for the years 1955-56 to 1987-88. The reviews were contributed during the period 1969-70 to 1987-88 and the maximum of

five reviews appeared in 1987-88 Audit Report when Shri P.G.N. Nampoothiri was the Director. Number of paras varied from 1 to 11 (1966-67 Report), the latter during the tenure of Shri R. Chinnappa as CA. The number of paras contributed for the four years' reports upto 1987-88 was 5, 8, 5 and 2 (there was no para for 1986-87 report) and reviews 3, 2, 1, and 3. Check of appropriation accounts brought out comments on excess over grant, savings in grant and misclassification, defect in budgeting etc., in selective years.

CENTRAL RAILWAY

FORMATION AND EXPANSION

Central Railway was formed in November 1951 by amalgamation of Great Indian Peninsula Railway, the pioneer line in the East, with a hoary tradition of nearly 100 years by then, Ex-Nizam's State Railways, the Scindia State Railway of Gwalior and the Ex-Dholpur State Railway with an aggregate kilometrage of 8,734.89 Kms. (M.G. 6,584.05 Kms., BG 1,243.20 kms. and NG 907.64 Kms.). The Barsi Light Railway was added in January 1954 and the Bina-Kota, Bhopal-Ujjain and Ujjain-Agra sections were taken away in March 1957. It had a central geographical location and, for the most part, was a mid-land railway and covered the whole of Maharashtra, Madhya Pradesh, a part of Uttar Pradesh and linked Bombay and New Delhi. It traversed through a large area of diverse physical features - Sahyadri range with long stretches of steep gradients, heavy graded section of Vindhya and Satpura ranges and touched several historical and religious places in the vast region. The meter gauge section was transferred to South Central Railway and Western Railway in October 1956. Two divisions namely, Secunderabad and Solapur with their total route kilometrage of 3,085.83 and a track kilometrage of 4,027.53 were transferred from the Central Railway to form part of the new South Central Railway with effect from October 1966. Consequent on reorganisation of South Central Railway, the Solapur division was added back to Central Railway in two stages *i.e.* Pune (excluding) to Shahabad (excluding) section from November 1977 and Shahabad (including) - Wadi (including) section from March 1978. The open line kilometrage was 6,263.57 Kms. of route kilometrage and 13,410.71 Kms. of track kilometrage. After reorganisation in October 1966, it had 5 divisions *viz.* Bombay, Bhusaval, Nagpur, Jabalpur, and Jhansi. The Jabalpur division of South Central Railway was added in two stages in October 1977 and March 1978. Bhopal division was formed in January 1987. The construction organisation of the Central Railway came into being in 1955 under the administrative control of General

Manager, Central Railway, headed by the Chief Administrative Officer (Construction). Eight new lines involving a total kilometrage of 695.62 kms were constructed (capital outlay Rs. 109.27 crores); Ten lines were doubled (Rs. 68.15 crores); third line was added on three sections (Rs. 53.01 crores) and additional facilities, like stabling, platform and repair and maintenance etc. (Rs. 28.81 crores) were added during the last 40 years or so. The Chief Project Manager, Nagpur was incharge of the electrification of five sections involving a total capital outlay of Rs. 382.71 crores, against which an expenditure of Rs. 284.56 crores had been incurred upto the end of March 1988. The Metropolitan Transport Project Railways (MTP) Organisation headed by a Chief Accounts Officer was formed in July 1969, for progressive improvement of metropolitan railway service in Bombay. It undertook the construction of track from Goregaon to Bandra on Western Railway 12.74 Kms., Bhandup to Kurla 11.17 Kms., and Ravli Junction to Fort Market 10.56 Kms. at a cost of Rs. 152 crores (1979 prices). In the first phase, construction of flyover between Bandra and Khar Road stations was taken up and the flyover was commissioned on 1st October, 1983 at a total cost of Rs. 9.80 crores. Construction of an additional pair of lines between Bandra and Andheri at an estimated cost of Rs. 46.61 crores and construction of railway line from Mankurd to Belapur with a bridge across Thana Creek, at an estimated cost of Rs. 132.15 crores were under way, expenditure of Rs. 3.75 crores and Rs. 28.33 crores respectively had been incurred upto March 1988.

THE CHIEF AUDITOR

The Office of the CA of Great Indian Peninsula Railway, Bombay was in existence in some form or other since 1929 and was renamed as the office of the Chief Auditor, Central Railway, Bombay. After its formation in 1951, Shri S. N. Ghatak was the CA. The strength of the office in April 1950 was 96 (2 IAAS officers, 3 AAOs, 16 SRAS Accountants, 55 Upper division clerks, 1 Steno and 19 Class IV employees). The Audit Office at Gwalior, which functioned for the audit of the accounts of Scindia Railway, was closed in March 1952 and the audit work was transferred to the Bombay Office in February 1953. A separate construction section was formed in 1954. With the introduction of divisional accounting system, seven divisional audit offices were formed in 1956. From April 1957, the inspection unit was decentralised and the divisional audit officers were made responsible for local inspection of respective divisions. A coordination section was formed in April 1957 in headquarters for dealing with general investigations draft paras, procedures in auditing and some other miscellaneous items.

Secunderabad branch office and the Solapur division were transferred to Chief Auditor, Bombay in November 1957. Efficiency-cum-performance audit section was formed out of higher audit section in February 1961. The strength of the office increased to 253 in 1960. A separate metropolitan transport project audit section at headquarters was formed in March 1973. A new section - Report - was created in August 1975 to deal with the work relating to factual statements and draft audit paragraphs. The Solapur division was transferred to Central Railway in October 1977. The designations of the Chief Auditor/Dy. Chief Auditor/Assistant Chief Auditor were modified to Director of Audit/Dy. Director of Audit/Assistant Director of Audit from April 1979. A construction audit section at Pune and POH, W & S audit section, Bhusaval with 1 SO, 3 auditors and 1 clerk each were set up in June 1979. A new audit Section headed by an Audit Officer (Railway Electrification Project), Nagpur, was set up with effect from April 1983 to audit the accounts of railway electrification project covering five sections. Restructuring of cadres from 1 March, 1984 brought in certain changes in the duties and functions at all levels. A new construction audit section at Bhusaval was set up from January 1985 to audit the construction works of Bhusaval division. A separate audit unit was set up under the Audit Officer (Railway Electrification), Bhopal with effect from January 1987 to audit the accounts relating to the concerned electrification lines. A new divisional audit office at Bhopal was set up in May 1987 to audit the accounts of Bina (inclusive) and Itarsi (exclusive) section.

In March 1988, the strength of the office was 413 - 2 IAAS officers, 28 audit officers, 76 AAOs/SOs, 215 Sr. auditors, 1 welfare assistant, 1 Sr.PA, 6 stenos, 29 clerks/typists, 8 record keepers and 47 Gr.D. In all, there were 42 officers worked as CAs/DAs upto March 1985, and the longest tenure was 3 years and 8 months held by Shri S. Manzure Mustafa. The expenditure incurred for 1987-88 was Rs. 99.20 lakhs, which constituted 6.59% of the expenditure incurred by the FA & CAO's organisation and 0.04% of the turnover of the Central Railway. The average turnover of objections raised during the last three years ending 1987-88 was 63, inspection reports with an average money value of Rs. 12.92 crores per year, 21 audit notes with monetary value of Rs. 2.68 crores and 14 special letters with monetary value of Rs. 3.22 crores. Recoveries made at the instance of audit during the last 6 years ending 1987-88 ranged from Rs. 23.76 lakhs in 1982-83 to Rs. 14.91 lakhs in 1986-87. The aggregate recovery was Rs. 1.29 crores.

The contribution for the Audit Reports 1950 to 1988 was 146 paragraphs. Except during 1986-87, there was regular contribution of 6 to 8 paras every year. The first review was included in Audit Report 1972,

and since then 37 reviews were contributed for the Reports, ranging from 1 to 6 each year. Four reviews were contributed for 1982 Report. The maximum number of paras and reviews was included in Audit Report 1983-84 and 1987-88, when S/Shri S. Soundararajan and A.H. Jung were the Directors of Audit. Instances of defective budgeting, misclassifications, unsanctioned expenditure, cases of losses, undercharges, remissions and abandonment of claims to revenue and irregular reappropriations were brought out during the scrutiny of the appropriation accounts in each year. There was delay in certification of appropriation accounts by Audit ranging from 45 to 60 days on an average due to non-adherence to the target date by the Railway Administration.

WESTERN RAILWAY

FORMATION

Western Railway was formed in November 1951 by regrouping the Bombay, Baroda and Central India Railway, Saurashtra Railway, Rajasthan State Railway, Jaipur State Railway, Kutch State Railway and the Gaikwad State Railway into a single unified system. The Delhi-Rewari-Fazilka and Kanpur-Achnera Sections were merged with the Northern and North Eastern Railway in May 1952, while the Marwar Phulad section of Jodhpur Railway was merged with Western Railway. The total capital outlay was Rs.111.14 crores and the total route kilometrage 9697.39 kms. in 1952. Its gross earnings were Rs. 45.86 crores and net earnings Rs.15.21 crores, *i.e.* 0.19% of capital outlay. The net gain was Rs. 10.83 crores. The route kilometrage in 1986-87 was 11,082.85 kms. (comprising BG 4342.53, MG 5640.84 and NG 1099.48 with an aggregate investment of Rs.1087.18 crores. Construction of eleven new lines for a total length of 1528.87 kms., doubling of six lines aggregating to 483.68 kms. and electrification of four sections with a route kilometrage of 1020 and track kilometrage of 2240 kms. were the main achievements till March 1987. The Railway traversed through a number of religious and historical places like Veraval (Somnath Temple), Dwarka, Porbandar (birth place of Mahatma Gandhi), Ajmer (famous for Durgah and Pushkar), Mathura (birth place of Lord Krishna), Agra Fort, Taj Mahal, Lal Quila (historical fort), Chittorgarh and Ujjain (Shiva temple), places of commercial interest like Ahmedabad and Surat and places of tourist attraction like Udaipur, Jaipur, Abu Road and Bharat.

THE CHIEF AUDITOR

A Chief Auditor was entrusted with the audit of ex-B.B. & CI Railway

(present Western Railway) and the ex-GIP Railway (present Central Railway). In regard to the B.B. & CI portion, he was assisted by 1 Dy. Chief Auditor, 1 AAO, 8 SRAS Accountants, 29 UDCs, 2 LDCs and 12 class IV. With the regrouping of the railway systems and the introduction of the divisional pattern in 1952, one separate CA, Shri Natvarlal Mehta was assigned the task of dealing with the transactions pertaining to the Western Railway and he was assisted by two Deputy Chief Auditors - One at Bombay and the other at Bhavanagar - One assistant Chief Auditor and 7 Audit Officers and the total strength of the office was 163 (4 IA & AS, 7 AAOs, 24 SRAS Accountants, 81 UDCs, 9 LDCs, 3 Stenographers and 35 Class IVs). The organisational arrangements of the office of the CA were such as to facilitate the working of the auditing units side by side with the accounting units of the FA & CAO's office. The CA conducted detailed test check of the accounts of Western Railway, audited sanctions issued by various authorities, carried out audit of expenditure and earnings, scrutinised appropriation accounts and reports and inspected the initial accounts and records of administration, executive offices, stations, workshops, stores, depots, running sheds, power houses, etc. The strength of the office rose to 231 in 1957-58 and to 266 in 1962-63, when its expenditure was Rs. 9.29 lakhs, which worked out to 0.14% of the working expenses of the Western Railway. In 1964, the Chief Auditor's organisation at headquarters consisted of 9 sections - Administration, Book and Budget, Co-ordination, Establishment and expenditure, Stores, Catering and inspection, Higher Audit, Survey and construction audit and Claims sections. Apart from these, a special squad consisting of one SRAS Accountant and 1 auditor was created for conducting special inspections, reviews or investigations as and when the need arose. There were 8 Divisional Audit Offices at Bombay Central, Baroda, Ratlam, Kota, Ajmer, Jaipur, Rajkot and Bhavnagar. The divisional audit offices dealt with test audit of the accounts of the divisions relating to establishment expenditure, book and budget and appropriation accounts and also carried out local inspections of the accounts of the divisional offices including sub-offices and of railway schools. For auditing the workshop and stores accounts separate units existed at Parel (Bombay), Sabarmati, Ajmer, Bhavnagar Para and Dohad. For dealing with the audit of traffic accounts for the whole of Western Railway, a separate traffic audit section functioned at Ajmer. With the increase in the construction activities of the railway, 5 construction audit units were set up at Kota, Ahmedabad, Rajkot, Ajmer and Hyderabad and 2 railway electrification audit units at Vadodara and Kota from the point of view of work efficiency. The strength of the office increased to 295 in 1972-73 and its expenditure was Rs. 17.28 lakhs. In

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1984, the strength was 354 and its expenditure Rs. 51.08 lakhs which constituted 0.13% of the working expenses of the railway.

In March 1988 there were 8 divisional audit offices, 2 workshop audit offices, 5 workshop and stores audit offices, 5 construction audit offices and 2 railway electrification audit offices. The total strength of the office was 367 comprising 1 DA, 3 Dy. DsA, 30 AOs, 64 AAOs/SOs, 179 auditors, 4 stenographers, 27 clerks, one Welfare Assistant and 58 Group 'D' employees. The expenditure of the office for the year 1987-88 was Rs. 92.45 lakhs, which constituted 7.17% of the expenditure of the FA & CAO's organisation and 0.6% of the turnover of the Western Railway.

During the scrutiny of appropriation accounts large variations between grants and expenditure (5% of the grant or Rs. 10 lakhs in respect of revenue grants and 10% of the grant or Rs. 20 lakhs in respect of works grants) indicating defective budgeting, misclassifications, unsanctioned expenditure, cases of losses, cases of undercharges, cases of remissions and abandonment of claims to revenue, and cases of irregular re-appropriation were pointed out. In the beginning of 1982-83, 798 objections, 149 without money value and 649 with a total money value of Rs. 19.16 crores, were awaiting settlement. 4898 objections - 971 without money value and 3927 with a total money value of Rs.100.26 crores - were further issued during 1982-83 to 1987-88, while 3802 objections - 738 without money value and 3064 with a total money value of Rs. 78.91 crores - got settled during the same period. 382 objections without value and 1512 of the value of Rs. 40.51 crores were outstanding for settlement at the end of 1987-88. The recoveries effected at the instance of audit ranged from Rs. 1.08 crores in 1982-83 to Rs. 3.52 crores in 1987-88. The contribution for the Audit Reports during the period from 1956 to 1987-88 was 153 paragraphs and the number of paras per Report ranged from one (1957 and 1958) to eight (1967, 1974-75, 1983-84 and 1985-86) which were contributed by S/Shri A.A. Fazili, G.V. Chittal, K.R. Parthasarathy and N. Krishnankutty respectively. Reviews started appearing in the Audit Reports from 1975-76. Except during 1976-77, 1979-80 and 1985-86, all other Reports contained reviews ranging from one to seven and in all, 32 reviews were contributed for 10 years' Reports. The maximum of seven reviews figured in 1980-81 Report, when Smt. Indira Menon was the Director of Audit.

SOUTH CENTRAL RAILWAY

ORIGIN

South Central Railway was formed in October 1966 with headquarters at

Secunderabad by merging Solapur and Secunderabad divisions of Central Railway and Vijayawada and Hubli divisions of Southern Railway with 6038.18 route kilometres. The gross revenue receipts were Rs. 57.55 crores, working expenses Rs. 47.57 crores with a net surplus of Rs. 1.61 crores. The capital at charge was Rs. 198.99 crores and the operating ratio 79.98 per cent. In October 1977, Solapur division was transferred back to Central Railway and Guntakal division of Southern Railway was added and Secunderabad division was bifurcated into Secunderabad (Broad Gauge) division and Hyderabad (Metre Gauge) division which were located at Secunderabad to facilitate effective operational and administrative control. The metre gauge section from Poorna to Khandwa was transferred from Central Railway to South Central Railway (Hyderabad M.G. division) with effect from April 1981. Major new lines completed were Bhadrachalam Road - Manuguru (49 Kms.), Manichgarh-Chandur (29 Kms.) and Bibinagar-Miryalguda (10 Kms.). Work on the remaining distance of 36 Kms. for reaching Nadikude and four lines Telapur-Patancheru (8 Kms.), Motamari-Jaggayyapet (32 Kms.), Adilabad-Pimpalkhuti (25 Kms.) and Maula Ali Sanatnagar (22 Kms.) by-pass were in progress. While conversion of Pune-Miraj -Kolhapur - 326 Kms. and Bangalore-Guntakal section-88 kms was completed, work on Manmad Parlivaijanath - 350 kms. was in progress. The electrification of Vijayawada-Gudur (293 Kms.) and Gudur-Renigunta-Tirupathi (93 Kms.) were completed. Electrification of Vijayawada-Balharshah (455 Kms.) was in progress. Krishna Canal-Guntur-Tenali (57 Kms.) electrification was on the anvil. A new workshop at Guntupalli near Vijayawada was completed and another for overhauling coaches at Tirupathi was being set up. The capital expenditure incurred on construction, doubling, electrification of lines, etc., was of the order Rs. 1465.43 crores upto the end of March 1988 and the expenditure for completing the projects in hand was estimated at Rs. 446.56 crores. Surveys for 6 new lines and conversion of 2 lines and restoration of 1 line were in progress. The SC Railway has a route kilometrage of 7,093 Kms. comprising 3444 Kms. of BG, 3,649 Kms. of MG, and covering 947 stations spread over Andhra Pradesh, Karnataka, Maharashtra, Goa, Madhya Pradesh and Tamil Nadu. There are five divisions -Secunderabad, Hyderabad, Guntakal, Vijayawada and Hubli. The network covers many splendoured spots of historical, architectural, religious and cultural importance. The workshops for repairs and periodical overhauling of rolling stock are located at Lallaguda/Secunderabad, Hubli, Rayanapadu near Vijayawada, Gooti, Khazipet, Guntakal, Vijayawada and Tirupathi. The total investment increased from Rs. 198.99 crores in 1966-67 to Rs. 1349.16 crores in 1986-87, the

gross earnings from Rs. 57.55 crores to Rs. 732.88 crores, working expenses from Rs. 47.57 crores to Rs. 643.93 crores and the operating ratio from 79.98 % to 89.52%. The dividend paid to general revenues increased from Rs. 8.37 crores to Rs. 68.87 crores and the net surplus increased from Rs. 1.61 crores to Rs. 20.08 crores.

THE CHIEF AUDITOR

The office of the CA, South Central Railway, Secunderabad was formed in October 1966 and Shri S. Manzure Mustafa was appointed as CA. The total strength of the Office then was 168 (2 gazetted officers, 5 including IAAS, 134 class III and 27 class IV staff). In October 1977, the divisional audit office, Solapur was transferred to Central Railway along with the staff and divisional audit office, Guntakal, was added. A Railway electrification Audit section was started at Vijayawada, in October 1972 for auditing the accounts of Railway electrification project at Vijayawada. Intensified inspection scheme was introduced in May 1967 for improving the quality of work by making inspection more officer-oriented by inducting the additional SOs in lieu of auditors, which helped to improve the quality of inspection work. Reclassification of stations based on financial turnover for inspection resulted in revision of periodicity of inspection. The first office manual was published in 1972. A separate Workshop and Stores Audit section was formed in May 1977 for audit of accounts of new Wagon Repair Workshop at Rayanapadu near Vijayawada. The designation of Chief Auditor was changed to Director of Audit from 1st April, 1979. A construction-cum-workshop and stores audit unit at Tirupathi started functioning from October 1987 to audit the accounts of construction of the carriage repair workshop and also the workshops and stores accounts. The headquarters office of DA was strengthened by forming a contract audit section for auditing the stores purchase contracts in June 1981, a Report section for dealing with report work in May 1983 and induction of a secretary to the Director of Audit in August 1987. A cell consisting of 2 audit officers and 1 SO was formed for audit of computerised accounts of railways. In all, 12 CAs and 9 DAs functioned during October 1966 to December 1988, and the minimum tenure of the head of the office was 7 days and the maximum 3 years and 2 months and 28 days held by Shri Manzure Mustafa, the average being around 12 months. The strength of the office increased to 226 in 1978, mostly in SOs' and auditors' levels. In March, 1988, the strength was 303 comprising 76 gazetted officers including IAAS officers and 227 Group C & D staff. The expenditure of the office was Rs. 78.07 lakhs which constituted 5.87% of the FA & CAO's organisation and 0.04 per cent of the turnover of the Railway.

The turnover of objections raised as reflected in issue of special letters during the three years ended 1987-88 was 48 with 89 paras and the outstandings in March 1988 were 146 letters with 261 paras; the number of inspection reports issued was 121 with 443 paras and the outstanding were 287 reports with 905 paras; and the number of Audit notes issued was 71 with 133 paras, the outstanding being 148 notes with 263 paras. Seventy one special letters with 106 items of the aggregate value of Rs. 5.46 crores, 123 part I Audit Notes with 238 items of the value of Rs. 13.06 crores, and 217 Part I inspection reports with 526 items of the aggregate value of Rs. 10.17 crores were outstanding in July 1987. In addition, 38 special letters, 46 Audit notes and 130 inspection reports containing 1006 items, where monetary value was not known, were also outstanding.

Recoveries pointed out during audit for the last four years ending 1986-87 ranged from Rs. 1.03 lakhs in 1983-84 to Rs. 37.99 lakhs in 1986-87; the aggregate amount suggested for recovery was Rs. 97.64 lakhs and related to vouchers already checked by accounts. The contribution for the Audit Reports (Railways) was 69 paragraphs for 1966-67 to 1987-88 Reports and 34 reviews for 1979-80 to 1987-88 Reports. No paras were contributed for 6 years' Reports. The number of paras rose from 1 to 11 (1971-72, 1983-84) when Shri K.S. Rangamurthy and Shri A.N. Chaku were the Directors of Audit, 10 paras each were contributed for 1984-85 and 1986-87 Reports, when Smt. Indira Menon and Smt. Saraswathi R. Rao were the Directors, 9 paras were contributed for 1987-88, when Smt. Saraswathi R. Rao was the Director and 8 paras each for 1980-81 and 1981-82 Reports were contributed, when Shri A.G. Narayanaswamy and Shri A.N. Chaku were the Directors of Audit. The number of reviews also increased to five in 1980-81 and 1987-88, when Shri A.G. Narayanaswamy and Smt. Saraswathi R. Rao were the Directors and to eight in 1982-83, when Shri A.N. Chaku was the Director, one review each was featured in 1983-84, 1984-85 and 1986-87 Reports during the tenure of Smt. Indira Menon and Smt. Saraswathi R. Rao. The scrutiny of the appropriation accounts for each financial year brought out common deficiencies like defective budgeting, mis-classifications and mistakes in accounting.

SOUTHERN RAILWAY

The Southern Railway with Headquarters at Madras was formed in April 1951 by integration of the three erstwhile railway systems of South India, namely, the Madras and Southern Maharatta Railway, the South Indian Railway and the Mysore Railway with 9656 kilometres. Its gross earnings were Rs. 44.25 crores, working expenses Rs. 34.54 and capital at charge

Rs. 115.28 crores. A portion of the Southern Railway was transferred to the South Central Railway in 1966, which reduced the kilometrage to 7216. The system served the southern portion of Indian peninsula consisting of Tamil Nadu, Union Territory of Pondicherry, Kerala, major part of Karnataka and a small part of Andhra Pradesh, traversing over 6,711 route kms. comprising 2,265 kms. of BG (431 Kms. electrified), 4,298 Kms. of MG (164 Kms. electrified) and 148 Kms. of NG which covered about 10 per cent of the country's area and 14 per cent of its population. Essentially, a terminal railway, operated predominantly as a MG system, with a high proportion of graded sections, it handled a large volume of terminal and transshipment traffic. The limitation of originating revenue earning traffic caused consistently adverse operating ratio. The general manager at Madras was the chief executive of the Railways and was assisted by 2 assistant general managers, various functional heads of departments, and seven divisional railway managers for operational and management purposes. There were extensive doublings on the BG of Vijayawada and Madras divisions to cope with the spurt in traffic generated by the rapid industrialisation in the eastern region and a steady flow of grains and pulses traffic from the northern region in the first ten years after its formation. Doublings on Olavakot division, conversion of Ernakulam-Trivandrum metre gauge section into BG and construction of new BG line from Trivandrum to Tirunelveli and Nagercoil to Kanyakumari to take care of the industrial development, mainly in the fields of petroleum, cement and fertilisers, and also to cater to the increasing volume of traffic were the achievements in the next ten years. The major works in progress were construction of 5 new lines, doubling of 3 lines, 2 electrification works, conversion of one MG into BG and provision for traffic facilities involving an aggregate investment of Rs. 360.98 crores. In 1987-88, the gross revenue receipts were Rs. 5554.09 crores in 1987-88, the working expenses Rs. 716.19 crores; the operating ratio 129.50%, the capital at charge Rs. 983.90 crores and the net deficit Rs. 210.64 crores.

THE CHIEF AUDITOR

Originally known as the office of the Government Examiner of Accounts, Madras and Southern Maharatta and South Indian Railways, whose jurisdiction covered the office of the Government Examiner of Accounts, Southern Railway at Trichinapally, and who functioned as the Audit Officer for the Great Indian Peninsula Railway and the Government Examiner's office, Bombay, Baroda and Central India Railway, it was headed by an IA & AS Officer assisted by a Deputy Government Examiner and an Assistant Government Examiner. The composition of

the office was decided from time to time by the Government Examiner. It was renamed as the Office of the Chief Auditor (CA), Southern Railway with Headquarters at Madras and Shri K. K. Iyengar was the CA in 1950. The CA was assisted by the two Deputy Chief Auditors, each in charge of the regional offices at Trichinapally and Mysore, who were personally responsible for the administration of the regional offices under them and for the general control and conduct of all audit work. In 1950 the office had a strength of 60 (1 IA & AS Officer, 3 AOs, 5 SRAS Accountants, 35 UDCs, 2 Clerks, 1 Steno and 13 class IV staff). After the divisional system was introduced on the Southern Railway in 1956, the ICF divisional audit office was set up under a divisional audit officer with the same devolution of duties as existed at the regional office. The strength of the office increased to 287 in 1962 - 169 in headquarters and 118 in the field offices. Construction audit offices were formed locally in the wake of increase in construction activities and opening of the field accounts offices at BZA, UBL (1963), BNC (1964), RJY (1965), TEN & MS (1972), TVC (1973) each under the overall charge of an audit officer assisted by an SRAS Accountant, two auditors and one LDC. A separate construction audit unit was formed in 1979 at YNK under the overall charge of an audit officer assisted by a Section Officer, two auditors and one clerk to audit the accounts of WAP Project at YNK. Transfer of ICF audit office to CA/RPU Calcutta in 1970, merger of GTL divisional audit office of Southern Railway with South Central Railway in October 1977, formation of TVC divisional audit office (January 1980) and SBC divisional audit office (January 1983) and CN/ERS audit unit and S & T/PTU audit (September 1983) and creation of two special review cells at headquarters for taking up special investigations and review of selected major contracts were the major developments during the last two decades. Restructuring of the cadres in 1984 brought about certain changes in the duties and functions of the SOs/AAOs and auditors with a view to improving the quality of work. A nucleus of trained personnel for audit of all computerised application systems on the Railway was formed in September 1987.

In all, there were 23 CAs/AOs upto March 1939, the longest tenure was of Shri S. Srinivasan (6 years, 5 months and 11 days). In March 1987 the strength of the office was 2 IAAS officers, 25 AOs, 36 AAOs, 24 SOs, 135 Sr. auditors/auditors, 26 clerks, 7 PAs/Stenos, 8 record keepers and 46 group 'D' employees. The expenditure incurred was Rs. 87.85 lakhs which constituted 5.28% of the expenditure incurred by the FA & CAO's office and 0.07 % of the total turnover of the Southern Railways. 493 test audit notes/special letters covering 90 cases with monetary value of Rs. 7.71 crores and 67 inspection reports covering 12 cases with a monetary

value of Rs. 8.56 lakhs were outstanding on 31st August, 1987. The aggregate recoveries made at the instance of audit during five years preceding March 1987, were Rs. 94.75 lakhs, 46 per cent of which had been subjected to internal check in Railways. The office contributed 119 paras, material for 68 common paras for A.R. (Rlys.) 1948 to 1987-88 and 10 reviews for the Reports 1984-85, 1985-86 and 1986-87. From a single para in 1948, the contribution increased to 11 paras in 1983, the average number of paras contributed during the last three years ending 1987-88 was around 5 to 8 paras excluding material for one to five common paras. The maximum contribution to ARs was made when Shri K.P. Rangaswami was the Director of Audit - ten paras and material for four common paras for 1981-82 Report, eleven paras for 1982-83 Report, five paras and material for five common paras for 1983-84 Report and eight paras and material for one common para and one review for 1984-85 Report. The contribution for 1987-88 Report was 5 reviews, 6 paras and material for 2 paras made by Shri K. Kuppuswamy.

RAILWAY PRODUCTION UNITS

The Railway production units, namely Chittaranjan Locomotive Works, Chittaranjan, Integral Coach Factory, Madras and Diesel Locomotive Works, Varanasi headed by a General Manager each, who functioned directly under the Railway Board and assisted by departmental heads on functional lines, have been under the audit jurisdiction of the Director of Audit since September 1969.

CHITTARANJAN LOCOMOTIVE WORKS

The locomotive building factory established for manufacturing steam locomotives in 1949 with collaboration of a British firm with an investment of Rs. 49.90 lakhs, had commenced production in January 1950, and the first steam locomotive rolled out in November 1950, when it was named after Deshabandhu Chittaranjan Das, as Chittaranjan Locomotive Works (CLW). Steam locomotives of different varieties were manufactured to meet the requirements of Indian Railways till 1960, when it was decided to start production of electric locomotives and diesel shunters to cope with the increased dieselisation and electrification of Indian Railways. Manufacture of electric locomotives was started in 1961 in collaboration with a French firm and the first 1500 Volt DC locomotive was commissioned in November 1961. By then, the investment had increased to Rs. 7.66 crores. The locomotive power of the electric engine was gradually increased and CLW commenced production of 25 KV AC locomotives in November 1963. Production of diesel/shunting locomotives commenced in January 1968 with technical

collaboration of a German consortium. The last steam locomotive was turned out in February 1972. Till March 1987, CLW had manufactured 1,153 electric locomotives of eight types, 624 diesel locomotives of five types, in addition to 2,351 different steam locomotives, making a total of 4,128 locomotives. The Traction Motor Workshop was established in 1966-67 with the collaboration of a French firm and production of traction motors of 2 types and central equipments commenced in April 1967. 4,556 traction motors of 2 types had been turned out of CLW till 31st March, 1987. A steel foundry was established in February 1963 with technical collaboration of a British firm for production of cocabogies for both diesel and electric locomotives and manganese crossings and steam locomotive components. Upto March 1987, 6,574 coco bogies had been manufactured, while capital at charge as on 31st March, 1987 was Rs. 112.7 crores and the value of annual turnover was Rs.162 crores. The total strength of CLW in March 1987 was 15,632 persons, comprising 136 Group A, 58 Group B, 11,388 Group C and 4,050 Group D employees.

INTEGRAL COACH FACTORY

The ICF Madras was set up in 1955 with technical collaboration of a Swiss firm to manufacture integrated light weight passenger coaches for Indian Railways. The Shell division of the factory was formed in 1955 and the production started in October 1955 with the original target for manufacture of 350 shells of passenger coaches per annum. Furnishing Division for turning out fully furnished coaches was set up in 1962 and the production capacity was raised to 750 fully furnished coaches per annum. It was further augmented to manufacture 850 coaches per annum, which was attained in 1986-87. The capital expenditure during 1978-79 was Rs. 47 crores and during 1987-88 Rs. 165 crores. The capital at charge increased from Rs. 26.23 crores in 1978-79 to Rs. 94.72 crores in 1987-88. The annual turnover of the factory was around Rs.114.43 crores during 1985-86. The factory is currently manufacturing all types of passenger coaches viz. the ordinary second class, first class, double-decker coaches, AC coaches and coaches for the super-fast trains like Rajdhani Express, EMU coaches of suburban services and certain types of coaches for the under-ground Metro Railway, Calcutta. The factory is also executing export orders for various types of passenger coaches. The total number of coaches produced upto the end of March 1987 was 18,600 shells and 16,637 fully furnished coaches. The factory had a total strength of 15,513 persons in March 1987 comprising 48 Class I, 61 Class II, 2,500 Class III, 1,258 Class IV and 11,646 Workshop Staff.

DIESEL LOCOMOTIVE WORKS

The DLW, Varanasi, was set up in 1961 for indigenous production of diesel locomotives with a production capacity of 150 broad gauge diesel locomotives or equivalent per annum (to be attained by 1967-68) at the cost of Rs. 19.57 crores in collaboration with a USA firm for 5 years from February 1962. The first locomotive fully assembled came out in 1964. In 1965, it was decided to diversify the production to include manufacture of metre gauge locomotives also. The production capacity was then revised to 100 BG and 60MG locomotives per annum. The capital at charge at the end of 1987-88 was Rs. 76.14 crores with annual turnover of Rs. 120 crores. Total number of locomotives manufactured upto the end of March 1986 was 2,143. The total strength of employees of DLW was 7923 persons - Class I and II 122, Class III 5750 and others 2051.

METROPOLITAN TRANSPORT ORGANISATION

As a result of the spurt in industrial and other developmental activities in and around Calcutta and the large-scale urbanisation that had taken place in the post-Independence era, the intra-city traffic in Calcutta Metropolis had increased by leaps and bounds. The inadequacy of the existing transport system to meet the increasing demands of the commuter traffic was recognised by the successive committees set up to look into this problem, all of which felt that some form of metropolitan transport system was the solution to the problem. The Metropolitan Transport Project (Railways) Organisation was set up in Calcutta in 1969 to prepare the final location survey for the suburban dispersal lines and to conduct a techno-economic feasibility study for the mass rapid transit system (MRTS). The organisation obtained the services of a team of senior consultants with necessary experience from the Soviet Union for a period of 2 months. They recommended the construction of an underground railway from Dum Dum to Tollyganj as the most effective means of providing relief to the transport problem of Calcutta and the Government of West Bengal fully endorsed the recommendations of the Soviet team for a provision of a MRTS about 16.5 kms. in length on the North-South alignment. The METRO submitted a project report in October 1971 recommending the construction of an electrified (750 V & DC on a third rail) underground rapid transit system at a cost of Rs. 140 crores with a foreign component of about Rs. 23.7 crores, mainly towards rapid transitcars, signalling equipments, structural steel and consultancy charges, to be executed in 7 years. Government approved in June 1972 the underground project from Dum Dum to Tollyganj covering a route

length of 16.43 kms. with 17 stations - 15 underground and 2 surface at terminal points at an estimated cost of Rs. 140.27 crores. The work started in 1973. The approved project envisaged 8 coaches per train with a carrying capacity of 2500 passengers approximately. Various methods of construction were adopted but the most common were diaphragm walls and sheet piles in the Southern Section from Tollyganj to Esplanade, Shield tunnelling using compressed air and airlocks for about 1 km. from Belgachia to Shyambazar at the northern end below Chitpur Railway Yard and cut and cover method with use of extensive decking for keeping the traffic flowing over the cut while construction was in progress underneath for the middle section from Shyambazar to Esplanade due to lack of sufficiently wide parallel roads. The ballastless track was used wherein rails were laid directly on RCC bed using elastic fastenings, rubber pads, epoxy mortar and nylon inserts. The rolling stock used was mostly indigenously manufactured in ICF, Perambur with NGEF and BHEL traction motors. The signalling equipments were manufactured indigenously on transfer of technology for most of the portions except continuous train control equipment for Tollygunj to Esplanade and Dum Dum to Belgachia, which was imported at a cost of Rs.13.33 crores. The project report envisaged commissioning of the project by 1978, but only 3 sections of the project comprising 9.8 kms. were commissioned in 1984 and 1986. The middle section *i.e.* Belgachia to Esplanade (6.6 kms.) is now scheduled to be commissioned around 1991. As per the sanctioned revised project estimate reflecting price levels upto 1984-85, the money required for completion of construction was Rs. 863.37 crores, which was estimated to increase to Rs. 930 crores. Upto March 1988, Rs. 550.30 crores had been spent - an average expenditure of Rs. 75.84 crores per annum during the last five years.

THE CHIEF AUDITOR

The Office of the CA, Railway Production Units with headquarters at Calcutta with the branch offices at CLW, Chittaranjan and DLW, Varanasi, which were previously under the CA, Eastern Railway and at ICF, Madras which was previously under the CA, Southern Railway was formed for auditing the accounts of the three production units and Shri R.N. Srivastava was the first CA. The CA was assisted by one Deputy CA at each of the Production units and the total strength of the organisation was 95 - 4 IAAS Officers, 3 audit officers and 88 non-gazetted staff. The Audit office of Metro Railway, Calcutta which was under the charge of the CA, Eastern Railway, was transferred to him from October, 1974 and he was redesignated as CA, Railway Production

Units and Metro Railway. The total staff strength after the addition of Metro Railway was 136 comprising 4 IA & AS officers, 4 audit officers and 128 non-gazetted staff. While the responsibility for audit of the Production Units and day to day supervision and control of staff was with him, the CA, Eastern Railway acted as the cadre controlling authority in respect of the staff working in the head office at Calcutta and the branches at Chittaranjan and Varanasi and the CA, Southern Railway in respect of the staff working in the branch office at Madras. The postings and transfers of staff working under the CA, Railway Production Units and Metro Railway were thus made by the respective cadre controlling authorities. The FA & CAO, Eastern Railway was the Accounting Officer for the Railway Production Units Audit Organisation.

The organisation of the CA at Calcutta consisted of two wings - headquarters and Metro Railway audit office. There were three sections at headquarters, namely Administration dealing with administrative work, Routine and Correspondence dealing with contingent expenditure, correspondence and miscellaneous work and Central section which co-ordinated the technical work done by the branch offices and processed the audit findings for Railway Audit Report. These three sections were under the charge of one audit officer. The CLW audit office, Chittaranjan had 9 sections, distributed amongst 3 audit officers. One or two important sections were, however, under the direct charge of the Dy. CA. The organisational set up of DLW branch office, Varanasi was similar to that of CLW audit office, but all inspections were centralised and conducted by one Inspection section. The ICF audit office, Madras had 2 divisions, viz. Shell division consisting of 5 sections and Furnishing division consisting of 4 sections. Each division was headed by one audit officer. The Metro Railway audit office consisting of 8 sections, was directly supervised by the CA, who was assisted by three audit officers with necessary supporting staff. The designation of the Chief Auditor was changed to Director of Audit from April 1979. There were no major changes either in the duties and functions or in the composition of staff until the close of February 1984. The strength of the office stood at 175 which consisted of 4 IAAS officers, 10 audit officers and 161 non-gazetted staff. After restructuring of cadres in 1984, 80% of the posts of section officers and auditors were upgraded to higher pay scales. In March 1988, the total strength of this organisation was 185 distributed at Headquarters and the branches as under :

	IAAS Offi- cers	Audit Offi- cers	AAOs/ SOs	Auditors	Others	Total
Headquarters	1	1	3	6	12	23
Metro	-	3	4	18	6	31
CLW	1	3	8	26	10	48
DLW	1	1	7	25	9	43
ICF	1	2	6	20	11	40
Total	4	10	28	95	48	185

The expenditure of the office for 1987-88 was Rs. 48.07 lakhs which constituted 4.78 per cent of the expenditure of FA & CAO's organisation and 0.16 per cent of the capital expenditure incurred on production units and Metro Railway. There were 24 CAs/DAs upto March 1989, the longest tenure was of Shri V. Sundaresan (3 years and 11 days). 39 Special letters, 153 Inspection Reports and 6 Audit notes were issued in respect of CLW during 1983-84 and 1987-88, the average turnover per year being around 8, 31 and 1 respectively. 15 special letters containing monetary objections of the value of Rs.1.21 crores and 44 inspection reports with monetary objections of the value of Rs.16.31 crores were outstanding for settlement at the end of 1987-88. In respect of DLW, 89 Special letters, 177 Inspection Reports and 39 audit notes were issued during 1983-84 and 1987-88 and the average turn-over per year was around 18, 35 and 8 respectively. 19 special letters - 10 with objections of the value of Rs. 56.02 lakhs and 9 without money value, 26 inspection reports - 25 without money value and 1 with objection of the money value of Rs. 0.36 lakh - and 7 audit notes were outstanding for settlement at the close of 1987-88. 117 Special letters, 69 inspection reports and 307 audit notes were issued on ICF during 1983-84 and 1987-88, the average turnover per year being 23, 14 and 61 respectively. 39 special letters with 129 paras of which 3 contained objections of the monetary value of Rs. 23.31 lakhs and 38 inspection reports incorporating 163 paras and 45 audit notes with 75 paras were outstanding at the end of 1987-88. In the case of Metro Railway, the number of special letters issued during 1983-84 and 1987-88 was 27, number of inspection reports issued was 145 and that of audit notes 8, the average turn-over per year being 5,29 and 2 respectively. 2 special letters with 5 paras of the monetary value of Rs. 12.88 lakhs and 5 inspection reports with 20 paras of the monetary value of Rs. 131.88 lakhs were outstanding at the end of 1987-88. Recoveries effected at the instance of Audit during the past five years from 1983-84 to 1987-88 were Rs. 1.49 lakhs in CLW, Rs. 38.96 lakhs in DLW, Rs. 3.40

lakhs in ICF and Rs. 1.43 lakhs in Metro Railway. 10 paras (5 on CLW, 2 on ICF, 3 on DLW) were contributed for the Audit Report (Railways) during the years 1965 to 1968. The maximum number of paras - six - appeared in the Audit Report 1967, which were contributed by Shri M.P. Gupta, CA, Eastern Railway and Shri T. Narasimhan, CA, Southern Railway. 49 paragraphs - 25 on CLW, 9 on DLW, 6 on ICF and 9 on Metro Railway - and 4 reviews one each on CLW, DLW and Metro Railway and one common review covering all production units were contributed for the Audit Reports (Railways) for the years 1969 to 1985-86. The contribution increased from one para in 1969 to six paragraphs each in 1978-79 and 1979-80 Reports, during the tenure of Shri V. Sundaresan.

Note:

List of Abbreviations & Sources and References are at the end of Chapter 16.

16 Railway Audit Reports

1947-1954

A separate Audit Report (Railways) has been presented ever since the separation of Railway budget from the general budget, after the adoption of separation convention (1924). Major part of the Reports was devoted to exhibition of Appropriation Accounts, results of appropriation audit and the financial results of the working of the Railways and audit comments were classified under suitable headings, namely, Introductory, Pay and Allowances, Works, Tenders and Agreements, Stores, Grainshops, Earnings, Other Topics of Interest and General Conclusion, which did not exceed 40 to 50 paras. The irregularities detected both by the internal check authorities, namely, the Railway Accounts Department, and by the Audit Department were included without distinction, as recommended by the Public Accounts Committee for 1930-31. Comments were confined to audit points of outstanding interest or importance, which had reached a substantially advanced stage to make their inclusion of practical use. The prefatory remarks to the Report not only indicated that cases of financial irregularity, apparently defective administration, etc. mentioned in the Report presented only a small percentage of the total financial transactions of the year, which were not to be understood as conveying any general reflection on the administration of public expenditure, but also concluded generally that considering the magnitude of the transactions on Railways and subject to the remarks contained under 'other topics of interest', the results of audit were to be regarded as fairly satisfactory.

The AR for 1946-47 and the AR for the period 2nd April, 1947 to 14th August, 1947 contained a memorandum on the important financial irregularities including the pre-partition period relating to the accounts of the Railways in India and incorporated losses, nugatory expenditure, financial irregularities and other topics of interest. This was submitted on 5th July, 1949. There were 13 paras spread over 9 pages and carried the general conclusion regarding the satisfactory nature of audit conducted. Audit Report, 1949 had 12 paras on 8 pages on important financial irregularities. The general conclusion regarding the satisfactory nature which had appeared in the earlier reports, was left out from 1950.

In view of the unavoidable delay in the preparation of the AA and since both the CAG and the PAC felt that cases involving serious financial irregularities and losses of public money involving fraud, negligence or inefficiency ought to come under the review of the PAC

and Parliament within the minimum time possible after their occurrence, the PAC decided in July 1952, as suggested by the CAG, that whenever any delay was anticipated in the completion of the Appropriation Accounts, the CAG could present an advance AR (to be described as AR Part I), dealing with cases involving financial irregularities, losses of public money due to fraud or negligence, wasteful or nugatory expenditure and criticisms or comments thereon and later a supplementary AR (to be described as AR (Part II), dealing with comments and criticisms arising out of the AA, normally included in the AR.

The AR 1952 was presented in two parts, part I containing 17 pages on important financial irregularities etc. noticed in audit, on 18th December, 1952, since the Railway Board had not completed the AA for 1950-51 and part II containing the comments on the AA spread over 55 pages, on 17th September, 1953, along with the AA prepared by the Railway Board. Audit comments were given separately wherever required at the end of each para of in the Report. There was gradual change in the contents of Reports - shift in emphasis from detailed and elaborate comments on Appropriation Accounts to financial and economic comments on the budget and the actuals reflecting responsiveness to the increased delegation of powers to the Railway Board and Zonal railways and also to cater to the increasing interest shown by the PAC towards realisation of the socio-economic objectives of Railways, comments on earnings including the rationale for classification of goods and levy of fare and freight, diversified and specialised efforts towards expenditure audit exhibiting greater attention to coverage of significant operational, commercial and managerial aspects of the functioning of the Railways, including the socio-economic aspects of the working of the largest public utility in the country.

1955 To 1971-72

The prefatory remarks were left out in the AR 1955. In the AR, 1956, an introductory sentence was included and even this was left out in the succeeding Reports. The average time span taken for finalising the ARs 1947 to 1957 was 22 months and 17 days. The 1967 Report contained a new chapter - chapter I - on financial review of the Third Five Year Plan of the Railways, plan outlay and achievements, growth of traffic, financial results and financial position of the Railways, all spread over 8 pages containing 5 paras. Consequently, the earlier chapter I, (comments on the AA and connected documents and Railway Board's review thereof) was re-numbered as chapter II and the chapter on losses, nugatory expenditure, financial irregularities and other topics of interest was renumbered as chapter III. The 1968 Report carried the one sentence prefatory

remark but the number of chapters were two only, as in the Reports prior to AR, 1967. 1969 Report carried a new para in the prefatory remarks, that "the points brought out are not intended to convey or to be understood as conveying any general reflection on the financial administration by the Railway Administration/Ministry of Railways".

1972-73 ONWARDS

AR 1972-73 marked a significant change in the format and content, which was signed by Shri H.B. Bhar and countersigned by Shri A. Baksi, the then C & AG, and contained 8 chapters and 32 paras spread over 67 pages. While the conventional chapter I contained comments on the AA under broad headings - financial results, budgetary control and other topics, chapter II carried a review on Diesel Locomotive Works, Varanasi which had 33 sub-paras spread over 10 pages, which was the first efficiency-cum-performance review to appear in the AR on Railways. The review covered nearly 15% of the contents of the Report; other paras were grouped under six chapters viz. chapter III electric locomotives and concrete sleepers (2 paras on 9 pages), chapter IV - goods transportation and rolling stock usage (7 paras on 11 pages), chapter V - purchases and stores (2 paras on 5 pages), chapter VI - earnings and compensation claims (4 paras on 7 pages), chapter VII - works and losses (5 paras on 5 pages) and chapter VIII - other topics of interest (3 paras on 5 pages). The AR, 1973-74 contained three reviews, Fourth Five-Year Plan of the Railways (chapter II), economy in coal consumption (chapter III) and super express goods train and Rajdhani Express Train (chapter IV) which constituted 49% of the contents of the Report. In addition, there were 24 paras on purchases, stores and works (chapter V); earnings (chapter VI) and other topics of interest (chapter VII). Predominance of reviews were significant from 1973-74 onwards.

REVIEWS

In all, 90 reviews were included in 14 years' Reports (from 1974 to 1987-88); the minimum number was 2 in 1977-78 Report and the maximum-11 in 1980-81 as also 1982-83 Reports, the average being around 6 reviews per Report. The coverage of reviews in the Reports was five in 1974-75, which constituted 38 per cent of the contents of the Report, three in 1975-76 (43% of the Report), four in 1976-77 (25% of the Report), two in 1977-78 (25% of the Report), four in 1978-79 (39% of the Report), six in 1979-80 (42% of the Report), eleven in 1980-81 (69% of the Report), six in 1981-82 (37% of the Report), eleven in 1982-83 (59% of the Report), eight in 1983-84 (50% of the Report), six in 1984-85 (40% of the Report), seven in 1985-86 (40% of the Report), four in

1986-87 (38% of the Report) and nine in 1987-88 (50% of the Report). There were functional and horizontal reviews covering diverse and specialised activities of the Railways. While some of the reviews were initiated by the Headquarters Office, others were initiated by the Directors of Railway Audit and a few of them were integrated studies co-ordinated by the Headquarters office. There were 21 reviews of major construction projects - new lines, doubling of lines, conversion of gauges, electrification and connected works involving heavy financial outlay, 12 reviews on operational aspects of the Railways, 6 reviews on earnings - both passenger and goods, 13 reviews on performances of specific services, departments and individual Railways, 8 reviews on commercial aspects of railways and 5 reviews on general management and working of locomotive works and foundries. The size of the reviews - the number of pages and number of sub-paras - depended on the nature of the topic or subject reviewed but the minimum number of pages/sub-paras was 2 pages/6 sub-paras and the maximum 30 pages/65 sub-paras respectively. On the whole, the reviews covered a good part of the volume of each Report and naturally attracted greater attention of both the Audit Offices and the Railway Administration and changed the entire face of the Reports, which in turn affected substantially the approach of the PAC in processing the contents of the Reports.

TIME LEAD

The time lead in finalisation of Reports was considerably reduced from 1978 Report onwards. The maximum time taken was 13 months 24 days (1977-78 Report) and the minimum 9 months 11 days (1982-83 Report) but the average time lead was around 12 months after the close of the financial year. Six Reports were finalised and presented to Parliament in February - before the Railway budget for the coming year was presented. Seven reports were sent to Government in February but were laid before the Parliament in March only. Nine reports were finalised in March and presented during the months of March and April. Reports for 1986, 1987 and 1989 were presented in the Budget month of the year. But Report 1988 was presented in April. Advance reports were finalised for the years 1979-80 (March 1981), 1980-81 (March 1982), 1981-82 (March 1983), 1982-83 (January 1984) and 1983-84 (April 1985), because of the delay in the preparation of the Appropriation Accounts by the Railway Board, despite the existence of separate finance and accounts organisation for over fifty years. However, the purpose of submitting the advance AR for 1980-81 and 1981-82 by the CAG was not served as they were presented to the Parliament later - in April 1982 and April 1983 respectively, which went unnoticed by the Parliament.

INNOVATIONS

A system of summing up of the contents of the paras and reviews was introduced from the Report 1980 onwards. The Report for the year 1986-87 contained an over-view in chapter I of the Report - covering both reviews and important paragraphs - besides comments on the financial management of the Railways, which bestowed a business like flavour, apart from helping to focus attention on the essential features of the Report. The addition of an over-view with reference to Chapters/ paras was intended to grasp the essence of audit findings in a capsule form. The overview appeared in the beginning of the 1987-88 Report.

LATEST REPORT

Audit Report 1987-88 contained comments on the financial management of Railways, nine reviews and fifty nine paragraphs on individual irregularities. The year ended with a net surplus of Rs. 84.29 crores against Rs. 69 crores budgeted for the year. Indebtedness of the Railways to the General Revenues was Rs. 890.65 crores - Rs. 401.96 crores loans and Rs. 488.69 crores deferred dividend kept outside the Railway accounts; dividend of Rs. 638.86 crores was paid to the General Revenues but subsidy of Rs. 173.56 crores was obtained, which reduced the effective rate of return to 4 per cent. Operating ratio deteriorated during the year; and more moneys were spent on new assets than on renewals and replacements under Plan. Excesses of Rs. 157.15 under three voted grants and Rs. 26.50 lakhs under charged appropriation required parliamentary regularisation. Rs. 33.35 lakhs were irregularly re-appropriated from Plan to Non-Plan heads for purchase of Maruti Vans, colour TV, VCR, intercom telephones and construction of Seminar Centre-cum-Marriage Hall.

APPRAISALS

(i) The review on procurement and utilisation of computers on Indian Railways brought out avoidable expenditure of (a) Rs. 35.89 lakhs due to delayed withdrawal of IBM 1401 computers, (b) Rs. 2.78 crores on account of escalation in costs due to delay in placement of orders for advanced computers, (c) Rs. 13.55 lakhs due to non-completion of a phase of software application by the System Development Group in Integral Coach Factory, (d) injudicious purchase of ECIL computers at a cost of Rs. 2.07 crores, and (e) expenditure of Rs. 3.03 crores due to delay in site preparation work for advanced computers. Non-realisation

* Signed by Shri G. M. Mani and countersigned by Shri T.N. Chaturvedi on 22nd April, 1989 and presented to Parliament on 10th May 1989.

of the revenue of Rs. 2.70 crores from the Passenger Reservation for Delhi due to high cost over-run arising out of changes in the original specifications of hardware and software systems and inclusion of additional items, procurement of mini-computers/ microprocessors, though not justified on the basis of actual workload at a cost of Rs. 6.13 crores, which were grossly under-utilised without any financial savings or improvement in efficiency, were the other significant comments.

(ii) Review on utilisation of BFR/BRH wagons revealed avoidable provision based on incorrect norms for 1600 units of BFR/BRH wagons costing Rs. 93.36 crores for two years, while the actual traffic lifted by the existing stocks ranged between 35 and 71.7 per cent only of the capacity available for the preceding 6 years. The actual turn round of wagons during the last six years ranged between 35.66 and 45.25 days, against the prescribed norm of 21.8 days, which resulted in loss of earning capacity to the extent of Rs. 610.82 crores. The percentage of ineffective wagons exceeded the prescribed norm of four per cent of the holding, which resulted in loss in earning capacity of Rs. 49.79 crores. The detentions caused at some terminals, steel plants, marshalling yards, etc. caused loss of earning capacity of Rs. 11.30 crores. Orders issued for carrying out certain modifications without consulting the users and reversing them later resulted in avoidable expenditure of Rs. 46 lakhs. The value of fittings found deficient in respect of stocks placed in four Steel Plants worked out to Rs. 5.49 crores. Claims for infringement charges amounting to Rs. 44.10 lakhs remained unsettled due to delay of over five years in declaring them over-dimensional.

(iii) The appraisal on consumption of energy - coal, diesel and electricity revealed increased consumption of coal by overaged steam locos (which were not condemned) resulting in non-realisation of savings of Rs. 483 lakhs, extra operational cost of Rs. 8.75 crores due to less replacement of steam locos necessitated by shortfall in production of diesel and electric locos, inadequate inspections by the organisation of the Chief Mining Adviser, Railway Board and supply of inferior quality of coal to the Railways resulting in short levy of penalties on the suppliers to the extent of Rs. 5.94 crores during two years, excess consumption of trip rations resulting in extra expenditure of Rs. 42.27 lakhs on coal and of Rs. 314.95 lakhs on diesel oil, excess consumption of fuel costing Rs. 42.62 lakhs due to non-reduction of fire-gate area of steam locos used in light services, excess operational costs of Rs. 567 lakhs due to detention of ineffective diesel locos in excess of the prescribed percentage, delay in setting up of diesel engine and development organisation which blocked capital of Rs. 715 lakhs and non-development of improved fuel efficient engines, non-provision of

shunt capacitors, unsatisfactory performance of capacitors and consumption of energy more/less than the maximum/minimum demands which led to payment of penalties of Rs. 1041.76 lakhs. The Southern Railway Administration paid penalty of Rs. 33.02 lakhs due to non-availing of 33 KV supply.

(iv) The salient features of the review on modernisation of workshops on Indian Railways were delay in completion of civil engineering and other works, which resulted in cost and time over-run of Rs. 36 crores and non-completion of the project as targeted, delayed finalisation of specifications/ indents and escalation in cost of plant and machinery due to delay in finalisation of tenders/contracts. Against 1674 machines at a cost of Rs. 45.57 crores envisaged in the Project Report, only 723 machines at a cost of Rs. 76.77 crores could be procured. There was shortfall in outturn due to under-utilisation of high productivity machines. Rs. 6.33 crores were blocked due to delayed commissioning of 32 high productivity machines. Facilities worth Rs. 301.33 lakhs remained idle consequent on reduction by the Railway Board in outturn for periodical overhaul of Electrical Multiple Units from 5.5 to 3 units per day in Matunga Workshop. After modernisation, there was no improvement in time taken for periodical overhaul of passenger coaching vehicles and EMUs on the Central Railway, which fell short of target.

(v) The appraisal on parcel business of the Railways disclosed that there was hardly any growth in parcel traffic during 6 years preceding 1986-87; earnings from parcel traffic declined from 2.2 per cent of gross traffic receipts to 1.6 per cent; additional rolling stock costing Rs. 80.68 crores was acquired, despite 70 per cent under-utilisation of the existing capacity; reduction in surcharge on parcel traffic carried by superfast, mail and express trains in 1983-84 to attract more traffic resulted in loss of earnings of Rs. 2.13 crores without any growth in traffic; and introduction of station to station rates in Northern Railway for transport of Maruti cars resulted in a loss of earnings of Rs. 2.18 crores.

(vi) Review on manufacture of traction motors at Chittaranjan Locomotive Works indicated that against the target of 488 motors per annum, the average production during 1978-79 to 1982-83 was 402, during 1984-85, 305 and during 1985-86, 325. The element of unproductive expenditure in the total overhead expenditure of Rs. 765 lakhs was Rs. 182.95 lakhs; belated adoption of kapton conductors caused Rs. 3.19 crores on rewinding; non-adoption of the use of kapton tape resulted in extra expenditure of Rs. 0.11 crores and rejection of armature heads due to dimensional deviations etc., involved a loss of Rs. 0.18 crores.

(vii) In Wagon Repair Workshop, Rayanapadu, non-fixation of time schedule for each item resulted in delay of over nine years in completion of works and in cost over run of Rs.11.30 crores; delay in placing order for liquid oxygen involved avoidable expenditure of Rs. 0.15 crore; idling of wagons received for periodical overhaul in advance of the due dates and excess time taken in periodical overhaul caused detention to wagons involving loss of their earning capacity for Rs.49 lakhs and Rs. 0.79 crore respectively.

(viii) Outstanding claims against defaulting contractors - claims against defaulting firms increased from Rs. 2.71 crores in 1978 to Rs. 6.21 crores in 1986 due to lack of effective machinery to enforce recoveries of risk purchase dues; claims of Rs. 0.31 crore became unsustainable due to delayed action by the Railways; non-enforcement of recovery of risk cost from defaulting firms led to a loss of Rs. 0.14 crore and claims of Rs. 0.34 crore were pending against firms due to non-observance of risk purchase procedure.

(ix) Working of Telegraph circuits showed delay in implementing Railway Board's instructions of 1975 for closing down Morse telegraph circuits having little or no traffic, which resulted in avoidable expenditure of Rs. 0.91 crore annum on six Zonal Railways.

PARAS

The paras included 5 cases of avoidable expenditure of Rs.2.26 crores, irregular expenditure of Rs. 0.10 crore, 6 cases of extra expenditure of Rs. 62.97 crores, one extra contractual payment of Rs. 25.89 crores, 2 cases of overpayments amounting to Rs. 0.83 crore, a case of infructuous/unfruitful expenditure of Rs. 0.92 crore, unintended benefit of Rs. 0.8 crore to a contractor, 7 cases of loss of revenue amounting to Rs. 5.65 crores, one case of short recovery amounting to Rs. 0.15 crore, 4 cases of idling of facilities/assets created at a cost of Rs. 1.49 crores and outstanding sum of Rs. 13.42 crores from port authorities due to failure of administration to operate the provision of the agreement and inadequate action to recover it.

EXAMINATION BY PAC

The PAC has examined the ARs upto the year 1986-87, till March 1989. AR for the year 1987-88 presented on 10th May, 1989 was yet to be taken up for examination. In all, 39 Audit Reports were examined by the Committee. The time lead in examination of an year's AR by the Committee ranged from 5 months and 18 days to 28 months and 7 days. The Committee presented 20 reports within a time span of 12 months, 46 reports within 24 months and 6 reports within 36 months, after the

presentation of Audit Reports in Parliament. Two reports took more than 36 months for finalisation. Of the total number of 1702 paras contained in the ARs from 1948 to 1983-84, the Committee selected 630 paras for examination. Maximum number of paras selected for examination by the Committee was 52 (1969 Report) which constituted 82.5% of the total contents of the AR.

After the appearance of the reviews in the Reports, they were selected for examination in preference to individual paras and during the period 1972-73 to 1983-84, out of the 84 paras selected for examination by the Committee, 31 were reviews *i.e.* 54.38% of the area subjected to examination by the Committee upto 1988. The Committee made 546 recommendations on reviews, which was 26.5% of their total recommendations on ARs. In effect, 40.6% of the audit findings included in the Reports were subjected to examination by the Committee. The number of paras in ARs selected by the Committee for examination was 52 out of the total of 185 paras, during the tenure of the 1st Lok Sabha (28.1%) 100 out of 228 during 2nd Lok Sabha (43.9%), 156 out of 217 during 3rd Lok Sabha, (71.9%), 185 out of 222 during 4th Lok Sabha (83.3%), 92 out of 234 during 5th Lok Sabha (41.1%), 27 out of 131 during 6th Lok Sabha, (20.6%) 27 out of 120 during 7th Lok Sabha (22.5%) and 20 out of 125 during the tenure of the 8th Lok Sabha upto 1989, (16.0%).

The Committee presented 77 reports containing 2207 recommendations, of which 988 recommendations were accepted by the Government, 419 recommendations were not pursued by them after receiving Government's replies, action taken by the Government on 190 recommendations was not accepted by them and on 290 recommendations action taken were of interim nature. The Committee presented 66 action taken reports on its 77 reports. On 11 reports presented by the Committee during 1986-87 to 1988-89 action taken reports were yet to be presented. Reports already finalised indicate that 44.8% of its recommendations were accepted by Government and Government's decision on 8.6% of its recommendations only were not acceptable to the Committee.

The PAC decided, at their sitting held on 7th April, 1982, that the ministries concerned may be asked to furnish in future notes indicating the remedial/corrective action taken by them on the various paragraphs contained in the Reports, as soon as they were laid on the table of the House. The Ministry of Finance (Department of Expenditure) was required to coordinate and collect the notes on each para contained in the various Audit Reports on the accounts of the year 1980-81 from the various ministries and forward them to the Lok Sabha Secretariat, Audit Report-wise, latest by 31st May, 1982. Since then, out of 270 unselected

paras, 92 remained to be acted upon until March 1989 which related to the Reports 1985-86 (9) and 1986-87 (27). Though belated, the fact that the paras of the ARs not selected for examination by the PAC, are acted upon is a positive aspect of the system of accountability in the Railways.

SELECTED PARAS AND REVIEWS

DIESEL LOCOMOTIVE WORKS, VARANASI

The review* contained comments on introduction, collaboration agreements, capital structure, production, incentive bonus, idle time and overtime payments, materials management, costs and prices, import substitution and computer utilisation. Against the sanctioned estimate of Rs. 19.57 crores, the expenditure incurred upto March 1972 was 18.71 crores. The first locomotive, wholly assembled, came out in 1964. The installed capacity of the project expected to be attained by 1967-68 was 150 broad gauge diesel locomotives a year but the decision to diversify production taken in 1965 to include manufacture of metre gauge locomotives also from 1967-68 resulted in revision of production capacity to 100 broad gauge and 60 metre gauge locomotives a year. Full production had not been attained even after nearly a decade of commencement of production and shortfall was nearly 50 per cent of the installed capacity. As per project report, 941 broad gauge locomotives or equivalent should have been manufactured during 1963-64 to 1971-72 but only 427 broad gauge and 80 metre gauge locomotives were manufactured. The production programme for the Fourth Five Year Plan reported to the Estimates Committee (1969-70) was 648, which was substantially modified to 550 and the actual production was 420 locomotives. Production fell in 1972-73 due to power shortage and labour problem. As against the orders placed for 359 broad gauge locomotives and 190 metre gauge locomotives by the Railway Board from 1969 to March 1978, one third remained unfulfilled even up to September 1973. Shortfall in production of diesel locomotives led to larger utilisation of steam locomotives resulting in extra expenditure because of higher operating cost of steam locomotives. Growth of incentive bonus and overtime payments was not often matched by a corresponding increase in production. The works held stores worth Rs.7.54 crores and idle time ranged up to 10 per cent of direct man hours in 1972-73. Considerable quantity of stores was left in the open due to insufficient storage capacity. Rs. 32.15 lakhs worth of locomotive items and Rs. 31.16 lakhs worth of

* Para 9 of AR 1972-73 - 9 paras with 33 sub-paras on 10 pages-finalised on 27th February, 1974 and presented to Parliament, signed by Shri H.B. Bhar and countersigned by Shri A. Baksi

other items were lying in stock for 2 years or more and tools worth Rs. 18 lakhs were also found surplus to the requirements. Computerisation of stores accounting and inventory control was planned in July 1968 to be introduced in five phases, but only the first phase was implemented by November 1973 and the second phase was expected to be completed by February 1974. The cost of production exceeded the selling prices during 1963-64 to 1967-68 but thereafter the selling prices were higher. The percentage of indigenous content from batch cost reports as against the estimates was low. The average monthly utilisation during 1968 to 1972 of the computer rented at a cost of Rs. 60,765 for minimum utilisation of 176 meter hours, varied from 54.01 hours to 179.00 hours, although the computers could be utilised up to 400 meter hours in a month, the usage beyond 176 meter hours being charged on a concessional basis.

FAC'S RECOMMENDATIONS

The PAC examined* the para and made 27 recommendations/conclusions. More important ones were that the diversification should not be attempted as a somewhat desperate *ad hoc* measure, but should form an integral part of a well thought out perspective plan for the utilisation of the infrastructure already created. According to PAC, limiting the choice of the collaborator for the manufacture of diesel locomotives to the USA firm, an unusual and unbusiness like practice, was not justified even though final decision was taken at the highest level and it had desired to know if better terms could not be got from elsewhere. Difficult ways and means position of the Railways was not to come in the way of developing a strong research and development team. The estimates were not found to have been critically examined with reference to the Plans and programmes and there was, for some apparently unfathomable reason, over-estimation of the provisions particularly in respect of Civil Engineering and Electrical Engineering Departments. The Committee had asked for a more careful and realistic estimation so that the limited resources could be utilised in such a manner that the maximum benefit accrued. No justification could be found for under-utilisation of the production capacity installed at a huge cost to the country and had the targets been realistically laid down and the requirements of diesel locomotives assessed on a more careful basis, the production at DLW would have proceeded more smoothly. With adequate advance planning, the problems being pleaded for failure in performance could have been better tackled. A proper perspective plan was to be drawn up for the

* 225th Report (Seventh Lok Sabha) 1976-77 presented to Parliament on 2nd August, 1976, 98 pages - VII chapters.

optimum utilisation of the installed capacity at DLW and closer coordination with the indigenous sources of supply like BHEL brought about. The incentive scheme had really no impact on the productivity of different shops and the trend of overtime payments in DLW only indicated that the production time saved by the operation of incentive scheme had really been wasted away without being utilised for production purposes and called for precise review of the incentive scheme particularly in relation to overtime payments and idle time in shops. An integrated production-cum-inventory control system by computer had been introduced at DLW for periodical check-up and adjustments to be made and the precise progress made in eradicating the evils of over-stocking were to be intimated to the Committee. The Committee desired re-examination of the costing methods followed in the DLW with the requisite expert assistance and in cooperation with the Cost Accounts Branch of the Ministry of Finance. The Reviewing Committee set up by the Railway Board was to continuously monitor the progress achieved in this field. The ATR* of the PAC indicated that 11 recommendations were accepted by Government, Committee did not pursue 8 recommendations on receipt of replies from Government, it did not accept replies for 5 recommendations and reiterated their earlier recommendations for and for 3 for which only interim replies of Government were received and desired Government to expedite final replies.

WAGON AVAILABILITY\$

The review brought out that the capacity utilisation was 89 per cent in 1978-79 and 87 per cent in 1979-80 and the outstanding indents for wagons had gone up to 2,44,368 on BG and 82,885 on MG at the end of 1979-80 and despite the increase in the number of wagons, their availability for traffic had declined due mainly to the increase in turn round time. The wagon holding was somewhat imbalanced; 15154 open wagons were special purpose wagons suitable only for certain special types of traffic; besides, there had been inadequate procurement of MG wagons. A substantial number of wagons ordered had also remained stabled with the manufacturers for want of free supply items by the Railway Board during the years 1978-79 and 1979-80. Non-observance of prescribed rules and procedures for sorting, cleaning and inspection of empties and omission to detect under/over loading, had contributed to a large number of wagons being either left behind, drawn empty, under

* 60th Report (Sixth Lok Sabha) 1977-1978.

\$ Para I of 1979-80 Report signed by Shri A. R. Shirali and countersigned by Shri Gian Prakash on 28th February, 1981 and presented to Parliament on 12th March, 1981

loaded or over-loaded, the last one contributing to damage and consequent sickness also. Heavy detentions, mostly due to lack of adequate yard capacity, loading/unloading facilities, etc., and increase in the number of sick wagons (both in workshops and on sick lines in the yards) were commented upon. The increase in detentions of wagons at terminal yards, marshalling yards (particularly in the central yards meant for through traffic) and enroute, were caused mainly by comparatively lower priority given, in terms of provision of funds and time taken to execute works for increasing the capacity of the yards and the reception lines therein than doubling and gauge conversion works. Detentions in terminal yards, in marshalling yards, in transit or short of junctions added to turn round time. A co-ordinated approach to rationalise the movement of commodities like food grains, fertilisers and cement to put the available wagon capacity to the best use, remained to be evolved and finalised in consultation with the Ministries concerned. There was considerable diversion of traffic, particularly in the case of fertilisers and coal, to road, over un-economic long distances. Large number of outstanding indents for wagons was directly traceable to the decline in operating efficiency, as reflected in the various operating indices, more particularly at the terminal yards, marshalling yards and enroute which in turn was due, to a significant extent, to the imbalanced pattern of investment in the various traffic facilities. Increase in the turnround time had adversely affected the availability of wagons for loadings, the turnround time on BG having increased. Considerable improvement in wagon utilisation was required even to achieve the norms of turnround time adopted by the Railway Board for assessing the requirement of wagons during the Sixth Plan period.

PAC'S RECOMMENDATION

The PAC made* 46 recommendations which covered all the points raised in the audit review. While expressing their deep concern at the fall in the efficiency of Railways during all these years, the Committee directed the Railways to examine in depth the problem and take adequate measures to effect improvement in their working on a long time basis. The Committee thought that it should be possible to eliminate the outstanding demand for wagons with more sustained efforts on the part of the Railways and with improvement in efficiency and desired to be apprised of the latest position regarding the outstanding indents for wagons and rolling stock and making requisite addition to achieve the target of freight traffic contemplated in the Plan.

* 103rd Report 1981-82 (7th Lok Sabha) presented on 30th April, 1982

High priority for allocation out of available funds for increasing vital traffic facilities and track renewals was suggested. Optimisation of the use of available wagons by reducing the turnaround time was stressed. A fresh assessment of the requirements of wagons and necessary corrective measures to meet the demand, measures to avoid stabling of wagons in future, strict watch over detentions of wagons in yards and terminals and prompt corrective steps to reduce them were the other suggestions. The ongoing conversion projects were desired to be completed as early as possible so as to eliminate the early transshipment points. Decline of investments in traffic facilities was bound to have an adverse impact on the quick movement of traffic and might lead to congestion. The Zonal Railways were sought to be persuaded to take necessary action for implementation of the recommendations and complete the studies of the remaining major yards as early as possible. Strengthening of the supervisory checks in regard to the observance of the extant instructions and if necessary to revise them suitably, so as to avoid the instances of wagons being left behind or being hauled empty, was suggested. Overloading of wagons was not to be permitted in future and the detention to wagons inside the steel plants was to be reduced. Not only the outstandings were to be realised, the desirability of upward revision in the rate of demurrage charges in case there was no reduction in the detention time was also to be considered. The Ministry of Railways was required to sort out this matter with the Ministries/Departments concerned with a view to evolving and finalising a coordinated approach to rationalise the movement of these commodities so as to reduce the lead of traffic as far as possible and to put the available wagon capacity to the best possible use. A close coordination between the Ministry of Railways and FCI/Department of Food was necessary so as to provide adequate siding facility at maximum number of godowns particularly in Punjab and Haryana. The use of open wagons for the commodities such as cement, food grains, fertiliser etc. was to be stopped. In case the number of covered wagons with the Railways was not commensurate with the increase in traffic in commodities needing such wagons, immediate measures were to be taken to procure them.

Thirty six recommendations of the committee were accepted* by Government, 7 were not pursued by the Committee after receipt of Government's replies, replies in respect of 2 recommendations were not accepted and the Committee reiterated their earlier recommendations and in one case the reply was only interim and Government was asked to expedite final reply.

* ATR of the PAC 199th Report 1983-84 (Seventh Lok Sabha).

COACHING SERVICES§

The review brought out that while the actual coaching traffic far exceeded the estimated increases, the production of coaches was much less than planned, despite availability of capacity, 54 per cent in BEML and 76 per cent in ICF upto 1977-78 and 93 per cent thereafter. The need to take into account the requirements of lower class accommodation to eliminate overcrowding, had not been kept in view, while planning the production of 722 upper class coaches for which 27 per cent of the funds were released during 1974—81. Non-exploration of the scope for utilising the Railway service vehicles (inspection carriages, saloons etc.) and tourist cars for passenger service, short fall in planned addition to EMU stock, higher ineffective percentage of EMU motor coaches and lack of adequate repair facilities, which led to inadequate augmentation of EMU services were also pointed out. Twenty per cent of the capacity of the Railway workshops could only be utilised for production of SLRs/luggage brake vans/parcel vans, despite persistent shortage of such vehicles and conversion of replaced stock into such vehicles had also not been implemented as envisaged. Inadequate production of passenger coaches was not made up by more effective utilisation of available coaches. The extent of ineffectiveness, even as per the statistical records of the Railways had exceeded, in 1980-81 the liberal norm of 14 per cent and the actual extent of ineffectiveness, taking into account coaches under repair for less than 24 hours, was far higher, being between 19.9 per cent and 22.5 per cent, as per the census carried out by the Railways in March 1981. In a cycle of 24 hours a coach was on the move in passenger trains for 8.50 hours (37 per cent) only and the rest of the period was spent in 'terminal lie-over' after running on trains (36 per cent) and in sick lines, maintenance sheds and workshops (27 per cent). The long 'terminal lie-over' and the time taken in sick lines, sheds, idling etc. were due to inadequate maintenance and washing facilities at terminals, long idleness of rakes due to the rake link arrangements, inadequate capacity of workshops and maintenance depots. The quotas for reserved berths/seats at en route stations, which were found in many cases to have not been utilised fully, had not been reviewed and the prescribed rules and procedures were not observed. The arrangements for sale of tickets through tourist agencies on commission basis had not been reviewed and the recommendations of RCC for improved booking facilities, especially at important terminals, had also not been fully implemented.

§ Para 1 of Advance AR, 1980-81 signed by Shri A. R. Shirali, countersigned by Gian Prakash on 22nd March, 1982 and presented to Parliament on 5th April, 1982.

PAC'S RECOMMENDATIONS

The Committee examined the para on 29th November, 1982 and 1st December, 1982 and made* 37 observations/recommendations on 28th April, 1983. Some of the recommendations were, a realistic assessment of the growth of passenger traffic and a comprehensive study of inter-city travel, stepping-up allocation for current plan including mobilisation of internal resources by Railways removal of constraints in full utilisation of capacities in ICF and BEML, removal of unremunerative services and more efficient monitoring for augmenting margin of profit, early conversion of 387 BG and 324 MG coaches, effective coordination with the Ministry of Heavy Industry to impress on BHEL to clear the back-log of arrears in manufacture of traction motor units, more frequent census of coaches to reduce running of trains with lesser number of coaches, immediate steps to enforce a system of necessary coordination between the depots at the divisional headquarters and the assigned workshop for early despatch of coaches in batches, intensification of security measures, early evaluation of the repair and maintenance facilities by high level teams for improving utilisations and matching of repairs and maintenance facilities with the reduction in coaching stock out of traffic use in the interest of overall economy. While the relative economics of the two types of coaches was to be carefully studied, high priority was to be accorded to corrosion repairs of steel bodied coaches for alleviating overcrowding in the existing trains and conversion of these coaches for effective use as passenger coaches. A review of washing arrangements and maintenance of coaches at the terminals was to be undertaken urgently with a view to improve and modernise them and the Committee hoped that the various other issues highlighted in the Audit Report which the Committee had not touched upon in their report would be gone into with all seriousness and necessary remedial measures taken to improve the services.

Twenty-one recommendations were accepted* by the Government, 8 were not pursued by the Committee on receipt of replies of Government and replies for 8 recommendations were of interim nature and Government were requested to expedite final replies.

UTILISATION OF LOCOMOTIVES\$

The review brought out that the locomotive holding of the Railways on 31st March, 1980 was excessive in relation to the requirements of traffic,

* 154th Report (1982-83) Seventh Lok Sabha.

* ATR presented by the Committee (10th Report-1985-86-8th Lok Sabha).

\$ Para 4 of AAR 1980-81 signed by Shri A. R. Shirali, countersigned by Shri Gian Prakash on 22nd March, 1982 and presented to Parliament on 5th April 1982.

the surplus being 779 locomotives in terms of steam locomotives. The number of locomotives to be run on diesel and electric traction placed on line between 1969-70 and 1980-81 was far more than justified by the increase in traffic. While the number of diesel locomotives increased by 166 per cent (from 675 to 1798), the traffic under diesel traction increased by 103 per cent only; while the number of electric locomotives increased by 93 per cent but the traffic under electric traction increased by 61% only. The performance levels of both diesel and electric locomotives in 1979-80 and 1980-81 were lower than in 1977-78 or even in 1969-70, mainly due to the excessive en route and terminal detentions, waiting for traffic, idling in sheds, etc. Time taken for maintenance and periodical overhaul was excessive resulting in locomotives remaining out of commission for periods ranging from 1 month to 18 months in the case of diesel locomotives and from 1 month to 70 days in the case of electric locomotives. The maintenance and repair schedules had not been observed resulting in increased failures of engines. Large number of diesel locomotives had been detained in sheds and workshops for want of materials for periods ranging from 1 to 18 months for diesel locomotives and 1 to 9 months for electric locomotives. Diesel and steam locomotives continued to be deployed in electrified sections on account of non-electrification of short links and non-elimination of change of traction resulting in additional operating costs. The number of steam locomotives taken off the line was not in keeping with the reduction in traffic under steam traction causing extra expenditure on operation and repairs and maintenance of steam locomotives. Utilisation of locomotives had deteriorated. The indices of utilisation of steam locomotives used for shunting purposes also showed deterioration in 1979-80. The fuel consumption of diesel locomotives was excessive compared to the norms fixed due to non-observance of instructions issued by the Railway Board. Neither trip ratios for diesel oil consumption were laid down nor were the excesses investigated. Norms for shed consumption of diesel oil for maintenance of locomotives had not been laid down on the Central and Southern Railways; where such norms had been laid down on the Northern and South Eastern Railways, they had not been observed resulting in excessive consumption. The coal consumption by goods locomotives per 1000 GTKM increased from 58.98 kgs. in 1969-70 to 91 kgs. in 1980-81. While the traffic under steam traction decreased by 51 per cent in 1969-70 and 1980-81, the coal consumption decreased by 27 per cent only and the major causes were excessive detentions in sheds and yards, dropping in average load per train and in speed, increase in engine failures etc.

PAC'S RECOMMENDATIONS

The PAC made* 31 recommendations/observations which covered *inter alia* concern over heavy surplus locomotive holdings, need to observe time bound programme for phasing out steam locomotives, priority for track energisation including short intermediate links, need to fill up the gap between traffic trends and future projects, improved efficiency of utilisation, augmentation of homing capacity of sheds to reduce excessive detention of locos, undertaking periodical maintenance studies, need to improve the usage of electric engines, arranging for full load trains by providing incentive to bulk consumers, reducing the loss of locomotive days on account of detentions for repairs/periodical overhauls to the barest minimum, achieving optimum utilisation of the electric locomotives, quickening the pace of condemnation of highly uneconomic steam engines, need for a clear cut policy on the future of steam traction, reduction in consumption of lubricating oil in sheds, reduction of fire grate area in the remaining 513 WG locos, and improvement of the machinery for planning, monitoring and review and follow up action to achieve the objectives.

Twenty three recommendations were accepted\$ by Government, seven were not pursued by the Committee after receipt of Government replies and in one case the reply furnished was not acceptable to the Committee and the recommendation was reiterated.

CONSTRUCTION OF A METRE GAUGE LINE FROM DABLA TO SINGHANA*

The Railway Administration did not conduct in terms of the agreement, half yearly examination of the records of the HCL during the period 1974 to 1979 with a view to verifying the quantum of traffic offered and preferring its claim in time against shortfall in Railway revenue. The delay resulted in accumulation of the Railway's claim to a large amount of Rs. 1.26 crores, which in turn led to counter claims by HCL. Non-supply of covered wagons by the Railway Administration had resulted in traffic of fertilisers and copper products being diverted to road by HCL. The new line was constructed at a cost of Rs. 2.38 crores to serve the Khetri Copper Project but had not been able to achieve the purpose for which it was undertaken.

The PAC made@ 15 recommendations. The Committee was perturbed

* 167th (1983-84) Seventh Lok Sabha presented on 27th July, 1983.

\$ ATR viz. No. 35 dated 20th March, 1986 (Eighth Lok Sabha presented on 3rd April, 1986.

* Para 12 of AR 1980-81.

@ 162nd Report (1986-87) Eighth L.S.

to observe the adverse linkage effects of an uneconomic project of huge dimension and desired the Railways to take effective steps to reduce the detentions of Railway wagons in the Project area to the barest minimum in coordination with the HCL authorities and take early action to reconcile the details of the claims preferred by HCL with a view to their expeditious settlement. The Railway Administration was to take suitable measures so that the goods comprising inward and outward traffic of the project were not damaged/ pilfered during transit or transshipment. The Railways were also to carefully consider the prospects of production picking up and traffic moved by rail improving in order to take a firm decision on the future of the Dabla Singhana line.

Nine recommendations were accepted* by Government and for 6 recommendations for which only interim replies were received the Committee desired Government to expedite final replies.

REVIEW ON COMPENSATION CLAIMS

The review on compensation claims brought out that the percentage of claims paid to earnings in respect of parcel and high rated commodities ranged from 3.4 to 69.5 per cent, despite the overall percentage of 0.8 of claims paid to all earnings. The losses/damages claims preferred and paid increased between 1977-78 and 1981-82 notwithstanding the measures taken for streamlining, the strengthening and prevention measures. Grains and pulses, fresh fruits and vegetables, coal and coke were the most affected commodities. Increase in shortages and pilferages due to failures at various levels by different departments, failure of the mechanical department and commercial department in the implementation of the measures required to be taken by them, failure of the operating department to observe the normal precautions, failure of RPF to maintain the level of its scheduled duties despite augmentation of its strength, ineffectiveness of the claims department in controlling the claims and initiating penal action against commercial and operating staff responsible for lapses which affected the loading of high rated commodities, were the other findings.

PAC'S RECOMMENDATIONS

The para was examined by PAC 1985-86, 1986-87 who presented three reports*. The Committee pointed out that the number of missing and unconnected wagons reconciled in a year has not kept pace with those

*\$ ATR viz. 66th (Eighth L.S.) presented on 25 March, 1987.

\$\$ Paras 1 to 7, 10, 13, 15, 19 of AR 1982-83 signed by Shri B. Maithreyan and countersigned by Shri Gian Prakash.

* 41st Report (1985-86), 50th and 84th (1986-87) Eighth Lok Sabha presented on 28th April, 1986, 5th August, 1986 and 24th April, 1987.

reported fresh during the course of the year and the outstandings have increased and as a consequence the closing balance of missing and unconnected wagons increased substantially from 7,811 and 6,148 in 1977-78 to 19,716 and 17,532 in 1983-84 respectively. The Committee was intrigued that wagons pertaining to as far back as 1967-68 appeared in the unreconciled list and the non-availability of records rendered reconciliation difficult, if not impossible. The Committee desired to be apprised of the final outcome of the reconciliation/match adjustment completed upto March 1980 by the Committee appointed by the Railway Board in October 1985. Possibility of the system of monitoring suffering from some serious defects in the Northern Zone and need for a thorough review was suggested and the Committee hoped that the sub-Committee constituted exclusively to reconcile the missing and unconnected wagons pertaining to these areas would go into it thoroughly and expeditiously and desired to know its report along with action taken in respect of its recommendations. In view of the large magnitude of the losses of foodgrains in transit, the Committee suggested immediate remedial measures to contain them by close coordination and action between Departments of Food, Railways and the FCI and desired to be apprised of the action taken.

While agreeing that the Railways were on strong grounds in rejecting the claim of the State Bank of India for the loss of 8 Kgs. (gross) of gold bars valued Rs.14.8 lakhs, the Committee observed that they should surely have been gravely concerned that a theft of this kind and magnitude of valuable goods entrusted to them have taken place and as a public organisation they had the responsibility, as exhibited in delaying the dispatch of gold until escort became available. Equally deplorable was the apathy shown by the State Bank of India in discharging their agency function merely because the gold had been insured by the Hutti Gold Mines and the Insurer had paid the claim and the attitude adopted by the Bank was not correct. The entire episode indicated weakness, inefficiency and inability of the investigating agency to detect a crime of this magnitude, which had occurred on our public carrier system. The Committee was astonished at the utter lack of concern, urgency or anxiety on the part of the State Bank of India officials, the Railway officials and investigating officials to mutually cooperate and retrieve their prestige by tracing the missing gold or catching the culprit. The naked fact was that gold worth Rs. 14 lakhs was lost, unsung and unwept.

The Committee observed that despite streamlining of railway operation., addition of new wagons, strengthening of claims prevention and security organisations, the amount of compensation paid for loss and

damage to goods has been gradually increasing, Rs. 14.3 crore in 1977-78 to Rs. 43.57 crores in 1985-86. Percentage of value of claim paid on earnings also increased from 0.84 in 1983-84 to 0.95 in 1985-86 and the Committee desired the Railways to analyse these increasing trends and take appropriate remedial measures with a view to ensuring greater security of transport of consignments. The decline in traffic according to the Committee, may well be due to the high incidence of claims on account of loss and damage. It was evident from the analysis of the percentage of compensation paid to the revenue earned that half of the amount paid in a year as compensation was on the high profit yielding commodities which constituted only 20% of the earnings of the Railways. The Committee concluded that the profitability of the railway operations would improve if there was an increase in the traffic of high rated commodities and decrease in the incidence of claims due to loss and damage in respect of these commodities. The Committee suggested that the Railway should take appropriate steps to check the growth of claims, specially on account of complete loss of packages and pilferage.

The Committee noted* that unduly long time has been taken to complete reconciliation on NEF railway and desired that the reconciliation after 1983-84, if not already commenced, should be taken up without any further delay and completed under a time bound programme. The Committee desired that the substantial amount of claims of Rs. 21.5 crores of FCI on account of loss/pilferage and damage to foodgrains in rail transit should be cleared at the earliest under a time bound programme and suggested that all the arrears of excess payment of freight charges claimed by the FCI should be cleared under a time bound programme and prevent current claims falling into arrears. Of the 12 observations/recommendations made by the Committee, 8 have been noted/accepted* by Government, 2 observations/recommendations were not pursued in the light of the replies received from the Government, 1 recommendation for which reply was received was not accepted by the Committee and reiterated its stand and 1 recommendation was yet to get final reply.

LAND MANAGEMENT IN RAILWAYS\$

The review brought out *inter alia* non-maintenance of up-to-date land plans by the Railways, duly accepted by Revenue authorities of the State Governments, which led to disputes/litigations, damage to Railway's title

* 118th Report PAC 1987-88 8th Lok Sabha, Presented on 12th April, 1988.

\$ Para 19 of AR 1982-83 signed by Shri B. Maithreya, countersigned by Shri Gian Prakash on 12th January, 1984 and presented to Parliament on 24th February, 1984.

of land and loss of revenue accruing therefrom. Encroachments on railway land had been increasing from year to year and there was 40 per cent increase in encroachments at the end of March 1983, as compared to that at the end of March 1978. Outstandings on account of rent of land/licence fees aggregated to Rs. 4.88 crores (March 1981 to March 1983). There were delays in revision of rents and retrospective revisions of rent without observing proper formalities led to disputes and litigations. Afforestation of railway land and pisciculture in railway tanks had not been developed as an effective source of revenue by the respective Railway Administration, as contemplated by the Ministry of Railways (Railway Board). Even by utilising half the surplus railway land for eucalyptus and Subabool plantations, earning potential of over Rs. 111 crores per annum could be tapped. Against the estimated earnings of Rs. 15 crores from licensing of railway land for shopping, commercial plots etc. during the year 1980-81, the actual earnings were only Rs. 54.26 lakhs. Out of 73,115 cases of land licensed (March 1982) in 40,348 cases (*i.e.* 55.18 per cent), formal agreements not been executed with the parties to whom the land was licensed. The absence of agreements was likely to impair the Railway's title to legal enforcement of recovery of their dues. The achievements of the Railways in management of railway land had been far below the expectations, despite new administrative machinery having been set up since June 1980 in the offices of both the Ministry of Railways and the respective Railway Administrations. Ministry of Railways (Railway Board) had stated that the existing expertise on the Railways was not adequate for proper land management.

PAC'S RECOMMENDATIONS

The PAC made* 18 recommendations. Work of preparation, certification and construction of boundaries of land plans was to be done on priority basis and the arrears were to be cleared within six months. The proposal of the Department to check and prevent encroachment was to be examined by Government and implemented, if found feasible. According to the PAC the various irregularities and lapses pointed out by High Powered Committee was a sad commentary on the functioning of the Railway Administration and it urged stern action against those who were responsible for the grave and costly lapses. The Directorate of Land Management in the Railway Board was required to keep a close watch and review quarterly the position of specific cases and clearance of outstanding dues. Concerted efforts were to be made for enclosing the afforestation works on Railway land and for augmenting the revenues. Measures to preserve and protect

* 54th Report (1986-87) Eighth Lok Sabha, presented on 31st July, 1986.

the Railway property were considered essential. The existing set up at the Board level and zonal level was to be suitably strengthened with qualified personnel bringing about a marked improvement in land management.

LICENSING OF LAND TO A FIRM§

The para brought out that the Railway land measuring 9502 sq. metres adjacent to the Central Railway container terminal at Wadi Bunder which was licensed to the Ministry of Defence in 1944 was required for the Railway's own use. An area of 1010 sq. metres was released in 1968 and the question of releasing the balance area remained under correspondence. Railways were insisting on its release with out encumbrances and the land was surrendered to the Railways ultimately in January 1980. Meanwhile the Railway Administration/Railway Board licensed it to a private party, without verifying its credentials fully and fixed the rent at a lower rate for the first two months and increased rate in subsequent months against which the party represented and sought reduction. The Minister ordered *status quo* to be maintained, which was later withdrawn. In May 1981 the Railway issued notice to the party to vacate the land but the party took recourse to litigation. The party owed Rs. 28.56 lakhs by October 1983. The Railway Administration issued notice in May 1981, terminating the agreement with effect from 31st August, 1981.

SEQUEL

The PAC commented* adversely on the unusual interest shown by the Minister on the representation of the party for review of licence fee and renewal of lease agreement and the purpose of the order, which presumed and assumed many facts and factors, which were not all warranted, and the subsequent orders of the Minister for withdrawal of case, settlement of rent and allowing the party to retain the area for a period of 5 years after withdrawal of case, despite resistance to the out of court settlement by members of Railway Board, enabled the party to defy and delay the just claim of the Central Railway. The new Minister cancelled the order of previous Minister, in January 1985. The Committee concluded that the party was shown undue consideration and was helped to hold on to Railway property to the detriment of interest of Railways and General Public. The Railway Administration was required to defend the case for determination of licence fee and recover the outstandings from the party. As a sequel to the case, the then

§ Para 20 of AR 1982-83 signed by Shri B. Maithreyan, countersigned by Shri Gian Prakash on 12th January, 1984 and presented to Parliament on 24th February, 1984.

* 54th Report (1986-87) Eighth L.S., presented on 31st July, 1986.

Minister of Railways, who happened to be Minister for co-ordination in the Cabinet had to resign, which was accepted by the Prime Minister.

BOXN WAGONS§

Review disclosed that these wagons were designed by RDSO as a zero defect wagon after 10 years of research and development and were introduced in October 1982 and that 6260 such wagons were in service in March 1985. Various deficiencies in performance, procurement and utilisation of BOXN wagons were brought out. It showed that no study of the behaviour of prototype wagons and their techno-economic characteristics was carried out, as had been decided by the Railway Board when the project was cleared, before undertaking systematic production and bulk orders were placed for manufacture committing the Government to an investment of Rs. 656 crores even before conducting the trials required and before the new design had been evaluated for technical and commercial acceptance. The expectations in regard to technical superiority of the design of BOXN wagons had been belied and the economic viability was doubtful. The incidence of defects in bogies, air brakes, wheels, etc., was found to be very high on account of design deficiencies (bogies), poor quality supplies, etc. which could not be overcome and the Railway Board imported 6000 bogies for trials. The procurement of inputs (such as bogies, wheelsets, bearings, air brakes, etc.) did not synchronise with the production of wagons by the wagon builders, thereby resulting in large scale stabling of wagons leading to idle investment of Rs. 28.3 crores for a period of 2 1/2 years besides escalation claims. In commercial operation the design of the wagon was found deficient in respect of loadability of coal, for which it was mainly intended to be used, despite reduction of chargeable weight for coal by the Railway Board and the Power Houses continued to report short receipt of coal to the extent of 4 tonnes per wagon, compared to the charged weight. Steel plants favoured a self discharge wagon since use of BOXN wagon would necessitate expensive modifications to tipplers and was unsuitable for despatch of finished products. The expectation that for running of 4500 tonne trains the existing infrastructure would be adequate was also belied and considerable additional investments on track, signalling, strengthening of power supply and additional wagon maintenance facilities at an estimated cost of Rs. 56.7 crores were required. Three locomotives had to be deployed on certain sections even though the

§ Para 8 with 70 sub-paras of AR 1984-85 signed by Shri P. C. Asthana and countersigned by Shri T. N. Chaturvedi and presented on 8th May, 1986.

increase in pay load when compared with conventional trains was only marginal. Additional operating expenditure of Rs. 17 lakhs was required to run 4500 tonne trains for moving 5.4 million tonnes of coal annually. The production of BOXN wagons which moved in closed circuit and had limited use appeared to have affected the availability of other types of wagons particularly the covered wagons.

PAC'S RECOMMENDATIONS

The PAC made* 20 recommendations, which *inter alia*, pointed out the need for critical analysis of the procedure, practice and methodology involved in research and development and for laying down norms to avoid further delays. It deprecated the casual and unsavoury manner in which the Railway Board had handled the ordering of wagons at an investment of Rs. 656 crores. The experience of Boxn wagons belied the expectation in regard to their technical and commercial advantages and the proposed effort to go for global tender for a modern bogie suited to Indian conditions amply proved the defective planning and execution in this vital area. The R&D was to be revamped and restructured to equip it to help upgradation of technology in Railways and to draw up a perspective plan for research and development for the next 10 - 15 years. Reasons for failure as identified by the Railways were to be looked into and action to overcome them was to be expedited. Norms for preventive maintenance and periodic overhaul should be reviewed and their observance ensured. Renewal of tracks with rails of 60 kg/m section with UTS of 90 kg/sq. was to be done straight away and the Bhilai Steel Plant was to be persuaded to manufacture them. The need for close coordination and cooperation between the various agencies and for arriving at decision well in advance to ensure smooth and timely implementation of projects was stressed. The planning mechanism was to be geared as a part of efforts to streamline the wagon production. The Committee deprecated lack of seriousness and of promptitude on the part of the Railways in dealing with the problems of bulk users in time. Creation of necessary infrastructure facilities under a time bound programme was found to be essential for intensive notification of assets created in Boxn wagons and optimisation of Railway productivity.

WHEEL AND AXLE PLANT*

Review brought out *inter alia* cost over-run of Rs.107.4 crores (274%)

* 122nd Report (1987-88) Eighth Lok Sabha - presented to Parliament on 18th April, 1988.

* Para 9 of AR 1985-86 signed by Shri M. Parthasarathy, countersigned by Shri T.N. Chaturvedi on 29th April 1987 and presented on 8th May, 1987.

and time over-run of 27 months mainly due to departmental reasons. Import of wheelsets valued Rs. 79.87 crores due to delay in completion of project and non-utilisation of Durgapur Steel Project's capacity due to lack of coordination between Railways and the Plant, payment of compensation of Rs. 78.70 lakhs to contractors, avoidable expenditure of Rs. 1.74 lakhs incurred in one contract for construction of overhead tank, avoidable investment of Rs. 57.55 lakhs in construction of quarters and additional expenditure of Rs. 7.52 lakhs due to non-observance of the norms for plinth area, shortfall in production due to restricted operation of the electric arc furnace and under-utilisation of capacity because of acute power crisis, avoidable expenditure of Rs. 5.61 lakhs on electricity charges on account of incorrect assessment of maximum demand, irregular payment of sales tax of Rs. 77.33 lakhs on electricity, import of 10,000 tonnes of blooms costing DM 84.2 lakhs made during January to June 1986 due to inadequate supplies from Alloy Steel Plant, shortfall in performance of arc furnace - 150 heads against 200 heads per month, high rejections and need to find a permanent solution to minimise them and establish quality production, irregular expenditure on air fare for the visit of one representative of the firm, defective interpretation of royalty clause resulting in payment on escalation of domestic steel prices and possible return of 5.2% at full production as against 40.3% return based on landed cost and 27.8% on CIF value of wheels worked in the project report were the important comments.

The PAC made \$ 20 recommendations, which covered all the points brought out in the review. The Committee suggested realistic assessment of project targets and costs to avoid recurrence of mistakes, avoidance of unrealistic projections and making serious efforts to improve indigenous production of wheelsets particularly at DSP. The Committee was not convinced by the various justifications given for frequent revision of cost estimate and disapproved the gross under-estimation of the project cost on the basis of which the sanction was obtained initially and recommended that the executing Ministries, the Planning Commission and the Finance Ministry must have in-built mechanism to verify cost estimates and ensure that the estimates of the projects placed before them were prepared realistically. There was a total failure of project planning and steps were to be taken to ensure that such lapses did not recur in future. The Committee was also to be apprised of the follow-up action taken in this regard. A mechanism in consultation with the Financial Commissioner was to be evolved to work out the net selling

price before agreement on payment of the royalty, so as to make due adjustments in royalty without delay and to make provision for third furnace and balancing equipment in order to improve production to the maximum extent possible and thereby save precious foreign exchange. A comprehensive study of the factors that led to increase in cost of production to ascertain how costs had escalated and rate of return squeezed, so as to locate the areas for economy and control for taking measures taken to reduce the cost of production, discussion of the overall effect and consequential loss resulting from inadequate and irregular supply of power at the highest level with the State Government to find a workable solution, taking up the question of refund of wrongly paid amounts with the State Government for early reimbursement and making further efforts to bring down the rejection rate to the minimum possible level, were some of its suggestions.

LIST OF ABBREVIATIONS

1.	AAO	—	Assistant Audit Officer
2.	ADAI (Rlys.)	—	Additional Deputy Comptroller and Auditor General (Railways)
3.	A.O.	—	Audit Officer
4.	AR	—	Audit Report
5.	B B & C I	—	Bombay Baroda and Central India Railway
6.	BEML	—	Bharat Earthmovers Limited
7.	BFR	—	Bogie Rail Wagon
8.	BG	—	Broad Gauge
9.	BHEL	—	Bharat Heavy Electricals Limited
10.	BNC	—	Bangalore Contonment
11.	B.N. Railway	—	Bengal-Nagpur Railway
12.	BRH	—	Bogie Rail Wagon Heavy
13.	BZA	—	Vijayawada
14.	CA	—	Chief Auditor
15.	CAG	—	Comptroller and Auditor General
16.	CLW	—	Chittaranjan Locomotive Works
17.	C. Rly	—	Central Railway
18.	DA	—	Director of Audit
19.	DLW	—	Diesel Locomotive Works
20.	DSP	—	Durgapur Steel Plant
21.	ECIL	—	Electronic Corporation of India Limited
22.	ECPA	—	Efficiency cum performance Audit
23.	EMU	—	Electrical Multiple Unit
24.	E.P. Rly	—	East Punjab Railway
25.	E. Rly	—	Eastern Railway
26.	FA & CAO	—	Financial Adviser and Chief Accounts Office
27.	FCI	—	Food Corporation of India Limited
28.	GIP Railway	—	Great Indian Peninsula Railway
29.	GTKM	—	Gross Track Kilometre
30.	GTL	—	Guntakkal
31.	HCL	—	Hindustan Copper Limited
32.	IAAS	—	Indian Audit and Accounts Service
33.	ICF	—	Integral Coach Factory
34.	KM	—	Kilometre
35.	LDC	—	Lower division clerks
36.	LS	—	Lok Sabha
37.	METRO	—	Metropolitan Transport Organisation
38.	MG	—	Metre Gauge
39.	N.E. Rly	—	North Eastern Railway
40.	N.E.F. Rly	—	North East Frontier Railway
41.	NG	—	Narrow Gauge
42.	N. Rly	—	Northern Railway
43.	O.T. Rly	—	Oudh-Tirhut Railway
44.	PA	—	Personal Assistant
45.	PAC	—	Public Accounts Committee
46.	PF	—	Provident Fund
47.	RDSO	—	Research, Development and Standards Organisation
48.	RJY	—	Rajahmundry
49.	R.P.U.	—	Railway Production Units
50.	SAS	—	Subordinate Accounts Service
51.	S.C. Rly	—	South Central Railway

52.	S.E. Rly	—	South Eastern Railway
53.	SO	—	Section Officer
54.	SRAS	—	Subordinate Railway Accounts Service
55.	S. Rly	—	Southern Railway
56.	Steno	—	Stenographer
57.	TVC	—	Trivandrum Central
58.	UBL	—	Hubli Junction
59.	UDC	—	Upper division clerks
60.	U.P.	—	Uttar Pradesh
61.	UTS	—	Ultrasonic Tested Steel
62.	WAP	—	Wheel & Axle Plant
63.	W. Rly	—	Western Railway
64.	YNK	—	Yelahanka Junction

ABBREVIATIONS IN FIGURE 15.2

65.	MOS	—	Minister of State (Railways)
66.	ML Adv. (Elec)	—	Member Electrical and Ex-Officio Secretary Adviser (Electrical)
67.	Adv. (S&T)	—	Adviser, Signal and Telecommunications.
68.	Adv. TD)	—	Adviser, Telecommunications, Development
69.	EDER	—	Executive Director, Efficiency and Research
70.	EDRE (S&T)	—	Executive Director Railway Electrification (Signal & Telecommunication).
71.	EDEE (ERS)	—	Executive Director, Electrical Engineering (Electric Rolling Stock)
72.	EDST(R)	—	Executive Director, Singal and Telecummunucations (Rules)
73.	EDRE	—	Executive Director, Railway Electrification
74.	MS	—	Member, Staff and Ex-Officio Secretary
75.	Adv. (MS)	—	Adviser, Management Services
76.	Adv. (S)	—	Adviser, Staff
77.	DG/RHS)	—	Director General, Railway Health Services
78.	EDE	—	Executive Director, Establishment
79.	D(OL)	—	Director, (Official Language)
80.	EDV	—	Executive Director, Vigilance
81.	EDV (T)	—	Executive Director, Vigilance (Traffic)
82.	EDV(R)	—	Executive Director, Vigilance (Reservations)
83.	EDV(P)	—	Executive Director, Vigilance (Police)
84.	EDPC-I	—	Executive Director Establishment (Reservations)
85.	EDPC-I	—	Executive Director, Pay Commission-I
86.	EDPC-II	—	Executive Director, Pay Commission-II
87.	EDE(IR)	—	Executive Director, Establishment (Industrial Relations)
88.	JS	—	Joint Secretary
89.	JS(G)	—	Joint Secretary (General)
90.	JS(C)	—	Joint Secretary (Confidential)
91.	EDE(N)	—	Executive Director, Establishment (Non-Gazetted)
92.	EDE	—	Executive Director, Establishment
93.	EDE (Co-op)	—	Executive Director, Establishment (Co-operation)
94.	ED (Trg & MPP)	—	Executive Director, (Training & Man Power Planning)
95.	MM	—	Member Mechanical and Ex-Officio Secretary
96.	Adv. (ME)	—	Adviser Mechanical Engineering
97.	Adv. (PV&WP)	—	Adviser (Production Visits & Wagon Production)
98.	Adv. (RS)	—	Adviser (Railway Stores)
99.	EDME (RSM)	—	Executive Director (Rolling Stock Modernisation)

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| 100. EDME(W) | — Executive Director, Mechanical Engineering (Workshop) |
| 101. EDME (Trg) | — Executive Director, Mechanical Engineering (Traction) |
| 102. EDME (RS) | — Executive Director, Mechanical Engineering (Rolling Stock) |
| 103. ED (Dev) | — Executive Director (Development) |
| 104. EDRS(S) | — Executive Director, Railway Stores (State) |
| 105. EDRS(F) | — Executive Director, Railway Stores (Finance) |
| 106. EDRS(G) | — Executive Director, Railway Stores (General) |
| 107. CRS | — Chairman and Ex-officio Principal Secretary |
| 108. Adv. (PLG) | — Adviser, Planning |
| 109. ED (Corporate Co-ord) | — Executive Director (Corporate Co-ordination) |
| 110. D (I&P) | — Director (Information and Publicity) |
| 111. DPR | — Director, Public Relations |
| 112. EDP(G) | — Executive Director, Planning (General) |
| 113. FC | — Finance Commissioner and Ex-Officio Secretary |
| 114. Adv. (F) | — Adviser (Finance) |
| 115. Adv. (B) | — Adviser (Budget) |
| 116. EDF (L&F) | — Executive Director, Finance (Loans & Foreign Exchanges) |
| 117. Eco. Adviser | — Economic Adviser |
| 118. ED (S&E) | — Executive Director (Statistics & Economics) |
| 119. EDF (MTP) | — Executive Director Finance (Metropolitan Transport Projects) |
| 120. EDF(S) | — Executive Director, Finance (Stores) |
| 121. ED[C-I (Fin matters) | — Executive Director, Pay and Commission-I (Finance Matters) |
| 122. EDF | — Executive Director, Finance |
| 123. ED (A/cs) | — Executive Director, (Accounts) |
| 124. EDF (OIS) | — Executive Director, Finance (Operation Information Services) |
| 125. EDF(X) | — Executive Director, Finance (Expenditure) |
| 126. EDF(B) | — Executive Director, Finance (Budget) |
| 127. MT | — Member Traffic and Ex-officio Secretary |
| 128. Adv. (Traffic) | — Adviser, Traffic |
| 129. Adv. (Comml) | — Adviser, (Commercial) |
| 130. ED (Safety) | — Executive Director, (Safety) |
| 131. ED (OIS) | — Executive Director (Operation, Information Services) |
| 132. EDTT(M) | — Executive Director, Traffic Transportation (Marketing) |
| 133. EDTT(S) | — Executive Director, Traffic Transportation (Staff) |
| 134. ED (Coaching) | — Executive Director, (Coaching) |
| 135. ED (PG) | — Executive Director, Public Grievances) |
| 136. ED (PA) | — Executive Director, (Passengers Amenities) |
| 137. EDTC (Rates) | — Executive Director, Traffic Commercial (Rates) |
| 138. EDTC (M&C) | — Executive Director, Traffic (Marketing and Sales) |
| 139. IG/RPF | — Inspector General, Railway Protection Force |
| 140. ED (Security) | — Executive Director (Security) |
| 141. ME | — Member Engineering and Ex-officio Secretary |
| 142. Adv. (CE) | — Adviser, (Civil Engineering) |
| 143. Adv. (MTP) | — Adviser, (Metropolitan Transport Projects) |
| 144. ED(W) | — Executive Director, Works (Projects) |
| 145. EDLM | — Executive Director, Land Management |
| 146. ED Track (MC) | — Executive Director, Track (Machines) |

147. ED Track (P) — Executive Director, Track (Procurement)
 148. ED Track (M) — Executive Director, Track (Modernisation)
 149. EDCE(P) — Executive Director, Civil Engineering (Planning)
 150. EDCE (B&S) — Executive Director, Civil engineering (Bridge & Sidings)
 151. ED(MTP) — Executive Director, (Metropolitan Transport Projects)
 152. EDCE (G) — Executive Director, Civil Engineering (General)

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225 (1976-77)	Fifth Lok Sabha
60 (1977-78)	Sixth " "
103 (1981-82)	Seventh " "
154 (1982-83)	" " "
167 (1983-84)	" " "
199 (1983-84)	Seventh Lok Sabha
10 (1985-86)	Eighth " "
35 (1985-86)	" " "
41 (1985-86)	" " "
50 (1986-87)	" " "
54 (1986-87)	" " "
62 (1986-87)	" " "
64 (1986-87)	" " "
66 (1986-87)	" " "
84 (1986-87)	" " "
118 (1987-88)	" " "
122 (1987-88)	" " "
140 (1987-88)	" " "



R.K. Chandrasekharan joined the IAAS in January 1951. After serving in the IAAD for over ten years in different capacities, he was on deputation as DFA, CWP and Bokaro and later as Joint Financial Controller/Financial Controller, Bhilai Steel Plant. He went to the School of Business Administration in the Carnegie Institute of Technology, Pittsburg for studying Financial and Management accounting. After working as Director of Inspection and then as Dy. Secretary in the Ministry of Iron and Steel, he was again deputed as FA and CAO, IDPL. He was with UNDP/UNIDO as Industrial Economist to the Government of Somalia, where he introduced financial accounting, costing and reporting systems for the Public Sector Undertakings. On his return, he worked as MAB & DCA, Madras, AG, Tamil Nadu, Orissa and Karnataka for different spells. He was ADAI (Report) and later Deputy Comptroller and Auditor General of India. After retirement in January 1985, he worked for a while with Jha Commission and later as member of the Finance Commission for Karnataka Zilla Parishads and Mandal Panchayats. He has written several articles, essays, pamphlets, reports and books. He has widely travelled in India and abroad, participated in national and international seminars, workshops and study groups in Management, Accounting, Auditing and Reporting.



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