THE COMPTROLLER & AUDITOR GENERAL OF INDIA

A THEMATIC HISTORY

1990–2007

(VOL. I)

Vijay Kumar

Foreword: V.N. Kaul

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Foreword

History matters because it shapes the way we view the present and helps in determining options for the future. The Comptroller and Auditor General of India has a long history dating back to 1860. The Indian Audit and Accounts Department also has a distinguished history going back to pre-independence times. It is a history worth recording, updating and learning from. Unfortunately up to 1980s the only source of recorded history of the Comptroller and Auditor General of India and Indian Audit and Accounts Department was a publication brought out by the Indian Institute of Public Administration by the name of 'Indian Audit and Accounts Department' written by Shri MS Ramayyar. Then, in 1990s, my predecessor Shri T.N. Chaturvedi commissioned a history of this department which was written by Shri R.K. Chandrasekharan, former Deputy Comptroller and Auditor General. This history by the name of 'The Comptroller and Auditor General of India: Analytical History' was published in four volumes in 1990. The value and usefulness of that publication is recognized widely both within and outside the department. However, as almost 18 years have passed since the publication of the history by Shri Chandrasekharan, I felt that it was time to commission another update of departmental history because at this stage it is possible to draw upon the knowledge of those who were directly responsible for strategic decisions taken between 1990 and 2007 and institutional memory is still fresh.

The period 1989 to 2007 has been a period of important developments and great change in the areas of accounting and audit both internationally and in India. The convergence between government and private sector accounting systems has been a major development in the last two decades. The development of performance auditing has been another. INTOSAI has emerged as a model international institution for exchange of experience amongst Supreme Audit Institutions and it has accelerated mutual exchange of experience and best practices around the world. The Indian accounting profession has matured and Government of India has decided to move from a cash based system to an accrual based system of accounts. This is a precursor to accrual budgeting and outcome oriented budgeting practices in line with the most developed countries in the world. The practice of auditing has not remained untouched with increasing complexity of performance auditing and introduction of IT and other new forms of audit.

Choosing the right person for undertaking the onerous task of writing the history of the department in such times was not an easy task. I consulted the Institute of Public Auditors of India because of its long association with the department and its contacts with persons with wide experience in the department. I had a discussion with the President of the Institute and decided to select Shri Vijay Kumar, former Deputy Comptroller and Auditor General, as author of this history. Shri Vijay Kumar is a distinguished member of the Indian Audit and Accounts Service with an outstanding record and an intimate knowledge of this department and its working. His interest and aptitude for research is well known. I have glanced through some of the chapters and am delighted to say that Shri Vijay Kumar has very successfully summarized the history of these 18 years in a very succinct and interesting manner. He has produced a very informative work which I am confident will be of great use not only to practitioners of Government audit and accounts, but also to students and researchers in the field of public audit as well as to the general public.

I am particularly impressed by the inclusion of copies of some of the important references, memos, etc issued over the last 18 years in this department. Availability of these documents at one place facilitates referral and usage and enhances the value of this history.

Though this history was commissioned by the department, I have tried to ensure that the author has full autonomy and independence to highlight matters that he considers important. While I have encouraged as much consultation as possible between the departmental officers and the author, the opinions, observations and conclusions in the book are his own and do not reflect the views of the Comptroller and Auditor General of India or the Indian Audit and Accounts Department.

The period covered by this volume coincides with the completion of my tenure. As I lay down office as Comptroller and Auditor General of India, I can look back on my years in the department with great satisfaction and happiness at having been at the helm of affairs at a time when significant changes have and are taking place. I am full of hope for the future of public audit because of the trust we enjoy not only of the Parliament and the Executive but also of the press and the public at large. Above all, the confidence of the Public Accounts Committee and Committee on Public Undertakings has been my bulwark against any challenges that we have had to face to the independence of this institution. In India the strong defence of the principle of independence of the Comptroller and Auditor General by Indian Parliament and State Legislatures and their support to provision of adequate resources for audit have been crucial to the production of audit reports which are widely acknowledged to be fact based, non-partisan and reliable. The credit for this is also to be shared with the leaders of our democracy both in Government and in the Opposition and the officers and staff of this department

New Delhi
December 31, 2007

Vijayendra N. Kaul
Comptroller and Auditor
General of India

Preface

When the President of IPAI proposed my name to the Comptroller and Audit General of India for writing this Book, I told him that I would welcome the assignment but I want to do it with full freedom. He informed me later that the C&AG had approved his suggestion that I should write the proposed book. Soon thereafter, both of us met the C&AG sometime in July 2006. The C&AG made it clear that I would be my own conscience keeper and historian and that nobody would give any directions in the matter. He had only one word of caution that the history recorded by me should reflect an entirely objective narration of the developments during the period in question. This settled one point of principle.

I knew that recording the history would be a strenuous job. But there were two factors in my favour: one, the period covered in the history was witnessed by me very closely and, in fact, for some years covered in this history, I was a part of the top policy making team in the C&AG's office; second, I had a concept of recording history thematically to make it more readable and perhaps of more value to the readers. Happily, the C&AG was of the same view.

The real test was to start after this. I had, for reference the monumental work done by Shri R.K. Chandrasekharan, former Dy. C&AG of India whose four volumes on the history of C&AG brought out in early 1990 contained a wealth of data and information on the IA&AD which is unmatched by any other publication on the subject. Luckily, my task was comparatively easier since the time span covered in this history was only 18 years. And yet these 18 years were perhaps some of the most momentous years in the history of IA&AD as regards the wide ranging developments of very substantive nature that changed the shape of the Department in many ways. To recount these developments, I thought, would be a real challenge.

The idea of a theme-based recording of history has its own advantages as well as disadvantages. The main advantage is that any reader can get to know from the concerned chapters, all the details of the developments that took place in regard to the relevant subject covered in that chapter. The danger is that this may render the work a text book on IA&AD rather than a history. There is a very thin line dividing the two if one were writing this thematically. I realized this and have consciously made an effort that it remains a book of history and not a text book. The difference between the two lies in the fact that a volume of history records not only the developments (systems, procedures etc.) during the period in question but also, more importantly, the details, events and personalities that shaped these developments. History is vitally concerned with this factor.

This history is of C&AG and, by that, inevitably it is a history of the IA&AD, which is C&AG's arm to discharge his/her constitutional duties. IA&AD has a degree of functional and organizational independence unavailable to other government agencies. Furthermore, as the sole organization responsible for public auditing of both the Union and State Governments, it has a very wide reach across all ministries, departments, public sector undertakings, corporations and autonomous bodies and to a large body of grant-in-aid institutions. No other single government organization has this reach. And it is not only an auditing body, it has a unique role as accounts keeper which maintains the accounts of State Governments. State Government accounts may not match the Central Government accounts in volume of expenditure, but States which are the actual spender of most of the plan expenditure provide a bigger challenge in accounting. The quality of accounting is more an issue in State accounts rather than in Union which is mostly involved in bulk transfer of funds to States as far as developmental expenditure is concerned.

By a sheer coincidence, the period after 1990 marked a threshold in India's economic history also. The initial years of 1990s witnessed the most difficult times financially and for the economy of the country, that finally resulted in opening up the economy and shedding to a large extent the old burden of a socialist pattern of society. What was started those days by the then Prime Minister Narasimha Rao and Finance Minister Manmohan Singh is still continuing. It was befitting, therefore, though incidentally, that this volume begins from 1990 onwards.

Tracing the history of such a vast, multi-functional and multi-tasked organization, even for a comparatively brief period of 18 years, was not easy; more so because of the abiding reforms in the economic outlook and policies of the country, which in turn, impacted the organization and ethos of the public administration, necessitating consequential changes in the approach and the management of public audit as well. Therefore in many ways, the 18 years covered in this book were real extraordinary years. This was the period when maximum changes and developments happened in auditing systems and procedures, in emergence of new audits and in the development of Information Technology related audits that have redefined the whole audit process and system. The entire new generation of officers and staff in the IA&AD are now practically computer literate. This is in sharp contrast to the earlier periods (even 1990) when very few persons in the audit department knew the use and application of computers leave aside its application for IT Audit. This kind of change brought about by technological developments comes only once in many decades. The era also saw tremendous innovative and additional capital investments in the social and infrastructure sectors in tune with the increasing aspirations of people all over the country, and particularly, the evolution of the Panchayati Raj, which resulted in a sea change in two vital areas of public administration viz. local administration and expenditure management. With such great changes, Audit was quick to adjust to the new demands of a collaborative audit in Panchayati Raj Institutions and outcome oriented audit.

These years also saw new issues emerging in the functioning of audit department and in some cases repetition of old issues: how effectively these were tackled is brought out in this book. This book narrates another great saga that is still being written. This is about aligning the audit systems and practices in SAI India to international best practices prevailing in most advanced countries. In that sense, the IA&AD is now seriously trying to become at par with the most developed SAIs as far as auditing practices and systems are concerned. This is reflected in the new recognition which C&AG has acquired in the international arena. He is now a formidable member of INTOSAI and ASOSAI contributing to the development of auditing system and practices through these forums. He entered the international auditing in 1992 with the election to the UN Board of Auditors and even though he is no more the auditor for the UN, he continues to be auditor of many other allied UN organizations.

In one more way Indian Audit and Accounts Department looks much different than what it used to be earlier and this is in the literal sense. The audit/account offices across the country have now most modern and magnificent buildings which are well kept and well maintained. The modernization in the works procedures and offices has led to greater efficiency and better output. Some land mark buildings have come up which will be a pride for any organization. In short, the department now compares with the best in the country when it comes to infrastructure facilities and modern management techniques.

The period is marked by yet another great fact: there were some important institutions created and some were entirely revamped marking a big impact on the IA&AD's functioning and image.

While many things as pointed out above have changed during this period and yet some things have remained static and for good reasons: the Department continues with its old style belief in neutral stance, absence of any biases, working without fear or favour. The IA&AD on the strength of innovative techniques and moving out of the shackles of a predetermined system of extent and quantum of audit and replacing it by a flexible system based on more scientific analysis, has been able to render services more efficiently even with lesser manpower.

The period covered in this history corresponds to the terms of office of three Comptroller and Auditors General of India of recent times, namely, S/Shri C.G. Somiah, V.K. Shunglu, and V.N. Kaul. Fortunately, I had the opportunity of working closely with all of them; I also had their unreserved cooperation and encouragement in the preparation of this History. C&AG Somiah was also gracious to go through some draft chapters offering helpful suggestions, for which I am highly obliged. All the three Comptroller and Auditors General granted time for interview. I am thankful to them for this.

In compiling this volume, I basically had as the principal sources of information the official documents viz. files containing notes, orders and correspondence on various subjects I have covered in this book. This was supplemented by the material given by the various wings at Headquarters. I had, for reference, the two great publications on C&AG's History viz. by S/Shri M.S. Ramayyar and R.K. Chandrasekharan. Some first person experiences were also available in articles and books that proved very useful. My interaction with the retired as well as serving officers in the department was also a great help.

The structure of this Book is designed in such a manner that the reader gets, from each thematic chapter, an idea of the developments that occurred relating to the relevant theme; Most of the chapters have a list of key-events depicting major events chronologically and, further, some relevant and important documents are reproduced relating to the chapter concerned. This will help the reader to have at one place all the relevant material concerning the chapter. The two appendices viz. Appendix 'A' and 'B' carry an account of impact of Audit on Policy, Law, Rule etc. by the Government and some key case studies from Audit Reports respectively during this period. In addition, some audit paras are discussed in the relevant chapters.

My thanks are due to several persons. First of all, to C&AG Shri V.N. Kaul for giving me this opportunity and honour to record the history of IA&AD, which I consider, is a great and wonderful institution, and which I am proud to have served for over three decades. I also thank the Institute of Public Auditors of India, which entrusted the task to me and provided all required support and assistance to complete my task. There are so many others whom I cannot possibly thank individually but I must mention a few without whose help it would have been very difficult to write this book. In the initial planning of this assignment, I had the benefit of the views of the DAIs and ADAIs at Headquarters in two interactive sessions with them. My thanks to them. I owe a special word of thanks to the DAI Shri C.V. Avadhani for giving personal attention in the closing stages of this project which greatly helped in the timely completion of this assignment. I also wish to mention about the help and support rendered by various Directors General/Principal Directors of the functional wings in the Headquarters office specially DG (Audit) and their supervisory staff in particular, who were helping us out on day to day basis with production of records and files and were always available for any clarification etc. To the field offices who responded to our questionnaire, I also owe a word of thanks. I owe special thanks to Ms Mamta Kundra, the then PD (Staff) in Headquarters who acted as the liaison officer for my work for her relentless persuasion with various officers to provide the requisitioned information to me. To my former colleagues in the IA&AS S/Shri B.M. Oza, T. Sethumadhavan and K. N. Khandelwal, I owe special thanks for not only giving me constant encouragement but also readily agreeing to read draft chapters of the history, and to S/Shri Dharam Vir, S. Lakshminarayanan and S.C. Pandey who gave several suggestions and inputs for some chapters of the Book.

My special thanks to S/Shri Awadhesh Sharma and J.P. Tripathi both retired Sr. Administrative officers of C&AG's office who were my principal help for this project and who were wonderful colleagues working overtime to get me all the data, documents etc. required. Thanks are also due to other members of the team viz., S/Shri R.L. Madan, Anil Chauhan and Ms. Kiran.

New Delhi
28 December 2007

VIJAY KUMAR
Formerly Deputy Comptroller and
Auditor General (Commercial)-cum-
Chairman Audit Board

C.G. SOMIAH
27 MARCH, 1990–11 MARCH, 1996

Shri C.G. Somiah (born on 11 March 1931) obtained his B.Sc. (Hons.) degree in Chemistry from Loyola College, Madras University. After a brief stint as a faculty of the college, Shri Somiah joined the Indian Administrative service in 1953 and was allotted to the Orissa state cadre. He held various assignments under the State Government including Commissioner, Commercial Taxes; Director of Industries; Additional Secretary (Finance); Secretary , Co-operation and Forestry; and Secretary, Home. In between these assignments, he also served under the Central Government in different capacities with emphasis on Finance.

Shri Somiah was appointed Secretary Department of Company Affairs in 1983 and as Chairman of the Company Law Board administered the Indian Companies Act and the Monopolies and Restrictive Trade Practices Act. He moved over as Secretary, Planning Commission in which capacity he had the responsibility to advise the Central Government in the formulation of the Seventh Five –Year plan and also in deciding the allocation of financial resources for the various State Plans. Later, Shri Somiah was appointed as the Secretary, Ministry of Home Affairs administering Centre-States relationship and maintenance of law and order in the country. As Home Secretary, he led a delegation to Pakistan in 1987 to discuss terrorism and narcotics control.

In October 1988, he was appointed as the Central Vigilance Commissioner, the country's highest authority to advise about action to be taken against civil servants guilty of corrupt practices. He was sworn in by the President of India as the Comptroller and Auditor General of India, a constitutional appointment, in March 1990 for a period for six years. Audit being a unitary function in India, he was responsible for the financial audit of Central Government as well as 26 State governments plus 5 Union Territories.

Shri Somiah was elected to the United Nations Board of Auditors for a three year term effective from July 1993. From January 1995, he became the Chairman of the UN Board of Auditors, the first Indian to be appointed as Chairman. He was assisted by the Comptroller and Auditor General of United Kingdom and Auditor General of Ghana, the other two members of the Board. The Board was responsible for the annual audit of the United Nations and its many agencies round the world and the financial audit of the U.N. peace keeping forces.

He was elected as Chairman of the Asian Organization of Supreme Audit Institution(ASOSAI) for a period of three years 1993-96 and was simultaneously appointed as the Chairman of the Committee on EDP(Computer) Audit by the International Organization of Supreme Audit Institutions (INTOSAI) . He was elected as member of the Governing body of INTOSAI at its triennial Congress held in October 1995 at Ciro . For this Congress session he was also elected as the Vice Chairman by the member countries.

Shri Somiah has been a keen sportsman and has won a number of trophies in Tennis, Badminton and Bridge tournaments. He won the South India Junior Tennis Championship in 1948, All Orissa Tennis Championship in 1956, All Orissa Badminton Championship in 1956. He is a keen golfer in his retirement.

Shri Somiah has traveled abroad extensively both officially and privately, he did his sabbatical at the Oxford University in 1974-75, having been awarded the Queen Elizabeth Fellowship.

Shri Somiah was honoured by the Karnataka State with the Rajyotsava award in November 2000.

V.K. SHUNGLU
15 MARCH 1996–14 MARCH 2002

Shri V.K. Shunglu obtained his Bachelor's Degree in Arts from St. Stephens College, University of Delhi in 1959 and a Masters Degree in History from the same University. He joined the Indian Administrative Service in 1962 and held various assignments under the State Government including Principal Secretary Finance, Commercial Taxes, and Secretary Planning. He was deputed to the Central Government and held various posts in the Ministry of Commerce, Ministry of Finance and Cabinet Secretariat.

Shri Shunglu was appointed as Special Secretary Power in 1993 and as Secretary, Health and Family Welfare in 1994. He was appointed Secretary, Department of Industrial Policy and Promotion as well as the Department of Company Affairs in 1995. Shri Shunglu had worked in Asian Development Bank from 1985 to 1990 and was on sabbatical at the Economic Development Institute of the World Bank in 1977.

He took over as the Comptroller and Auditor General of India on March 15, 1996. He was Chairman of the INTOSAI Standing Committee on EDP Audit. He was External Auditor for UN from 1996-1999. He was member of the Governing Board of the International Organization of Supreme Audit Institutions (INTOSAI) and Secretary General of Asian Organization for Supreme Audit Institutions. He was also the External Auditor to the International Centre for Genetic Engineering and Biotechnology (ICGEB) and Organization for Prevention of Chemical Weapons (OPCW), Food and Agriculture Organization (FAO) and International Maritime Organization (IMO). He received Jörg Kandutsch Award from INCOSAI Secretary General Dr. Franz Fiedler in 1998 INCOSAI.

VIJAYENDRA N. KAUL
15 MARCH 2002—06 JANUARY 2008

Shri Vijayendra N. Kaul (born on 07 January 1943) has a Masters Degree in History, which he obtained in 1964 from St. Stephens' College, University of Delhi. He entered the Indian Administrative Service in 1965.

Shri Kaul has wide experience of working in various capacities under both - the State Government of Madhya Pradesh (MP), as well as under the Government of India. His assignments under the State Government included stints as Secretary in the Departments of Commerce and Industry and Finance and also as Principal Secretary in the Home Department. His last assignment under the State Government was as Principal Secretary in the Department of Finance. He also held various charges in parastatal organizations under the State Government, including the charges of Chairman of the MP State Industries Development Corporation, MP State Export Corporation, MP State Finance Corporation and the MP State Electronics Development Corporation.

Shri Kaul has held senior positions under the Government of India. These included two terms as Joint Secretary in the Ministry of Commerce. He has served on the Board of Governors of Asia Pacific Executive Forum (APEF) and on the Board of Central Public Sector Companies. His main area of expertise is International Trade and Finance. As Secretary to Government of India, Shri Kaul has served in the Ministries of Coal, Chemicals and Fertilizers, and Petroleum and Natural Gas.

As an International Civil Servant, Shri Kaul was seconded to the United Nations in 1991 and served for seven years as Advisor, Trade Policy for Asia-Pacific Region, UN-ESCAP, Bangkok with jurisdiction over the Asia-Pacific region.

Shri Kaul is a fellow of the Economic Development Institute, World Bank and of the ODC University of Manchester, United Kingdom. He has travelled widely and his hobbies include Bridge, Tennis and Golf.

Shri Vijayendra N. Kaul took over as the Comptroller and Auditor General of India on 15th March 2002. His responsibilities in the international arena include membership of UN Panel of External Auditors and the Governing Board of the International Organization of Supreme Audit Institutions (INTOSAI). He also has the responsibility of steering the INTOSAI Standing Committee on EDP Audit as its Chairman. He is also the Secretary General of the Asian Organization of Supreme Audit Institutions (ASOSAI).

C&AG Kaul has been appointed External Auditor of International Agencies such as the World Tourism Organization, Madrid and the International Centre for Genetic Engineering and Biotechnology (ICGEB), Trieste. Among the specialized agencies in the UN System, he is responsible for the External Audit of the International Maritime Organization (IMO), London, the Food and Agricultural Organization (FAO), Rome and World Health Organization (WHO), Geneva. The General Assembly of the United Nations appointed C&AG V.N. Kaul as a member of the Independent Audit Advisory Committee comprising five members for a three years term of office beginning 1 January 2008.

LIST OF DEPUTY C&AG's DURING 1990-2007

DEPUTY C&AG OF INDIA (HEADQUARTERS)

R. Parameswar	1.5.1990	31.5.1991
A.C. Tiwari	3.6.1991	30.6.1992
P.K. Sarkar	1.7.1992	31.5.1993
N. Sivasubramaniam	1.6.1993	30.4.1994
Dharam Vir	1.5.1994	31.12.1995
P.K. Lahiri	1.1.1996	31.5.2000
I.P. Singh	1.6.2000	30.11.2001
J.S. Mathur	1.12.2001	31.3.2002
T.S. Narasimhan	1.4.2002	30.4.2003
P.K. Brahma	1.5.2003	31.12.2003
Sudha Rajagopalan	1.1.2004	30.4.2005
Kanwal Nath	1.5.2005	28.2.2007
C.V. Avadhani	1.3.2007	

DEPUTY C&AG (COMMERCIAL)

K. Tyagrajan	1.1.1990	30.4.1990
A.C Tiwari	25.05.1990	2.6.1991
P.K. Sarkar	4.7.1991	30.6.1992
N. Sivasubramaniam	1.8.1992	31.5.1993
U.N Ananthan	20.8.1993	30.11.1993
C.K. Joseph	13.12.1993	20.3.1995
Ramesh Chandra	6.4.1995	31.12.1995
B.P. Mathur	1.1.1996	31.7.1996
Samir Gupta	1.8.1996	31.12.1997
A.K. Chakraborti	1.1.1998	31.12.2000
J.S. Mathur	1.1.2001	28.12.2001
T.S. Narasimhan	28.12.2001	31.3.2002
Vijay Kumar	1.4.2002	31.10.2002
P.K. Brahma	1.11.2002	30.4.2003
Sudha Rajgopalan	1.5.2003	31.12.2003
S. Satyamoorthy	1.1.2004	25.7.2004
T.G. Srinivasan	9.8.2004	26.9.2005
Anusuya Basu	26.9.2005	3.7.2006
Utpal Bhattacharya	3.7.2006	31.1.2007
C.V. Avadhani	1.2.2007	17.4.2007
Bharti Prasad	18.4.2007	—-

DEPUTY C&AG (LOCAL BODIES)

K.N. Khandelwal	28.12.2001	31.12.2002
Shailendra Pandey	1.12.2006	31.8.2007

DEPUTY C&AG (RC)

I.P. Singh	1.1.1998	31.5.2000
Vijay Kumar	1.1.2002	31.3.2002

General Abbreviations

AAOs	Assistant Audit Officers/ Assistant Accounts Officers
ADAI	Additional Deputy Comptroller and Auditor General
ADAI (C)	Additional Deputy Comptroller and Auditor General (Commercial)
ADAI (P&T)	Additional Deputy Comptroller & Auditor General (Post & Telecommunications)
ADAI (RA)	Additional Deputy Comptroller and Auditor General (Receipt Audit)
ADAI (Railways)	Additional Deputy Comptroller and Auditor General (Railways)
ADAI (RC)	Additional Deputy Comptroller & Auditor General (Report Central)
AG (A&E)	Accountant General (Accounts & Entitlement)
AG (Audit)	Accountant General (Audit)
AG (P&T)	Accountant General (Post & Telecommunications)
AGCR	Accountant General, Central Revenue
AOs	Audit Officers/Accounts Officers
AsG	Accountants General
ASOSAI	Asian Organization of Supreme Audit Institutions
C&AG	Comptroller and Auditor General
C&AG's (DPC) Act	Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act
DAG	Deputy Accountant General
DAI	Deputy Comptroller and Auditor General of India
DAI (LB & AEC)	Deputy Comptroller and Auditor General (Local Bodies & Accounts, Establishment & Complaints)
DAI (LB)	Deputy Comptroller and Auditor General (Local Bodies)
DAI (Rlys.)	Deputy Comptroller and Auditor General (Railways)
DG	Director General
DG (PA)	Director General (Performance Audit)
DGA	Director General of Audit
DGA (P&T)	Director General of Audit (Post & Telecommunications)
DGACR	Director General of Audit, Central Revenues
DO	Demi Official

DPC	Duties, Powers and Conditions of Service
GOI	Government of India
HQrs	Headquarters
IA&AD	Indian Audit and Accounts Department
IA&AS	Indian Audit and Accounts Service
iCISA	International Centre for Information System & Audit
INTOSAI	International Organization of Supreme Audit Institutions
MAB	Member Audit Board
MP	Madhya Pradesh
MSO (A)	Manual Standing Orders (Audit)
MSO (T)	Manual Standing Orders (Technical)
NAAA	National Academy of Audit and Accounts
NAO	National Audit Office
PAC	Public Accounts Committee
PD	Principal Director
PD (AB)	Principal Director (Autonomous Bodies)
PD (DT)	Principal Director (Direct Taxes)
PDA	Principal Director of Audit
PDA (AFN)	Principal Director of Audit (Air Force & Navy)
PDA (OF)	Principal Director of Audit, (Ordnance Factories)
PDAESM	Principal Director of Audit, Economic and Service Ministries.
SAI	Supreme Audit Institution
SAI-India	Supreme Audit Institution-India
Sr. DAG	Senior Deputy Accountant General
Sr. DAG (LB)	Senior Deputy Accountant General (Local Bodies)
UP	Uttar Pradesh
UT	Union Territory

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VOLUME II

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1

Overview

IMPORTANT DEVELOPMENTS: POST 1990 PERIOD

The period covered in this history (1990 to 2007) marks an era of multi-faceted developments in C&AG's organization. Some of the more important of these are briefly indicated in this Overview, while a detailed account is contained in different chapters of this volume.

Nineteen nineties witnessed an IA&AD with vastly reduced portfolio of entitlement functions, since a considerable portion of these had already been transferred to the respective State Governments. However, State accounts that remained with C&AG even after the separation of Central Accounts in 1976, were a focus of attention in the 1990s both by C&AG Somiah who toured many A&E offices and gave personal directions to close the gap in timely finalisation of accounts and later C&AG Shunglu made the momentous decision to computerise the accounts from voucher level. After C&AG Kaul took over, more profound decisions have been taken in accounting field. The Government has decided to switch over to accrual accounts from cash based accounting system and entrusted the job of providing a framework and road map for the same to GASAB under the C&AG. The annual accounts of the State Governments namely Finance Account and Appropriation Accounts are now finalised and signed by the C&AG mostly by December which is well ahead of the ensuing budget session.

The period was characterised by very significant growth in computerisation and IT applications, tremendous improvements in infrastructure and other facilities, modernisation of office systems and procedures, and on organisation side a marked decline in the men in position at non-supervisory levels—despite the Department taking over several entirely new kinds of audit functions and added responsibility in relation to PRI and ULB auditing and accounting activities.

Amongst the new audits that found way into IA&AD's audit literature were Privatisation Audit, Audit of Regulation, IT Audit, Technical Guidance and Supervision of PRI and ULBs in auditing and accounting matters. As a result of increasing number of projects funded through public private partnerships, auditing these projects itself was a novel audit exercise. Several audit paras on Build own and transfer (BOT), Build operate own and transfer (BOOT) and Build operate lease and transfer (BOLT) etc. were brought out in Audit Reports. This is yet a developing audit. Several new offices were opened during this period, mostly to cater to the demands of vastly expanding role of Audit vis-à-vis PRIs & ULBs and creation of new States. Some important institutions also came into being during this period. Of these, mention may be made of Institute of Public Auditors of India, International Centre for Information Systems and Audit, Government Accounting Standards Advisory Board and Audit Advisory Board.

New systems and procedures were introduced like system of peer review, strategic plan and perspective plan. Mission Statement as well as Vision Statement for the Department were issued and a trend towards aligning the prevailing audit practices in line with the best practices globally is the hallmark of present C&AG's period.

A development of great significance was the decision of the C&AG V.N. Kaul to issue the Regulations on Audit and Accounts in pursuance of powers vested in him under section 23 of the C&AG's (DPC) Act, 1971. This responsibility, discharged by the C&AG for the first time, was a very onerous and very important that would make matters clear and transparent as regards audit obligations and obligations of the Executive.

And finally the period will be known for SAI India's entry into international auditing scene for the first time with its election as member of the United Nation Board of Auditors in 1992. 1990s also marked SAI India making tremendous mark in international fora like INTOSAI and ASOSAI.

We shall deal with each of these very briefly here.

The foremost of these developments was the emergence of IT as the potent weapon for audit of computer systems, which were gradually replacing manual systems in most of the public sector and Government organisations. Luckily, after making a slow start, rather early in 1970s, Audit Department picked up tremendously from the 1990s in this area to form a reliable and competent group of IT audit professionals who could develop IT systems and procedures and cope with the increasing workload on computerisation within the Department and carry out audit of IT systems. The progress is continuing and future holds very bright.

The next important thing that happened was in the arena of international audit. C&AG was elected for the first time to the Board of Auditors of the UN with effect from July 1993. He held the job for six years that is for two terms. SAI India's role as an Auditor of the UN has been widely acclaimed earning him a great reputation in international community at the UN. Subsequent to his election as auditor to the UN, C&AG also got audit assignments to conduct audit of several other international bodies like WTO, WHO and FAO etc.

The period also saw C&AG getting actively involved in the two global fora for SAIs namely INTOSAI and ASOSAI. C&AG is on the executive committee of the INTOSAI and is the Chairman of its Committee on IT Audit. He is the present Secretary General of ASOSAI.

In the field of Government Auditing, the era is marked by several very momentous developments. Most significant of these were the new audits that came up as a result of the major liberalisation reform that was ushered in 1991. Similarly, in the Audit Department, a wave of globalisation started. The IA&AD started its attempts to integrate with the best global auditing standards and practices. New areas of audit sprang up as a result of the Government policies on privatisation. Amongst these new areas were audit of privatisation, audit of regulation and objectively analysing the macro level financial management system of the Government. Performance auditing became more accentuated by completely rebuilding its structure and methodology and defining the tools more clearly and objectively. Emphasis on risk based auditing was just in tune with the changing environment. There was an emphasis on system analysis and in the commercial audit, the Audit Board mechanism for appraisal of Government companies and corporations was totally redesigned.

In the field of audit practices and procedures several new systems were tested—these included the concept of outsourcing of certain fieldwork to the reputed organisations for carrying out beneficiary surveys and impact evaluations studies. Also, the department started hiring experts and consultants to help in complex technical areas. A more refined system of monitoring the field offices via a system of peer review was introduced. The department itself underwent a kind of peer review at the hands of consultants from NAO, UK.

This was also the era of building up several new institutions. An autonomous institution under the aegis of C&AG was set up in 1996 called 'Institute of Public Auditors of India' as a 'think tank' in audit, accounting and accountability matters. It was also to undertake research and development activities and for providing top edge consultancy services in the field of auditing and accounting and financial management areas. The C&AG set up an Audit Advisory Board in March 1999. It has 14 outside eminent members from fields such as academicians, engineers, retired civil servants, doctors, professionals, defence experts and other persons of repute apart from the C&AG's top management team viz. DAIs.

A highly significant development was the establishment of Government Accounting Standards Advisory Board (GASAB) in August 2002 with the support of Government of India with a view to establish and improve standards of Government accounting and financial reporting including enhancing accountability mechanism. It is a body of professionals drawn from various Central Accounts Services, Government of India, State Governments, professional bodies like Institute of Chartered Accountant of India (ICAI), National Council of Applied Economic Research (NCAER), Reserve Bank of India (RBI), etc.

In the field of accounting two developments, both epoch making, took place:

First, the voucher level computerisation was introduced w.e.f. 1999. The voucher level computerisation is now stabilised. Besides ensuring timely compilation of monthly and annual accounts, this also provides inputs for audit planning and central audit as well as generating a good deal of MIS data for the State Governments. Two, C&AG got involved in a major exercise of switch over to accrual based accounting system for which purpose GASAB was made the agency responsible for preparing a framework and a roadmap for transition as well as for recommending Accounting Standards for Government accounts.

This period would rank as one of the best in terms of improving the infrastructure of the Audit Department and provision of other facilities in working environment. The transition to a clean building with modern gadgets and fittings is a testimony to the changing culture and work environment of audit offices. The latest in this direction is the construction of modular open sections in various offices of the IA&AD. The new building coming up for C&AG office, whose foundation stone was laid by President, promises to be a totally eco-friendly & trend-setting place.

Several new buildings of aesthetic quality and great functional efficiency have been added to the Department during this period. Mention may be made in this context of the International Centre for Information Systems and Audit (iCISA) building at NOIDA and National Academy of Audit and Accounts Building at Shimla.

The quest for excellence is now the overriding factor in the development of new audit practices in the IA&AD. In the coming years, the Audit Department is no doubt going to be a much more competent and efficient organisation.

The chapters that follow capture the details of most of these developments as they evolved over a period in the true tradition of a dynamic system.

A BRIEF SUMMARY OF HISTORY UPTO 1989[1]

A. PRE-INDEPENDENCE DEVELOPMENTS

The Office of the Comptroller and Auditor General had its beginning in 1858—the year the British Crown took over the reigns of governing British India from the East India Company. At that time, the designation was Accountant General to Government of India. Prior to that, under the East India Company, upto the year 1857, 'accounts of the three Presidencies of Bengal, Madras and Bombay were prepared separately'. In 1857, it was decided to constitute a combined Department called General Department of Account and appoint an Accountant General to Government of India. The arrangements were effective from 1 May 1858. In 1860, these posts were amalgamated to create the post of first Auditor General who had both accounting and auditing functions. 'When the Department was further reorganised, in 1862, the Financial Secretary became the head of Financial Department, which included the Departments of Accounts and Audit. The Auditor and Accountant General to the Government of India became the head of those Departments, charged with the duty of bringing the accounts of the Indian Empire together and responsible to the Government of India for the correct performance of the mechanical duties of

Accounts and Audit as distinguished from administrative matters coming within the province of the Finance Secretary'. 'Broadly to this post may be traced the genesis of the present post of the Comptroller and Auditor General of India, though it had yet a long time to grow to attain its present responsibilities, independence and constitutional status and underwent several changes in its designation from time to time in that process'.[2] In 1866, the designation of Auditor General of India and Accountant General to the Government of India was changed to Comptroller General of Accounts.

In 1884, the designation was changed to Comptroller and Auditor General of India. The Government of India Act, 1919 gave him a statutory recognition and redesignated him as Auditor General in India who was appointed by the Secretary of State in Council and held office 'during His Majesty's pleasure'. Subsequently, under Government of India Act, 1935, he was designated as Auditor General of India. The 1935 Act made an important change viz. the appointment of C&AG was done by the King of England and not by the Secretary of State. Other two notable features of the Act were (i) he could be removed from office 'in like manner and on the like grounds as a judge of the Federal Court', (ii) on vacating office, Auditor General was debarred from holding any office under the Crown in India. These features were designed to ensure his independence. His responsibilities included accounting and audit of the Government of India, and eleven Provincial Governments.

The Government of India Act, 1935 laid down the provisions for appointment and service conditions of the Auditor General. Duties and functions of the Auditor General of India were derived mostly from Sections 166 to 169 of Government of India Act, 1935. The accounting functions of the Auditor General of India were incorporated in this Act as follows:

> '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 detailed accounting functions were, however, specified in the Audit and Accounts Order, 1936. The accounts of the Central Government were compiled by the Accountant General, Central

Revenues (AGCR) and of the Provinces by the respective Accountants General. The annual accounts of each Government called Finance Accounts were prepared and submitted to the Central and Provincial Governments on prescribed due dates. The Auditor General of India was also responsible for preparation of a combined Finance and Revenue Accounts incorporating a summary of the accounts of the Union and the States for the preceding year and particulars of balances and outstanding liabilities for submission to the Government of India. This document comprised (1) General accounts and (2) Subsidiary accounts and was prefaced by an introductory note in which a brief and general description of the structure of the government accounts was given.

The auditing functions of the Auditor General of India were also detailed in Audit and Accounts Order, 1936. The Auditor General of India was required to audit all expenditure of the Federation and all Provinces, all transactions of these Governments relating to debt, deposit, sinking funds, advances, suspense accounts and remittances and trading/ manufacturing, profit and loss accounts and balance sheets of any department of Government.

The Auditor General of India was also required to audit the receipts of any department, if so required by the Governor General or the Governor of a Province for which Governor General or Governor of the Province might make regulations after consultation with the Auditor General of India. The Governor General was also empowered to appoint any independent officer to audit sanctions to expenditure accorded by Auditor General of India. The Auditor General of India was required to submit a report on his audit to the Governor General/ Governors for laying before the respective Legislatures. The Auditor General of India was also entrusted with some other miscellaneous duties. The Auditor General had a special right to compel a reference to the Secretary of State, where, in the course of his audit, 'he found that any authority in India had usurped a power retained absolutely by the Secretary of the State'[3].

The Auditor General of India those days also acted as advisor to the Finance department regarding the application of financial rules and orders. He submitted his Reports in two separate volumes, Audit Report on Appropriation Accounts and Audit Report on Finance Accounts. Both these Reports were presented to Legislatures concerned. The reports were, as even today, 'a detailed, dispassionate account and were devoid of any expression suggesting a political opinion or a bias'.

During the period 1860 and 1947, when India became independent, 15 incumbents held this position. Since independence, there have been 10 incumbents to hold the post of C&AG including the present C&AG V.N. Kaul. Independent India's first C&AG V. Narahari Rao (1948–1954) and subsequent two incumbents who followed him, A.K. Chanda (1954–1960) and A.K. Roy (1960–66), belonged to the Indian Audit and Accounts Service (IA&AS). The fourth C&AG S. Ranganathan (1966–1972), was from the Indian Civil Service (ICS) while the fifth C&AG A. Baksi (1972–1978) was again from the Indian Audit and Accounts Service. From sixth C&AG Gian Prakash (1978–1984) onwards T. N. Chaturvedi (1984–1990), C.G. Somiah (1990–1996), V.K. Shunglu (1996–2002) and V. N. Kaul (2002–2007) all incumbents have come from the IAS[4].

B. POST INDEPENDENCE DEVELOPMENTS

Post independence, four categories of field offices existed within Audit Department namely Civil, P&T, Railway and Defence Services audit offices. Civil and Posts and Telegraphs audit offices were combined audit and accounts offices, while the Railway and Defence Services were purely audit offices.

In 1947, there were 11 Civil Audit Offices—nine offices of AsG and two Comptrollers, one Accountant General (P&T), one Director of Audit, Defence Services and one Director of Railway Audit. The expenditure of the IA&AD was net Rs.108 lakh.

At the time of independence, the biggest challenge to the department was how to revamp itself in the face of declining staff strength, especially in the supervisory cadres caused due to the impact of partition of the country. The effective strength of IA&AS was only 39 against a sanctioned strength of 120. After independence, therefore, the foremost important task for the first Indian Auditor General was to strengthen and re-organise the department to meet the requirement of staff for the expanding department. The Auditor General of India pointed out to the Economy Committee all the facts regarding the depletion in the various cadres, which had resulted in the dilution and relaxation of audit. The department had also become structurally weak because of downgrading of the many senior posts and large drafts made on it by the Government of India to fill in the gaps existing in manpower there, during the war. As a result of all these factors, there was a wholesale curtailment of supervision of several audit processes in 1943. The Economy Committee appreciated all these factors and recommended that the Audit Department, which had been progressively weakened, required considerable strengthening and re-organisation in the matter of personnel, training and its working processes. It suggested to Ministry of Finance to offer all necessary facilities to the Auditor General of India for securing the necessary re-organisation. The Committee made another important recommendation 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 Auditor General in regard to the numbers and character of the posts, and miscellaneous expenditure at any rate should be usually accepted by the Ministry of Finance.

INITIAL REVAMPING AND STRENGTHENING THE IA&AD

A thorough revamping and strengthening of the department was undertaken by the first Auditor General of India, V. Narahari Rao under a five-year scheme of strengthening the department. The integration of the former princely states had a covenant which required certain guarantees for their staff and accordingly a formula was evolved by the Finance Ministry and States Ministry.

The Auditor General of India was able to get an exemption from the Government from the procedure agreed under the integration of the princely states for absorption of their personnel to the audit services by getting the power to assess their suitability before absorption. The Special Recruitment Board of the UPSC alongwith the representative of the Auditor General of India carried out assessment of officers and, in all, 30 officers were taken over to the IA&AS, bulk of them came from Mysore and Hyderabad States. The total number of employees absorbed in the IA&AD from the former princely states was about 4,074.

In 1948, the total staff of the IA&AD numbered 15,600 including 120 IA&AS officers (effective strength of IA&AS officers was only 39). A post of ADAI (States) was created in September 1949 to deal with all matters relating to integration of the States, transfer of officers, selection and absorption of the personnel to IA&AD. With the enactment of the new Constitution on 26 January 1950, India became a Union of States and the Auditor General was designated as Comptroller and Auditor General of India (C&AG). With effect from 1 April 1950, the C&AG was responsible for accounting and audit of these States, except Jammu & Kashmir. Jammu & Kashmir came into C&AG's audit jurisdiction from 1 May 1958.

THE C&AG UNDER THE NEW CONSTITUTION

It is interesting to note that the draft Constitution based on the Memorandum on the Union Constitution prepared by the Constitutional Advisor B.N. Rau, in March 1947 had provision for appointment of an Auditor General for the Federal Government and Auditor General for the Provinces—a separate Auditor General for each province. While the Auditor General of Union to be appointed by the President was to have the same security of tenure as a Judge of Supreme Court and whose functions were to cover accounts of the federation as well as Provinces prescribed under the Federal Law, Auditors General of Provinces were to be appointed by the respective Governors, and they could be removed from the office in the same manner as High Court's Judges. The Provincial Auditor General could be appointed as Federal Auditor General, but not to any other office under the Government. The reports for audit and accounts were to be presented to the President or the Governor, as the case may be, for being laid before the appropriate legislature. While all other provisions of the draft were acceptable to an Expert Committee, it favoured the continuance of a single Auditor General for the Government of India as well as for the Provincial Governments. The drafting Committee of the Constitution chaired by Dr. B.R. Ambedkar made provision for an Auditor General of the States to be appointed by the Governor. After deliberating on these provisions between May and August, 1949 when several amendments were proposed on the status, powers and functions of the Auditor General, the idea of having multiple audit authorities, one for Union and one for each State was dropped and finally the Constitution provided for a single C&AG for the Centre as well as the States. There were suggestions to the effect that C&AG be selected from among Chartered Accountants but this was rejected being out-of-tune with the existing practice in the matter of appointment in this country and elsewhere. It is worthwhile to quote T.T. Krishnamachari in this context, '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'.

Dr. Ambedkar observed 'Personally speaking for myself, I am of the opinion that this dignitary or officer is probably the most important officer in the Constitution of India … and his duties, I submit, are far more important than the duties even of the judiciary—he should be certainly as independent as the Judiciary.' Dr. Ambedkar felt that Auditor General was not being given the same independence which was given to the judiciary. He was particularly critical that staff of Auditor General shall be appointed by the executive.

DUTIES, FUNCTIONS AND POWERS OF C&AG

Chapter V of the Constitution of India details the duties, functions and powers of the C&AG of India. Four Articles 148, 149, 150 and 151 of the Constitution define the basic structure of the institution of C&AG of India. The relevant extracts from these 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 President may, on the advice of the Comptroller and Auditor General of India 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 of the State, who shall cause them to be laid before the Legislature of the State.'

To briefly summarise important contents of the Constitution, the C&AG of India is an independent constitutional authority, is neither a part of legislature nor executive though appointed by the President on the advice of the Prime Minister, he can be removed from office like Supreme Court Judge on a motion of impeachment. The C&AG is both audit as well as accounting authority for Centre as well as States. However, the accounting functions were taken away in the case of Centre in 1976 while accounts of the States continue with the C&AG (except of Goa); several entitlement functions in the States were also transferred from C&AG to state Governments between 1976 and 1989.

C&AG'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) ACT, 1971

In terms of the provisions of Articles 148(3) and 149 of the Constitution, C&AG's (DPC) Act, 1971 effective from 15 December 1971 was enacted, detailing the Duties, Powers & Conditions of Service of C&AG of India. The enactment of the legislation took 20 long years and during the interim period, the C&AG exercised his powers under the provisions of Audit and Accounts Order, 1936 'despite being an anachronism in a Republican Constitution with a parliamentary form of Government in a quasi-federal set-up with a common C&AG, which to certain extent, cramped the style and functioning of the Supreme Audit Authority … and hampered the growth and development of the Institution to its fullest extent'[5]. As pointed out by R.K Chandrasekharan if despite this limitation there was phenomenal growth and development in the sphere of accounting, auditing and reporting, the credit goes only to the distinct personalities and genius of each C&AG. It is a remarkable story, no doubt, that during these 20 years, momentous changes in public administration and growth in development expenditure, emergence of PSEs as the main vehicle of Government's development activities/projects and finally a unique planning for the socio-economic development of the country took place. Each C&AG rose to the occasion to not only recognise the challenges thrown by these developments but took effective steps in building a formidable and competent audit system to tackle these mammoth developments. It will be best to recount some of these:

EXPANSION OF THE DEPARTMENT

After the adoption of the Constitution, the SAI was redesignated as Comptroller and Auditor General of India, (even though the powers of Comptroller were not given to him). During this period, Department's functions and activities increased tremendously due to two main developments in Government policies. One was the adoption of a loose centralised planning system under which a development plan with 5 years timeframe commenced from 1951 for the entire country projecting the overall investment in public sector as well as sectoral outlays. This meant massive increase in outlays on developmental expenditure that needed, naturally, additional manpower to audit the expenditure on these programmes. A second main reason for departmental expansion was the birth of and rapid growth of public sector enterprises, which were to be 'commanding heights of the economy'. After some initial reservations, the Government of India, finally decided to have C&AG's audit of these Public Sector Undertakings. (A detailed account of audit of PSUs is given in Chapter-7 on Commercial Audit). Tackling this gigantic task required special skills in Commercial auditing. C&AG Narahari Rao created Commercial Audit Wing and recruited some CAs directly as SAS Accountants—many of these were later drafted to IA&AS in the promotion quota.

Then in 1969, ARC recommendations gave a total new shape to the Commercial Audit Wing which expanded from just one Director to (in graded fashion) 12, called Directors of Audit and Members Audit Board. (Detailed account in Chapter-7).

Other major factors in the growth of the Department included the induction of Revenue Audit in Nineteen Sixties, which gradually became a major area of activity of C&AG. (Detailed account in Chapter-6).

Performance Audit, which started in Department in early Sixties by the name Efficiency-cum-Performance Audit, also had its impact on the growth of manpower strength in the Department specially during the time of A. Baksi when the role of Performance Audit expanded considerably. This branch of audit received more attention in his time when its role was defined more clearly, technical parameters were refined and all India Reviews (which were horizontal reviews across various States) of important schemes/ programmes across the country were undertaken for the first time. Since then the Department has marched ahead in Performance Audit, specially in the time of present C&AG Shri Kaul, who has totally reshaped the audit systems in Performance Audit. These developments are contained in chapter 12.

STATUS OF VARIOUS FUNCTIONAL AUDITS

Defence Audit: Under Rule 8 (ii) of the Rules framed by the Secretary of State for India in Council, under the Government of India Act, 1919, the Auditor General was made responsible for audit of expenditure in India from the revenues of India. Since these Rules under the Act had a statutory backing, a question arose regarding the manner in which Auditor General should discharge his statutory responsibility in respect of defence expenditure. The decision taken was that the Auditor General should have his own inspection staff working in the Military (now Defence) Accounts Offices to check the accuracy of the work done in those offices. In March 1922, appointment of a Deputy Auditor General was made for the purpose and in March 1924, two more Class-I officers of the General list, who were also designated as Deputy Auditor General for Test Audit of Military Accounts were posted. One of them was posted to Army HQrs while the other two were to work in the four commands. The Deputy Auditors General in charge of Commands carried out an exhaustive inspection and test audit of the work done in each Command and District Office of the Military (now Defence) Accounts Department. The Deputy Auditor General at HQrs audited the sanctions of Government of India in the Army Department and controlled and watched the progress of audit in the Commands[6].

Under Rule 25 of the Auditor General's Rules, the Auditor General prescribed the form in which the accounts were to be submitted to him for inclusion in Finance and Revenue Accounts and for its audit and he also decided the nature and scope of the audit. The test audit was given the responsibility of carrying out concurrent audit 'to ensure that the accounts of the Army, as included in the Finance and Revenue Accounts, portrayed a correct presentation of facts, and represented that money has been spent as it is shown to have been spent[7]'.

In due course of time, namely in January 1925, under a new scheme, the post of Deputy Auditor General at Army HQrs was converted to the rank of an Accountant General designated as Director of Army Audit. The system of audit applied by the Comptroller and Auditor General of United Kingdom to the expenditure of the Army was to be followed by the Defence audit establishment in India as closely as Indian circumstances permitted. After the Government of India Act, 1935 was introduced, Government of India (Audit & Accounts) Order 1936 was issued under which the Auditor General was made responsible for keeping the accounts of the Dominion and of each province, other than the accounts of Defence, Railways and the accounts relating to transactions in the United Kingdom[8].

At the time of independence, the designation of the head of the Defence Audit Department was Director of Audit, Defence Services (DADS). For obvious reasons the organisation and composition of the Defence Audit Department was closely patterned on finance and accounting organisation of the Ministry of Defence and the three services and allied departments. At the time of independence, the structure of the Defence Audit Department was that the DADS who was responsible for audit of expenditure of the Ministry of Defence, Army, Navy, Air Force and Ordnance

Factories assisted by a Deputy and Assistant Director and a Deputy Director each at Pune and Meerut, an Assistant Director each at Mumbai, Kolkata and Dehradun and an Audit Officer each at Allahabad and Patna. The strength of the Defence Audit Department in 1950 was 284 which included seven IA&AS officers. A separate Audit Report (Defence Services) was brought out and the Central Public Accounts Committee in 1923 considered the audit report on Army, Marine and Military Works Accounts for the year 1921-22 with the assistance of the Financial Advisor Military Finance and the Military Accountant General. But in 1924, doubts were expressed regarding the competence of the Public Accounts Committee to deal with Defence expenditure that was 'non-voted'. It was decided at that time that the Auditor General's report on Military expenditure should be submitted to the Secretary of State and a copy placed before Public Accounts Committee for information. However, with the purpose of submitting the reports to some alternate definite and responsible examination, an adhoc Committee of Military Accounts was set up in 1925, which consisted of the Finance Member, the Finance Secretary and the Army Secretary. It was only from November 1948 that Public Accounts Committee took a decision not to continue the Military Accounts Committee and since then the Public Accounts Committee deals with the Military Appropriation Accounts and Audit Report thereon[9].

The strength of Defence Audit Organisation in 1987–88 was 836 including 16 IA&AS Officers and 44 AOs, 145 SAS Accountants, etc.

Audit of Posts and Telegraph: While a detailed historical account is available in Chapter-9 on P&T Audit, briefly the events prior to 1990 in regard to this branch of audit are narrated below.

The office of Accountant General (Post & Telegraph) was functioning in some form or the other since 1837. In 1950, the organisation had 5655 personnel on its rolls including 11 IA&AS officers and 40 Asstt. Audit Officers etc. Initially there were five branch offices namely Kolkata, Delhi, Madras, Nagpur and Kapurthala. Subsequently branch offices were added by upgrading some offices e.g. Hyderabad branch office was formed in October 1960. When AG (P&T) moved from Shimla to Delhi in 1969, the total workforce was 7928 including 23 IA&AS officers and 102 AOs, etc. Its expenditure was Rs.315.79 lakh in 1969–70.

The telecom wing accounts were taken over by the Executive Department in a phased manner during April 1968 to March 1971. However, a major reorganisation occurred in P&T Audit during

November–December 1969 to July 1971 when seven new circle wise branch audit offices were set up in Jaipur, Trivandrum, Cuttack (all in 1969) and Bangalore, Bhopal, Lucknow and Patna (all in July 1971). On the separation of accounts when accounting functions of Post and Telegraphs were transferred to the Union Government in April 1976, about 7664 persons representing 79 per cent of the total strength were transferred out. In 1988, there were 2094 personnel working in the P&T Audit with 14 IA&AS officers and 156 AOs.

Commercial Audit: Commercial Audit Branch of the Indian Audit Department was set up in January 1925 when a Chartered Accountant was appointed for a period of five years as Director of Commercial Audit in the Auditor General's office. In 1928, a separate Commercial Audit Branch was set up by direct recruitment of Chartered or Incorporated Accountants to the IA&AS while at the same time some of the other regular officers of the IA&AS were given training in commercial accounting and auditing. The AOs cadre in commercial side was filled mostly by appointing chartered accountants or by promotion of SAS passed officials in the Audit Department. For this purpose, SAS Commercial examination was instituted. The Commercial Audit Branch was made permanent from January 1929 and at that time, apart from the Director, there were four Asstt. Directors and four Asstt. Audit Officers. The post of Director of Commercial Audit was abolished in 1930 due to economy measures and the functions were entrusted to the existing local audit in the provinces. Audit of Central Government Commercial concerns was carried out by the respective Accountants General on behalf of the AGCR. In a way, therefore, commercial audit as a separate entity ceased to exist in the IA&AD. Such a situation continued till 1951. In the post independence era, a large number of autonomous statutory corporations were set up by Acts of Parliament. The then C&AG had already stated before PAC 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 and desired that such corporations should be set up under statutes of Parliament which should define C&AG's role in auditing them. The PAC endorsed C&AG's view point. The C&AG, however, informed the PAC that as regards audit of Reserve Bank of India, he had not got the requisite machinery to undertake this job 'at present'.

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'. He established a commercial audit wing in each civil and P&T office under the charge of selected officers and adequate staff. He started recruitment of commercially qualified persons. In the following years, three distinct type of Government commercial undertakings emerged: departmental undertakings, statutory corporations and government companies. Accordingly, the procedure and pattern of commercial audit was also developed suitably for audit of these different types of public sector undertakings. Initially, the Government set up a couple of companies as private companies with Government money like Sindri Fertilizer and asked the C&AG to audit them. The C&AG had the view that the company had no right to ask him to audit its accounts and he brought the matters to a fore when he sent a note to the Government through the PAC in December 1952 that formation of private companies under the Indian Companies Act for management of Government undertakings was in his opinion a fraud on the Indian Companies Act as also on the Constitution. Eventually the Finance Minister had to give in (to a large extent, the credit for resolving the matter is given by R.K. Chandrasekharan to S. Ranganathan who was at that time Secretary, Ministry of Industrial Supply and who later became C&AG and completely overhauled the commercial audit system) by agreeing to make suitable provisions in the Indian Companies Act for C&AG's audit. As regards audit of Financial Corporations, C&AG's powers were as defined in the relevant Act itself. Chandrasekharan has quoted a number of instances of State Governments objecting to C&AG's audit in the initial days. It was left to A.K. Chanda, the successor C&AG to sort out the matters with the Government of India which agreed that the legislation would be brought before Parliament to cover industrial undertakings of the Government to provide for making audit of the C&AG compulsory and presentation of report to Parliament in the usual way for scrutiny by the PAC. Things settled down with the passing of the Companies Act 1956 which allowed the C&AG unfettered right to direct the chartered accountant regarding the manner in which the company's accounts shall be audited and to give such audit instructions in regard to any matter relating to the performance of his function as such. The C&AG got the right to conduct a supplementary or test audit of the company accounts and, in addition he also got the right to comment upon the audit of the statutory auditor or supplement the audit report in such manner as 'he may think fit'. Finally all such comments in the audit reports were to be placed before the AGM of the company at the same time and in the same manner as audit report. There were minor changes subsequently in 1974 when an amendment to the Companies Act created a new class of companies commonly known in the Department as deemed government companies in respect of which C&AG got auditing powers. An independent office for Commercial Audit was created with effect from 1 October 1955 and designated as office of Director of Commercial Audit. Subsequently, as a result of Administrative Reforms Commission Report, a big expansion of commercial audit took place and Audit Board mechanism was introduced with effect from 1 April 1969 resulting in creation of nine new offices designated as offices of Member Audit Board and Director of Commercial Audit.

Audit of Science and Technology[10] : After independence, Atomic Energy Commission (AEC) was first big scientific institution to come up in 1948. The audit of expenditure of this organisation had an entirely different basis—the expenditure was admitted in audit on the basis of certificate given by the Prime Minister under whom the Commission fell and the detailed accounts were kept by the Secretary of the Department of Scientific Research and these were checked by the Principal Secretary to the Prime Minister after which PM's final approval was obtained. The then Auditor General, Narahari Rao had some reservations about this kind of arrangement specially because the Government had not stated that the expenditure was on secret object. Hence 'it would be prejudicial not to subject this to audit in the usual manner'. He was of the view that while certain category of expenditure could be excluded from audit, being of secret nature, there were other items of expenditure that would not classify as secret. When this matter was taken up with the PM Secretariat and Secretaries, Ministry of Finance and Department of Scientific Research in June 1949, a decision was taken that all expenditure including secret expenditure would be subject to audit provided the Auditor General deputed a specially selected officer of his department who would audit the expenditure on oath of secrecy. This was agreed subject to the condition that the nominated officer would take orders where necessary only from the Auditor General since he was the final audit authority. Subsequently, the Law Ministry advised that there was no provision requiring or authorising the administration to provide for an oath of secrecy by the auditor, accordingly it was decided that it would suffice if the officer concerned was made aware that he would be bound to secrecy in all matters which came to his notice. When the Department of Atomic Energy was set up in August 1954 with HQrs in Bombay, Accountant General, Bombay was nominated to function as auditor to the Department as well as AEC. Audit was done on a concurrent local audit basis. The system continued for about 10 years. In 1960, in a special audit of the AEC, certain irregularities were noticed. It was considered an opportune time to review the procedure. The then DAI (G.S. Rau) proposed to C&AG that only a small portion of expenditure which was really secret should be left out and rest should be audited and reported in usual manner. A.K. Chanda who was about to retire left the decision to his successor. A.K. Roy (his successor) wrote to Dr. Homi J. Bhabha, Chairman of AEC for discussion in the matter but Bhabha, while readily agreed for discussion, invoked the special procedure for audit of AEC. Consequently, during the entire tenure of A.K. Roy, no major change in the system of audit or reporting of results took place. In 1966, when S. Ranganathan was C&AG, it was decided that draft paras on Department of Atomic Energy would be discussed by the C&AG with the Chairman of AEC and by the respective officers of both the sides. Meanwhile, new scientific department had been established and this audit was entrusted to AG, Bombay. The audit of scientific institutions was reviewed by A. Baksi after coming in force of C&AG's DPC Act 1971. He created a post of Additional Accountant General, Scientific Departments and made him incharge of accounting and audit functions of these institutions including Department of Atomic Energy and Department of Space. The office of additional AG was upgraded to AG Scientific and Commercial Departments in March 1975 and was renamed Director of Audit, Scientific and Commercial Department. In September 1984, then C&AG T.N. Chaturvedi took a decision based on the recommendation of Science Advisory Committee to the Cabinet to have a unified audit of all scientific departments/ bodies/ authorities, under the control of DACW&M, New Delhi with branches at Bombay, Calcutta and Madras. In 1986, this office was separated and named as DACW&M-II. The office got proper name when it was redesignated in 1989 as office of the Director of Audit (Scientific Departments), New Delhi and is now entrusted with the audit of all the Science and Technology institutions of the country.

Railway Audit: Railway Finances were separated from General Finances of the Government of India in 1924, which resulted in a separate Railway Budget outside the General Budget. This was followed by separation of audit and accounts in the Railways whereby accounting became a departmental affair while external audit remained with the Auditor General. The Railways operate on a zonal basis below which are Divisional Railway Managers. At the time of independence, the Director of Railway Audit who was stationed at Shimla, was assisted by four Chief Auditors of the level of Accountant General who were stationed at HQrs of each Railway zone. The big organisational change in Railway audit set up came in 1955 when A.K. Chanda merged the office of the Director of Railway Audit in his office to 'achieve greater speed, efficiency and economy in the functioning of the Railway Audit Wing'. The Chief Auditors were vested with the same authority as Accountant General. In the HQrs, Railway Audit Wing was headed by an ADAI (Railways) and ex-officio Director of Railway Audit.

In 1966, the procedure for audit of transactions of railways was reviewed and rationalised. In May 1970, Internal Test Audit was introduced in the office of the Chief Auditors. Significant changes in the contents of Audit Reports were introduced in late 1960s. Reviews on schemes/ projects of individual railways as also comments on individual transactions were reported. Later, emphasis shifted to comprehensive reviews of major schemes and projects in line with the Audit Departments emphasis on performance auditing.

In 1990, the Railway Audit Wing was headed by ADAI (Railways), who had under him 9 Principal Directors of Railway Audit incharge of audit of Zonal Railways. The Principal Directors had resident audit offices in DRM offices. In the Railway Board also, a small set up was created to do contracts audit at the Board level and accounts audit apart from functioning as resident audit office. Recently, the audit set up in Railway Board was augmented on the basis of Railway Audit Norms Committee Report by appointing a Director level officer. The duties and functions are detailed in Chapter-10.

OTHER DEVELOPMENTS: SEPARATION OF UNION GOVERNMENT ACCOUNTS FROM C&AG'S ORGANISATION

The Departmentalised Accounting System was approved by the Cabinet in June 1975. The Departmentalisation of Accounts was first introduced in the Postal Department, Ministry of Industry and Civil Supplies and Ministry of Tourism and Civil Aviation from 1 June 1976 and in all other Ministries from 1 October 1976. Simultaneously, it was decided that the rules for transfer of personnel will be framed. It is interesting to note what the Administrative Reforms Commission constituted by Government of India in June 1966 had said on this subject:

> '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 as there was no inherent conflict or disadvantage in the combination of the compilation of accounts with that of audit'.

The Finance Minister in his budget speech for the year 1976–77, while announcing the impending separation of Accounts as stated above, gave the raison d'etre for the separation thus:

> 'The existing system under which accounts are maintained 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'.

The departmentalisation of Accounts in 1976 was preceded by a proposal for Separation of Accounts[11] in 1973 on which the Finance Secretary had requested the views and suggestions of the C&AG on 31 May 1974. C&AG Baksi's response dated 7 April 1975 to Finance Ministry was, as recorded by Shri Chandrasekharan 'as an individual' where he spelt out several problems that were likely to be faced in implementing these reforms and he was also doubtful of the efficiency of the proposed reforms. However, by that time (middle of 1975), the Government had made up its mind to departmentalise the accounts and in July 1975, the Prime Minister had minuted expressing anguish that progress was not at all satisfactory about separation and told the 'Finance Minister to speak to the C&AG'. She wanted the matter not to be delayed any further. Resultantly, the process of departmentalisation got hastened culminating in the issue of Proclamation of two Ordinances which were later ratified by Parliament. The new system created the organisation of Controller General of Accounts within the Department of Expenditure of the Ministry of Finance. The Controller General of Accounts became the Principal Accounting Authority of the Government of India. This resulted in the reduction of the staff strength in IA&AD and major reorganisation of the Audit Department.

1984—RESTRUCTURING OF IA&AD

C&AG Gian Prakash decided to bifurcate the existing combined audit and accounts offices in States (AG office) by creating separate offices for accounting and entitlement functions. In 1984, accordingly, 22 offices of A&E came into existence. This separation of accounting and auditing functions into two separate independent offices ensures that the office which compiles accounts does not audit them too.

OTHER DEVELOPMENTS

During the period, certain changes in the structure/ organisation of the department took place from time to time on account of particular developments and requirements of administrative efficiency.

As a result of recommendations of a Committee constituted (year 1979) under the Chairmanship of T. Rangachari, the then ADAI (Commercial), reorganisation of Civil Audit and Accounts Offices was carried out to give recognition to the principle of optimum size of Civil Audit and Accounts Offices (upto 1500 manpower), formation of separate commercial audit offices by breaking up the existing civil audit offices and reorganisation of certain offices by upgrading the branch offices. As a result of implementation of these recommendations, the number of Civil Audit and Accounts Offices with Head of Department level officer increased to 40 by 1982.

An important development during the time of Gian Parkash relates to transfer of recruitment of Auditors/ Clerks, which was earlier being done by the concerned Accountants General, to the Staff Selection Commission from March 1979. Whether this step has resulted in improvement in filling up the vacancies is a moot point but certainly it has resulted in relieving the Accountants General of a considerable amount of work.

There were significant reforms introduced during the period of C&AG Gian Prakash relating to the inspection of offices. There was also considerable strengthening of the internal test audit functions in the Accountants General's offices. On the Inspection side, the post of Director (Inspection) in HQrs office was elevated to the Accountant General's level.

TRAINING

The credit for establishing a full fledged O&M Division in the Department goes to C&AG Gian Prakash who set up such a division in 1978 whose work included studying the system of work and procedures in different areas of the office, make suggestions for possible improvements in audit and accounting systems, study of flow/ transmission of records within the office, records management, review of local forms and also the procedural shortcomings noticed in the instructions of internal test audit wing, organising International Training Programmes, sponsoring programmes, training programmes for officers and staff of the Department, preparation of training modules and monitoring of the training activities of RTIs in field offices. Certain ad-hoc duties were also entrusted to the O&M Unit including work relating to INTOSAI, ASOSAI, Conference of Commonwealth Auditors General. In addition, O&M Units were introduced in select Accountants General's Offices during this period.

O&M Unit also brought out audit guides on selected subjects. A quarterly journal called Journal of Management and Training was introduced from April 1984. The real boost to training activities, however, was given when T.N. Chaturvedi was the C&AG. A separate Training Division was created in April 1986 and the work relating to training was transferred to this division. The emphasis on training in his time could be also because of the fact that he had been a keen training person during his career in IAS that included Joint Director, National Academy of Administration, Mussoorie and Director, Indian Institute of Public Administration, New Delhi. He appointed, on deputation, an officer of the Training Division from Department of Personnel and Training, as OSD (Training) and one of the highlights of this period was that it gave a new impetus to the International Training Programmes. Five RTIs were set up during his regime and the training facilities were vastly improved in the Department.

NOTES: CHAPTER-1

[1] This section presents a summary of the major developments in the C&AG's organization upto the period 1989—the material is based on several sources, but mostly on R.K. Chandrasekharan's 'Analytical History—1947–1989' and M.S. Ramayyar's Indian Audit and Accounts Department, Indian Institute of Public Administration, New Delhi, 1967; V.K. Shunglu's article in Indian Journal of Public Administration. Some material has been taken from the primary documents i.e. old files and speeches of the C&AGs.

[2] M.S. Ramayyar (1967) Indian Audit and Accounts Department (New Delhi. The Indian Institute of Public Administration), page 16

[3] R.K. Chandrasekaran (1990) The Comptroller and Auditor General of India Analytical History 1947–1989 (New Delhi, Ashish Publishing House) Vol I, page 11

[4] The Constitution does not prescribe any qualifications for appointment to the post of Comptroller and Auditor General of India, but by convention the post has always been held by a Civil Servant. Comptroller and Auditor General of India is neither an officer of Parliament nor part of executive. He is an independent Constitutional Authority.

[5] R.K. Chandrasekharan, Op. Cit.

[6] Manual of the Audit Department, Defence Services

[7] R.K. Chandrasekharan, Op. Cit Vol.-II Page 712

[8] Manual of the Audit Department, Defence Services

[9] M.S. Ramayyar, Op. Cit. Pages 483-484

[10] R.K. Chandrasekharan, Op. Cit Chapter-24

[11] R.K. Chandrasekharan's Book gives an excellent accounts of the subject.

GLOSSARY OF ABBREVIATIONS

AD	Assistant Director
AEC	Accounts, Entitlements and Complaints
AGM	Annual General Meeting
ARC	Administrative Reforms Commission
CA	Chartered Accountant
DACW&M	Director of Audit, Commerce, Works & Miscellaneous
DRA	Director of Revenue Audit
DRM	Divisional Railway Manager
FAO	Food and Agricultural Organisation
GASAB	Government Accounting Standards Advisory Board
IAS	Indian Administrative Service
IPAI	Institute of Public Auditors of India
MIS	Management Information System
NOIDA	New Okhla Industrial Development Authority
O&M	Organisation & Methods
OSD (Training)	Officer on Special Duty (Training)
P&T	Post & Telegraphs
PA	Performance Audit
PM	Prime Minister
PRI	Panchayati Raj Institutions
PSE	Public Sector Enterprise
RTI	Regional Training Institute
SAS	Subordinate Accounts Service
ULB	Urban Local Bodies
UN	United Nations
UPSC	Union Public Service Commission
WHO	World Health Organisation
WTO	World Trade Organisation

2

Developments in Government Policies and Public Administration and their impact on C&AG's Audit and Organization

The financial and economic reforms that were initiated in the early 1990s by the Government are loosely called 'liberalization reforms'. These reforms started a momentum that is still continuing and has already achieved considerable impetus. In many ways, these reforms heralded a massive shift in government policy from a controlled economic regime to a more open and liberalized economy and reflected basic change in the approach of the government towards economic and financial issues. Even though there had been some such reforms in the mid 1980s in the time of Prime Minister Rajiv Gandhi, specially in the Telecom sector, the wide ranging reforms of 1990s entailed substantial liberalization of trade and investment controls, tax reforms, financial sector reforms, a paradigm shift in the public financial management system in general and the profile of public revenues and expenditure in particular.

Around the same time, another epoch making legislation was being drafted. This was in the shape of 73rd and 74th amendments to the Constitution intended to give the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) a constitutional status as institutions of self-governance and creating a third tier of government besides the Union Government and the State Governments. And finally, during this period, political decisions like creation of 3 new States also had an impact on the C&AG's Organization.

The 1991 BoP crisis has been widely attributed to a great weakening of international confidence due to the combined impact of political instability, the accentuation of fiscal imbalances and the Gulf crisis. There was a sharp decline in capital inflows through commercial borrowings and non-resident deposits. As a result, despite large borrowings from the International Monetary Fund in July 1990 and January 1991, there was a sharp reduction in India's foreign exchange reserves. The steep deterioration in the balance of payments situation led to a rapid depletion of foreign exchange reserves and by November 1990, India did not have enough foreign exchange reserves to finance even one month's imports. The annual rate of inflation had climbed to a peak of 17 per cent in August, 1991. This was the grim backdrop of the wave of 'economic reforms' then launched.

It is evident to perceptive observers of public policy how the Budget speeches, year after year, have continued to advance the liberalization process. It shows that the agenda of reforms has been pursued with a broad political consensus even though there have been persisting differences on the pace and sequencing of particular aspects of reforms and the same rigour and vigour have not transcended all the sectors.

Changes in the fiscal stance of the government, governance strategy, structures, policies and processes taking place ever since Independence, have had their inevitable impact on audit strategy, structures, policies and processes. For example, planning era prompted C&AG to introduce Performance audit. Growth of strong Public Sector was accompanied by a vastly revamped Commercial audit system. Changes that have had profound and continuing impact on Audit Department as a result of post-1991 reforms, and other developments can broadly be summarized as below:

❖ The advent of computerization and Information Technology in a big way in Public Sector and Government during the nineties has been the most significant development throwing unprecedented challenges to audit, that prompted the C&AG to embark on an entirely new type of audit viz. IT Audit. The loss of paper-based audit trail for which audit personnel have been trained for long implies huge inputs in upgrading their IT skills as well as extensive training to learn entirely new set of skills. Technological developments have rendered in the wake of their induction some functions virtually redundant, for example, in Telecom Department with technological advances in Telephony, the earlier modes of communication like Telex, Telegrams have become more or less redundant. This, for example, impacted the audit work also on the P&T audit office of Stores, Works and Telegraph Check (SWTC), Calcutta.

- Strengthening of Panchayati Raj Institutions, both legal and financial, following the 73rd and 74th amendments to the Constitution intended to give the PRIs and urban local bodies a constitutional status as institutions of self-governance and creating a third tier of government besides the Union Government and the State Governments, was a major challenge and opportunity for Audit.
- New IA&AD offices have come into existence following the creation of 3 new States and the specially constituted Union Territory of 'NCT of Delhi' with its own Legislature and Consolidated Fund. Growth and expansion in the Government Departments, notably in the Railways with the creation of more Zones has also contributed to this.
- Tax reforms entailing simplification of tax laws and procedures and computerization in tax administration have had a profound influence on the audit approach and methodology. The Audit Department has to keep pace with the fast-changing tax system and introduction of Value added tax and eventually to introduction of nation-wide Goods and Services Tax targeted from April 1, 2010. Globalization and entry of foreign companies in a large number also added to Audit role in International Taxation field.
- Government's engagement with private sector in sharing the funding responsibilities and revenue sharing arrangements require that audit oversight be carried beyond Government records which throws up new challenges and opportunities for Audit. This is particularly so because the same Government policies also rely on trusting the private enterprises' self-assessment and declarations, say in the area of Central Excise, Telecommunication and Roads, which restrict the scope of audit.
- Emergence of (statutory) regulatory bodies that have been assigned the functions and responsibilities earlier discharged by Government Departments has brought new challenges for Audit even as misplaced notions of autonomy resist and resent a wider scope for Audit of Regulatory Bodies.

- Emergence of new autonomous bodies, societies and Special Purpose Vehicles (SPVs) tend to dilute the scope of audit as this marks a prominent trend of the main Departmental budgets becoming 'shell budgets' with decline in direct expenditure and concomitant increase in 'transfer of funds to parastatals'. How will Audit tackle this situation is yet another question facing C&AG.

There is another emerging trend that Audit has to contend with. Audit by the C&AG is part of the Constitutional scheme of oversight on public financial management by an independent Constitutional Authority. Responsiveness of the governments to Audit findings and recommendations has been a matter of enduring concern for long. While a lot remains to be done in this area, the governments have been experimenting with newer tools and institutions to promote 'good governance'. Notable amongst these are the assorted measures to involve wider civil society in governance and development programmes and e-governance projects. There is increased emphasis and reliance by the Government on the Civil Society, NGOs etc. for a deeper stake in the implementation of its socio-economic development plans and, consequently, there has been a significant outgo of development funds to them for the purpose. This prompted C&AG to think loud about Audit strategy on the hitherto neglected voluntary or autonomous sector specially with reference to the NGOs.

In the field of accounting, a momentous decision by Government, as announced by the Finance Minister, in his Budget Speech of 2003–04 has been the decision in principle, to switch over to accrual based accounting from the existing cash based accounting. This has opened an entirely new work field for C&AG office since the GASAB was nominated as the agency to operationalise this by first suggesting a road map for this switch over.

The foregoing developments had a major impact on the SAI India organizationally and in terms of launching new audit areas to meet these new challenges.

ECONOMIC REFORMS SINCE 1991: AN OVERVIEW

The economic reforms covered various fields of industry, external trade, banking, insurance, capital market, taxation and public expenditure. It is beyond the scope of this work to document all these reforms. However, in this Chapter—a bird's eye view of some more important ones that affected C&AG's audit and organization has been attempted.

FINANCIAL SECTOR—BANKING, INSURANCE AND PENSION

An important line of financial reforms has been the reduction in promotion of funds by governments. The Government decided to gradually reduce dependence on captive sources of financing budgetary deficits through investment controls on insurance companies, pension and provident funds and pre-emption of banks' lendable resources—and instead chose to directly tap the market to raise loans. Thus, there has been a discernible shift in the composition of Government liabilities towards increasing share of market loans with concomitant increase in the interest burden on the exchequer. A deep and widely active market for Government securities is being developed and direct financing of fiscal deficit by the Reserve Bank is now banned under the Fiscal Responsibility and Budget Management (FRBM) Act. The Act has drawn benchmarks in other spheres too. Audit has responded to these splendidly by reorienting its analysis of government financial management and accounts in C&AG's Audit Report on Accounts.

CAPITAL MARKET REFORMS

The budget for 1987–88 provided for setting up of a separate Board for the regulation and orderly functioning of the Stock Exchanges and for a healthy growth of capital markets, for protecting the rights of investors and for preventing trading malpractices. The Securities and Exchange Board of India (SEBI) thus came into existence. SEBI was given statutory powers in February 1992. The office of Controller of Capital Issues was abolished in May 1992. The powers vested in the Controller of Capital Issues and the Government for administering the relevant provisions of the Securities Contracts (Regulation) Act and the Companies Act were transferred to SEBI. SEBI has prepared comprehensive rules and regulations governing various aspects of the stock market and intermediaries operating therein with a view to improving trading practices, rules for disclosure, and other measures of investor protection. SEBI is under the audit jurisdiction of C&AG by virtue of suitable provisions made in SEBI Act. The role and function of C&AG in audit of SEBI are still hazy and evolving.

PUBLIC SECTOR REFORMS

The first wave of 'privatization' of Public Sector Undertakings came soon after the announcement of 1991 reforms. Industrial Policy (24 July 1991) stated Government's intention of disinvestment upto 20per cent of its equity in selected Public Sector Undertakings. On the same day, Finance Minister while presenting Union Budget stated that equity in some selected Public Sector undertakings would be offered to mutual funds, financial institutions, general public and workers. Government carried out partial disinvestment of their equity in two phases viz. December 1991 and February 1992 by offloading their shares in 30 selected Public Sector Undertakings to Mutual Funds, etc. and Government realized Rs. 3,038 crore from sale proceeds. This was not a whole hog privatization, something that the Government did later in 2000 when it decided to go in for strategic sale of some Public Sector Undertakings. The next wave of privatization had to wait for about 8 years due to a number of reasons that we need not go into here. Since 1993, the Government has followed a policy of 'budgetary disintermediation', allowing the Central PSUs to borrow directly from abroad rather than the earlier practice of the Government borrowing and on-lending. This has enhanced their capacity to face the capital market on their own strength. Various institutional mechanisms such as signing of MoUs between the Central PSUs and administrative Ministries, granting NAVARATNA/ mini NAVARATNA status and consequential increase in operational/ commercial autonomy and recently approved Corporate Governance guidelines have been circulated by Department of Public Enterprises for the Central PSUs with the stated purpose of making the Central PSUs professionally Board-run and insulating management ownership. The Disinvestment Commission was constituted in August 1996 and 40 PSUs were referred to the Commission for advice. A number of sick PSUs were referred to the BIFR/ BRPSE to consider whether these can be effectively revived or should be closed down. The performance on this front has been mixed. Corporate Governance issues also are now the focus areas in at least listed PSUs.

Audit stepped in, inevitably to audit disinvestment and privatization and has brought out several reports of high quality and keen analysis. Similarly there is a new thrust in audit on examining corporate governance reforms in public sector.

INDUSTRY REFORMS

The Prime Minister, who also happened to be the Commerce Minister, at that time, announced the new Industrial Policy in July, 1991 with a number of steps to dismantle the outdated control structure. Industrial licensing was abolished for all except a select list of 18 hazardous and environmentally sensitive industries. This list was also subsequently pruned and today, the list of banned industries where private sector cannot enter are just three, namely, Railway Transportation, Atomic Energy and Defence. It implied that the public sector—once supposed to be the commanding heights of the economy—lost its monopoly in many sectors in one stroke. Further, the separate permission needed by MRTP houses for investment and expansion was abolished.

SECTORAL REFORMS—TELECOM

Telecom Reforms in some ways, started even prior to liberalization reforms of 1990s. For example, while earlier, most of the manufacturing activities related to the sector were completely under the Government control or Government was importing them, in a significant decision, private manufacturing of equipment for customers was allowed in 1984; Centre for Development of Telematics (C-DOT) was established for development of local technology. MTNL and VSNL were separated from DOT and established as corporate entities for better results, in February, 1986 and March 1986 respectively. However, the liberalization policy of 1990s set up a paradigm shift in the way business was to be conducted in the telecom sector. Telecom was a big sector having a huge potential and when it was opened to private sector investment in the wake of trade reforms of liberalization policy, flood gates of investments opened. The National Telecommunication Policy of 1994 opened up cellular as well as basic and value added telecom services to the private sector including foreign investment. This was replaced by a new telecom policy in 1999 which is the current policy framework under which telecom sector is being regulated. The phenomenal growth of Telecom Sector in India after these reforms is one of the most astounding success stories of privatization. The main thrust of 1994 Policy was universalisation of service and qualitative improvement in Telecom Services besides, of course, the entry of private sector in manufacturing, cellular and basic Telephone services. The overenthusiasm of the private service providers led them to offer huge amounts of licence fees for basic and cellular services than they could afford. The result was they defaulted on payment and accumulated heavy arrears payable to the Government. The most important (also controversial) element of 1999 policy was allowing these private operators to migrate from the fixed licence fee to a revenue sharing concept. There were several other important features of New Telecom Policy 1999 as detailed in the Chapter on P&T Audit. Audit has done an objective assessment of the implementation of the policy and brought out well researched analysis on these aspects in C&AG's reports.

SECTORAL REFORMS—POWER

Power sector reforms, also initiated by the 1990 liberalization wave, however, do not present a picture like Telecom. Attempts made so far to bring private sector including FDI have not been quite an unqualified success. The initial euphoria generated by the initial liberalization reforms affected the Power Sector considerably and several agreements and Memorandum of Understandings were signed between the private producers and the State Governments/ Central Government for their participation in the power generation plans. However, most of these agreements/ MoUs have remained non-starters on account of various reasons. The first major FDI in power sector was done by Enron who established a massive power plant in Maharashtra. The Dhabol power plant, as it was called, has been a sore point in the foreign direct investment story of the country and this case has often been called a set back to FDI. Privatization of distribution network was attempted in Orissa (1996) and later in Delhi (2002). It has been subjected to severe criticism. So far there has been no other big efforts on privatization of power distribution. But the private sector participation in power sector is bound to increase because there are a large number of projects on the anvil and in the years to come a more clear picture will emerge about the success of private sector participation in power sector.

In summary, therefore, not much cheerful news came out of the liberalization policies vis-à-vis power sector. On the contrary, the sector suffered on account of very little additional capacity in the power generation because, while the private sector projects failed to come off, the public sector investment in generation had, more or less, ceased due to the expectations that the private sector will fill the gap. However, the government realized this later and new power projects have now been announced by the major PSUs in power sector.

The most important event in power sector reforms was passing of Electricity Act, 2003 which aimed at 'providing a liberal and progressive frame work for growth of Power Sector, by introducing competition in different segments of generation, trading and distribution of electricity'. Bar on entry of private sector in these segments was removed and under the new Law, generation of power is completely delicensed and captive power generation is freely allowed. In a significant step, now any generating company is free to seek distribution and vice versa. There is a provision in the Act to phase out the present opaque cross subsidies and replace these by a transparent and explicit subsidy for meeting the social objectives. There is a provision for decentralized system of local distribution of power through the Panchayats, user's Association, Co-operatives or franchises. The hallmark of new policy is that there will be multiple players in generation, supply and trading who will compete in the market under the oversight of the regulator.

The Government, however, in its national Common Minimum Programme has envisaged a review of the Electricity Act, 2003 in view of the concern expressed by a number of States.

REGULATORY BODIES

With liberalization of trade and services and allowing private participation in key sectors like Telecom, Ports and Electricity, it was imperative that a regulatory mechanism is put in place to regulate the concerned industry. Resultantly, several new regulatory bodies came into existence. Of these, SEBI was the first regulatory authority to be set up in 1992 under the Securities and Exchange Board of India Act, 1992. It regulates the capital market. The Insurance Regulatory and Development Authority (IRDA) was created in December, 1999 which allowed government to open doors to private industry including foreign investments in the insurance sector.

Telecom sector also got a regulatory authority, Telecom Regulatory Authority of India (TRAI), set up in 1997 to regulate the telecom sector. The power sector regulatory authority called Central Electricity Regulatory Commission (CERC) was created in 1998 under the Electricity Regulatory Commission Act, 1998 followed by practically all State Governments setting up State

Electricity Regulatory Commissions. Of the other regulatory bodies, mention must be made of Tariff Authority for Major Ports (TAMP) which is the regulatory authority for tariff fixation in major ports. Regulatory authorities are also contemplated for petroleum sector and broadcasting sector (Petroleum Regulator has since been established). All the regulatory authorities are statutory bodies.

Both privatization and creation of independent regulatory authorities created an entirely new field of auditing for the IA&AD. We will see in subsequent Chapters how the Department coped with these new challenges of audit of privatization and audit of regulation.

BUDGETARY REFORMS—FISCAL RESPONSIBILITY LEGISLATION

In the field of public finance, the 1990s stand for their sweeping reforms. The government made sincere efforts to reduce the huge and growing fiscal deficit and revenue deficit as also the bulging public debt which was causing a worry and was responsible for inflationary trend in the economy. Eventually Parliament enacted Fiscal Responsibility and Budget Management Act in August 2003 (the date of enforcement of Act was left to the discretion of the Central Government. The Act and Rules made thereunder were enforced from 5 July 2004), which stipulated obligations on Government by prescribing benchmarks for reduction of fiscal deficit, revenue deficit and other key indicators in a graded manner so that eventually the economy will come to a balanced or surplus stage. There were some limitations on borrowing powers of the state also. The Act also stipulated an obligation on the Government to present Macro Economic Framework Statement, Fiscal Policy Strategy Statement and Medium-term Fiscal Policy Statement alongwith annual budget. The Act also mandated the Government to reform accounting system, improve fiscal transparency, start disclosing information on revenue arrears, guarantees and assets latest by 2006–2007. As per the Act, Finance Minister is obliged to explain to the Parliament any deviations from the obligations under the Act and detailed measures he proposes to take to remedy them. As can be seen, the provisions of the Act throw up a number of new areas of interest for the C&AG's audit and reporting the results to the Parliament or State Legislature.

Audit has, on its own, introduced significant changes in its analysis of Government revenues and expenditure and revamped it by bringing out a separate volume of Report—C&AG's Report on Union Government (Civil) Accounts of the Union Government that is in effect an audit appraisal of the finances of the Government and a trend analysis in major fiscal indicators over 10 to 15 years period. C&AG has now started analyzing the financial performance in terms of benchmarks laid down by the FRBM Act in the Union Reports and also in State Reports where the FRBM Legislation has taken place.

TAX REFORMS

Taking note of growing contribution of the services sector in the economy, and tax avoidance through post-manufacturing value addition, the Tax Reforms Committee had recommended imposition of tax on services as a measure for broadening the base of indirect taxes. The new tax started in 1993–94 with services of telephones, non-life insurance and stock brokers at 5per cent. The list of taxable services has been steadily growing and the service tax and central excise rates are converging in preparation for eventual integration with Sales Tax (now replaced with VAT in most States) with the declared aim of Government's tax policy being eventual introduction of a uniform nation wide Goods and Services Tax w.e.f. 2010 covering the entire value addition chain of goods and services to replace the Central Excise, Service Tax and Sales Tax/ VAT. The audit of these new taxes has posed a challenge for the IA&AD.

Audit stance in Revenue Audit has traditionally been focused on systems and procedures and audit of individual cases has been only to look for systemic deficiencies. This thrust on system audit rather than transaction audit has been strengthened by tax reforms. It may, however, be appreciated that tax laws cannot be simplified beyond a point. For there can be a conflict between simplicity and precision. Simplicity sometimes results in ambiguity, providing scope for varying interpretation. To that extent the role of Audit is not reduced by 'simplification'.

INSTITUTIONAL REFORMS—LOCAL SELF GOVERNMENT

Alongside these initiatives, historic changes were taking place in the area of local self governance. Parliament took steps to give effect to the provisions of Article 40 of the Constitution by passing the 73rd and 74th Constitution Amendment Acts 1992 followed by suitable back up legislation by the States which places the Panchayat

Raj Institutions (PRIs) in the rural areas and Urban Local Bodies (ULBs) in the urban areas as the two self governing institutions or, as is often called, third tier of government (the other two being the Union and the States). Further fillip to their development was given by the recommendations of the 11th and 12th Finance Commissions which recommended decentralization of administrative and financial powers to them and devolution of powers to these bodies. The 11th Finance Commission laid out a road-map for revamping local government accounts and their auditing. In that context, it envisaged a major role for the C&AG in the task of improved accounts keeping and effective audit vis-à-vis Panchayat Raj Institutions and Urban Local Bodies which we shall see in the subsequent Chapters. The historical importance of this piece of legislation can hardly be overstated. While the PRIs did exist in pre-93 India and frankly much earlier since ancient times, this legislation ensured their constitutional status and through mandatory provisions, it enjoined upon the states to establish a 3 tier panchayat system i.e. village, intermediate and district level. The distinguishing features of New Act are:

❖ All the seats in all these 3 levels viz. Village Panchayat, Taluk Panchayat and District Panchayat are to be filled in through direct election.

❖ Elections are to be conducted every 5 years—in case of premature dissolution of PRIs, elections should be held within 6 months and the elected members will serve the remaining 5 years term.

❖ Mandatory reservation to Dalits and Adivasis has been provided for at all levels of Panchayats (in proportion to their share in the population of the Panchayat).

❖ And finally there is a provision for mandatory reservation of one third of all seats in all Panchayats at all levels for women.

Two State Level Commissions to be created under the Act are (i) Independent Election Commission to supervise and manage elections to local bodies and (ii) a State Finance Commission every 5 years to review the financial position of local bodies and recommend principles that should govern the allocation of funds and tax authority to local bodies.

REORGANIZATION OF STATES AND UNION TERRITORIES

Some developments on the political front also had an impact on the organizational structure of Audit Department. For example, the Union Territory of 'NCT of Delhi' was specially reconstituted as a UT with Legislature with its own Consolidated Fund and 3 new States were created in the year 2000 namely, Chhattisgarh carved out from the erstwhile Madhya Pradesh (1 November 2000), Jharkhand from the erstwhile Bihar (15 November 2000) and Uttaranchal from erstwhile Uttar Pradesh (9 November 2000—Uttarakhand w.e.f. 1 January 2007). In these new States, separate offices of Accountants General were created. Railways, which is a big organization, also underwent massive organizational changes and seven new Zones were created by the Railways w.e.f. 1 April 2003. This also had impact on the audit department because for each of these zones a Principal Director level office was set up in graded manner.

BUSINESS PROCESS RE-ENGINEERING—COMPUTERIZATION

The rapid and the diverse growth in the field of Information Technology is possibly the most far reaching and lasting phenomenon of recent times. In a number of countries, now, government departments and agencies are increasingly and intensively using IT in their operations. The use of IT has largely been driven by the need to harness the opportunities associated with the growth of IT both in making manual operations more efficient as also adding value to services being rendered by the government and adding new services to the existing portfolio of services on offer.

The fast evolving sphere of Information Technology has created tremendous opportunities for Governments to use IT effectively in its operations. There has been a phenomenal growth in the processing and storage capacities of computer systems and an increased availability of new software applications to perform a wide variety of tasks and operations. Adoption of these provides tremendous scope for improving operations, adding value to services and the performance of new services. Some trends are specifically significant:

Development of IT-based networks largely powered by the development of the Internet, intranets, telecommunications and network computers, has created new avenues for several information services involving storage, searching, collecting and supplying information. The growth of networks has brought on its wake the spread of EDI, e-mail, e-commerce and e-governance. The emergence of object-oriented tools for systems development has made development of complex IT based systems quicker and simpler. Transactions in government are increasingly being processed electronically. With reinforced emphasis being put on good governance and accountability, public expectations from governments have risen. There is also an increasing perception that the government sector should match the efficiency and customer orientation of the private sector. In this context, use of IT holds considerable potential for achieving greater efficiencies in government operations. These have thrown up new challenges for Audit.

To meet the fast growing and varied challenges thrown by rapid developments in IT Sector sweeping across the Government and Public Sector, Audit geared up admirably. Starting as early as 1960s to cope with the computerization of certain activities of Railways including Railway accounts, the department has tried to keep pace with this fast changing technology by reviewing at short intervals its IT capacity and computerization needs. Exposure to auditing UN and other international bodies also made a big impact on the Department's computer and IT policies. The big push came in 2001 when C&AG set up International Centre for Information Systems and Audit (iCISA), a separate sub-office to deal with Information Technology related matters headed by a Principal Director/ Director General level officer. The current Information Technology Plan for IA&AD for the years 2003–2006, is a comprehensive Plan taking care of the assessment of Information Systems in IA&AD and the various application requirements both hardware and software in the variety of functions that IA&AD handles on A&E side and Civil Expenditure Audit side. IT Audit as distinct branch of Audit is also now on smooth path from where it can go up and up.

The foregoing captures some of the more important developments in present policy and administration that had a vital impact on IA&AD's organization and in creation of new frontiers of auditing due to these developments. At least with a couple of these, the Department is still struggling as these audits are evolving.

GLOSSARY OF ABBREVIATIONS

BIFR	Board of Industrial Financial Reforms
BoP	Balance of Payment
BRPSE	Board for Reconstruction of Public Sector Enterprises
C-DoT	Centre for Development of Telematics
CERC	Central Electricity Regulatory Commission
DoT	Department of Telecommunications
FDI	Foreign Direct Investment
IMF	International Monetary Fund
IRDA	Insurance Regulatory and Development Authority
MoU	Memorandum of Understanding
MTNL	Mahanagar Telephone Nigam Limited
NCT	National Capital Territory
NGO	Non Government Organization
SEBI	Securities and Exchange Board of India
SPV	Special Purpose Vehicles
TAMP	Tariff Authority for Major Ports
VAT	Value Added Tax
VSNL	Videsh Sanchar Nigam Limited

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Organisation of C&AG

The organisation that C&AG heads is known as Indian Audit and Accounts Department (IA and AD) which is his arm for carrying out the duties and responsibilities entrusted to him. While C&AG is a Constitutional Authority, all others working in the IA and AD are governed by service conditions applicable to their counterpart civilian Government employees. However, the C&AG is required to be consulted prior to issue of any instructions that affect existing service conditions or introduction of any new conditions of service. In the Headquarters of IA and AD, there are three posts of Deputy Comptroller and Auditor General (DAI)—all equivalent to Secretary to Government of India—of these posts, two viz. DAI and DAI (Commercial) existed prior to 1990, while a third post of DAI was created in December 2001. This post was created on the initiative of the then C&AG V.K. Shunglu who processed this post due to the momentous role cast upon the C&AG for the audit of and accounting of Panchayati Raj Institutions (PRIs). The Addtional Deputy Comptrollers and Auditor General (ADAI), numbering 6 at present, are functionally at the same level as DAIs and report directly to the C&AG. These 9 officers constitute C&AG's senior management team.

The office of the C&AG with its Headquarters at New Delhi is a vast organization being the single audit authority for the Central, State and Union Territory Governments and with its new role as the auditor of local bodies. As a result, his offices are located all over the country, in every State, Union Territory and in the headquarters of the functional areas of his audit like Railways, Defence, Commercial, and Post and Telecommunications. In 1990—the starting period of this compilation—the C&AG had 172 field offices. This included 97 headed by Principal Accountants General/

Principal Directors/Director Generals i.e. HOD level offices. There were 69 branch offices and 6 offices headed by Sr.DAG/DAG. During the year 2005–06, there were 219 such offices consisting of 136 HOD level offices and 83 branch offices. Besides there were 461 Resident Audit offices including Divisional audit offices, Construction audit offices, Store audit offices etc. (for Railway Audit offices) and branch offices for defence audit offices and commercial audit offices.

An Organisational Chart of the IA&AD is annexed.

Following is the functional break-up of C&AG's organization in relation to field formations.

CIVIL AUDIT OFFICES

There are five offices auditing the accounts of Union (Civil) Ministries and 41 HOD level offices in various states. In addition, there are 16 field offices headed by Sr. Deputy Accountants General for audit of local bodies in states.

A&E OFFICES

There are 20 offices of Accountants General (A&E) in various states. In addition, there are six offices of Sr. Dy. Accountants General (A&E) in some of states.

P&T AUDIT OFFICES

P&T Audit is conducted by Director General Post and Telecommunications, Delhi who has 16 branch offices at various stations.

RAILWAY AUDIT

There are 17 Pr. Directors of Audit conducting the audit of Indian Railways.

DEFENCE AUDIT OFFICES

There are three HOD level offices for carrying out the audit of Ministry of Defence, Services Headquarters and Ordnance Factory organization. Two of these offices are located at New Delhi and one at Kolkata.

COMMERCIAL AUDIT OFFICES

There are 12 offices of Pr. Directors of Commercial Audit and ex-officio Member Audit Board (MAB). These offices audit various Central Government companies and corporations. The State offices, called office of Accountant General or Principal Accountant General (Audit), conduct audit of State Government Companies and Corporations.

OVERSEAS AUDIT OFFICES

There are two permanent offices of Pr. Directors of Audit at London and Washington. The office at London carries out audit of accounts of High Commissioner for India in London and Missions and posts in Europe except the Missions in Turkey and Cyprus. They also audit missions in former CIS States. The office in Washington conducts the audit of accounts of Embassy of India, Washington, its supply wing and all Missions and Posts in North, South and Central America. Audit of Embassies in other countries is organized by Director General of Audit Central Revenues New Delhi by deputing audit teams to therse countries. In addition, there are two temporary offices one at Rome for the audit of Food and Agricultural Organization and the other at Geneva for the audit of World Health Organization.

NATIONAL ACADEMY OF AUDIT AND ACCOUNTS; REGIONAL TRAINING INSTITUTES, ETC.

National Academy of Audit and Accounts is located at Shimla for training of IA&AS officers. There are nine RTIs at various stations for training of other staff. There is an International Centre for Information Systems and Audit (iCISA) at Noida which is also the International Training Centre of the C&AG of India.

STAFF STRENGTH

IA&AD employed 60,352 persons in October, 1990 and in August, 2007 this number was 50,994. The following table reveals the category-wise position of offices and staff:

Year	Men-in-position		
	1990	2005	2007
IA&AS Officers (including other Group 'A' officers)	479	455	616 (as on 1 August, 2007)
Senior Audit Officers/ Audit Officers and equivalent	4,322	4,503	4635
Section Officers/ AAOs officers and equivalent	10,412	11,148	11506
Senior Auditors/ Auditors/ Clerks and equivalent	37,081	29,890	28539
Stenographer	805	729	543
Group 'D' offiicials	5,933	4,803	4166
Record Keeper etc.	1,320	3,397	989
Total	**60,352**	**54,925**	**50994**

In 1990 the Audit stream had 34,716 persons and the A&E offices had 24,212 persons on their rolls. In 2005, these figures were 30,055 and 23,498 respectively.

A remarkable feature has been the significant decline in the total manpower of the organization in 2007 as compared to what it was in 1990. This should be viewed against the back drop of the fact that during the intervening years, the C&AG has been entrusted with several additional functions (without shedding any of the original tasks). This reduction reflects a conscious decision not to go in for direct recruitment till the new processes, consequent on the substantial computersiation including the VLC that has taken place in the Department, are further streamnlined for which a work norms study is currently on. The additional work load on the C&AG's organization during this period is exemplified by developments such as creation of 17 independent offices to deal with the audit and accounting functions of local bodies, creation of 7 more HOD level offices as a result of creation of new railway zones, 3 new AG offices due to reorganization of offices in 3 States consequent to carving out of new States from them. Also, some new AG level offices were created by breaking up existing AG offices which was catering to more than one State. Besides these, new audit functions, which hitherto did not exist, devolved on the C&AG like audit of a considerable number of privatizations carried out, audit of about 5 or 6 regulatory bodies created during this period, vast expansion in the IT audit field and new role in audit of Local Bodies. All these functions were carried out by the

C&AG with the help of available manpower resources—in fact the existing strength itself was getting depleted.

It must be said, in passing, that it would have been perhaps difficult to cope up with reduced work force carrying out a larger work load but for three developments that helped in this process:

One was the induction of VLC for accounts compilation which automated several accounting operations. This has created scope for manpwoer savings in A&E offices which can be tapped for redeployment. The exact creation ofsuch savings is currently the subject matter of a study by a Task Force of the Department.

Two, introduction of a vast net work of computers in all offices added to the speed and efficiency in work methodology across the offices of the department.

Third, the audit system, which was earlier bound by an inflexible regime of prescribed quantum of checks and periodicity of audits, was loosened after September 1994 orders on Audit Planning. These orders gave freedom to the Accountants General to plan their audit in terms of their resources and priorities of audit thereby eliminating the concept of arrears in audit. This was made further flexible by refinements in auditing techniques like induction of risk based audit and scientific statistical sampling which gave the Department better quality assurance in their audit without committing large work force that was thinly spread across various small audits.

BUDGET

The comparative picture of budget provision for IA&AD depicting the position in 1990–91 and in 2005–06 is given below:

(Rs. in crore)

Category of Expenditure	1990–91	2005–06
Charged[1]	5.08	38.51
Voted	258.47	1,184.21
Total[2]	**263.55**	**1,222.72**

Even though the budget of the IA&AD, like all other Departments/ Ministries of Government of India is finally to be approved by Finance Ministry, a very healthy convention has been built, whereby the Finance Ministry, generally does not interfere much in the Department's Budget. A practice of prior consultation (informal) followed by a formal meeting of the Budget Officer of IA&AD with Secretary (Expenditure) exists when final figures are approved. There has not been a situation where a budgetary cut of significance has been imposed unilaterally by the Ministry of Finance. True, the IA&AD, in the tradition of being a very conservative and disciplined organisation in financial matters, has often, on its own, imposed budgetary curbs on the basis of Government of India orders on economy except where departmental key functions are at stake. For example, Travel Expenditure is an item that is vital to the functioing of the IA&AD, as audit functions involve vast travelling to the auditee offices for on-site audit—which is the major type of audit conducted. As a reduction in Travel Expenditure would greatly hamper the audit function, C&AG does not generally place curbs on the provision for Travel Expenditure because that would involve grounding of field parties.

BUDGET MONITORING AND CONTROL OVER EXPENDITURE

A beginning was made in 1993 to monitor the Budget through a computer based system to generate various managerial reports for effective monitoring of budget utilisation and expenditure in all the offices of IA&AD. The Budget Information System had the option of transfering data through floppy eliminating data entry at Headquarters. This system also facilitated the user to present the data in graphics mode such as pie diagrams, bar charts, etc. The Budget Expenditure Information System was upgraded and modified in 1998 by providing the users in field offices the facility of entering the monthly expenditure and probable expenditure figures. It provided extensive validation checks at the time of data entry. The package provided a module for taking back-ups at any point of time. It prepared a floppy for sending the same to Headquarters Office. The number of records and total amount were also stored in a file for reconciliation at Headquarters. It was further modified and designed as aWeb-based System in January 1999 to enable the field offices of IA&AD to enter expenditure details from their offices itself using the Internet facility. This web based computerised system provided several inputs for effective monitoring of budget utilisation and expenditure in all the offices of IA&AD. Also, this system generated various managerial reports for the purpose of decision making.

H.R. POLICY

As the IA&AD is essentially a knowledge based department its greatest asset is its work force. The HR Policy, therefore, becomes central to the organisation's development. Broadly, the H.R. Policy would cover recruitment, training, deployment of staff and opportunities, in general, afforded to the manpower to develop themselves and their skills in a congenial work place.

Changes in HR Policy became pronounced after the 2001 Accountants General's Conference where the subject was discussed under the caption 'Change Management' and several important recommendations made. The Conference made, among others, the following major recommendations :

1. Provide for promotions to IA&AS at an early age, based on Limited Competitive Examination conducted by the UPSC annually.
2. A system of secondment to private sector professional firms or to other SAIs may be considered for improving the portfolio of captive skills available to the Department.
3. Developing synergies with IGNOU or other Open Universities to impart training to our staff so as to enable them to obtain formal qualifications that are professionally relevant.
4. Review the role of UDCs (read auditor) in the Audit Offices. The recommendation was to reduce recruitment at lower level below Section Officer.
5. Recruitment Rules to be changed to provide for direct recruitment of SOs with knowledge of accounting and computers. Experts and Consultants may be inducted on contractual basis in areas where there are competence gaps and the powers to engage them may vest with functional ADAI in consultation with Budget Division.
6. On building up competence, the suggestion was that the career planning for direct recruit IA&AS through the initial 20 years may be done in the following manner :
   (i) First 2 years to work as AAG in an Accounts Office holding charge of VLC.
   (ii) After this, as DAG a stint of 4 to 5 years in Civil Audit Office to be mandatory.

(iii) After 9 years of service officers may be posted to Headquarters, NAAA or released for deputation.

(iv) After becoming Sr. DAG in the field offices, they will be posted to other functional areas of Audit viz. Receipt, Railway, Commercial, P&T, Defence and Administration etc. And finally, it was recommended that Managerial training before being promoted to the AG level will be very useful and for this purpose training at IIM Bangalore may be continued. It was further suggested in this meeting that officers should have had worked as AG of the State for minimum duration of 2 years before being considered for posting to Headquarters.

(v) It was also suggested that promoted officers should be better used and they would be more motivated if retained in the area of their specialisation.

7. The Conference also recommended financial assistance to officers for undertaking professional courses. On audit practice, it suggested that best practices in auditing be adopted and a code of ethics should be adopted based on the INTOSAI code of practice with appropriate modifications. It was also suggested that audit may be centrally driven by Addl. Dy. C&AGs in their functional areas.

8. Risk assessment particularly with respect to fraud should be made a regular part of C&AG audits.

This subject acquired a prominent place in discussions in C&AG Shunglu's tenure and some major decisions were taken during present C&AG V.N. Kaul's tenure. He took several steps towards formulating a comprehensive H.R. Policy as explained below. The process is still on.

HUMAN RESOURCES COMMITTEE

C&AG set up a Human Resources Committee in January 2004 for a 'fundamental review' of the organisational structure of the Department to see if any changes were required in order to fulfil the objectives of the Perspective Plan of the Department. The Plan had, under the group 'Human Resource Management' set a goal for formulation of a Human Resource strategy that addressed recruitment, promotion and staff evaluation issues. It had given detailed guidelines on recruitment, promotion and on professionalisation, re-deployment and motivation. The Accountant's General Conference of 2005 had also conducted a review on Human Resource Management in the context of Perspective Plan provisions.

The Human Resources Committee under the Chairmanship of DAI gave its Report in April 2004 and after studying various aspects of the Perspective Plan identified 5 areas where it thought organisational changes would be required to achieve the goal set out in the proposed Perspective Plan. These areas were:

- Performance Audit
- Audit of Local Bodies
- Information Technology
- Training
- Human Resource Management

On Performance Audit, the Committee suggested formation of a Core Group of persons in each Audit Office for specialisation in Performance Audit. The Committee also listed out jobs for which the Group Officers should be made responsible like creation of data base, studying the previous Inspection Reports, selection of topics, deciding on fast track interaction with the Government, providing inputs and finalising the Audit Reports. It also recommended that in the beginning RTI, Mumbai and iCISA should be the Training Centres for the Core Groups in Performance Audit.

Its second focus area was audit of local bodies where Committee said that a separate office for audit of PRI and LBs should be formed which will be manned by staff from Accounts & Entitlement (A&E) as well as Audit Offices on deputation basis. It also recommended that surplus staff in A&E offices would need to be identified. It suggested that training courses should be organised at RTIs for the staff to be deployed on this work.

With regard to Human Resource Management, the Committee made following further recommendations:

(i) 20 per cent of the vacancies in the IA&AS as notified to the UPSC should be reserved for fast track promotion.

(ii) For posting at Headquarters every IA&AS officer should have completed minimum 8–10 years in the Department.

(iii) The Committee did not favour necessity for setting up an independent Human Resource unit because most of the salient points in Human Resource Management had already been decided and were under implementation by different functional groups.

RECRUITMENT RELATED ISSUES

A decision was taken in 1993–94 that in view of economy instructions, issued by the Government of India from time to time and the ban imposed on creation of new posts, no new post in Group 'B', 'C' and 'D' cadre (except in the cadre of Section Officer) be sanctioned. A number of posts in these cadres were abolished in 2004 (1,957) and 2007 (4,300). A temporary general ban on direct recruitment to all the posts of Auditors/ Accountants/ Clerks is applicable since the year 2003 and in respect of Group 'D' since 2004. Only in respect of Section Officers, direct recruitment is being done in deficit offices.

CREATION OF EDP POSTS

A significant step towards computerisation in the IA&AD was creation of EDP related posts in the Department. The EDP posts were sanctioned in the field offices of IA&AD from the year 1994. Draft Recruitment Rules for non-gazetted EDP posts of Data Entry Operator, Console Operator and Sr. Console Operator and copies of model syllabus (question papers) for aptitude and skill test were circulated vide DAI's D.O. of February 1994.[3] The draft Recruitment Rules for Gazetted EDP posts of Data Processor, Sr. Data Processor and Data Manager and copies of the model syllabus for aptitude test and skill test were circulated vide DAI's D.O of March 1994. To make the syllabus of EDP posts more useful to the needs of the department as well as to rationalize the departmental examinations for EDP posts, the existing syllabus and departmental examinations etc. of EDP posts was revised vide C&AG's circular of December 2003.

ANNUAL DIRECT RECRUITMENT PLAN

In terms of the Department of Personnel and Training OM of May 2001 and June 2002, all the Ministries and Departments are required to prepare an annual recruitment plan for the ensuing year to fill up direct recruitment posts in Group 'B', 'C' and 'D' cadres. Information on this is called from the subordinate/ attached offices and quantum of direct recruitment to be made against each post or cadre is decided by a Screening Committee at the Ministry.

From 2003 onwards, IA&AD is, on the line of Govt. of India's orders regarding 'Optimization of Direct Recruitment to Civilian Posts', calling for the Annual Direct Recruitment Plan from field offices in Headquarters and taking decision here regarding the quantum of recruitment by each office. Accordingly, an annual recruitment plan for the year 2003 was received in the Headquarters from field offices and it was decided that during the year 2003, no direct recruitment to Group 'C' post was to be made, only exceptions being recruitment on compassionate grounds and recruitment of staff car drivers. Recruitment to Group 'D' posts was allowed to be made on case to case basis where the vacancy position was acute. Subsequently, the Department has issued formal instructions in October 2006 regarding outsourcing the duties and functions of Group 'D' cadre. Similarly, in the case of clerical cadre, new recruitment is restricted to EDP posts.

DAI'S COMMITTEE

In January 2003, C&AG constituted a Committee consisting of three DAIs to examine the under mentioned issues and make recommendations thereon:

- ❖ Qualifications for direct recruitment of Section Officers and Clerks which will include (a) feasibility of prescribing a minimum qualification in computers for Clerks and (b) desirability of prescribing Bachelor's Degree in Commerce as a minimum qualification for all directly recruited Section Officers.
- ❖ Filling up of vacancies in the cadre of Section Officers (SOs)/ Assistant Audit Officers (AAOs) in Civil Audit Offices : (a) Desirability of permanently absorbing SOGE passed staff from A&E offices in Audit Offices and (b) filling of vacancies through direct recruitment.
- ❖ Balancing of surplus manpower in the A&E and Commercial audit offices attributable to computerization, disinvestment and closure of public sector undertakings.

The Committee recommended revised qualifications for direct recruitment to various posts in Group 'B' (non-gazetted) and Group 'C' in the Department. These included:

(i) enhanced qualifications for direct recruitment for clerical cadre, for whom apart from Senior Secondary School Examination, diploma in computer applications from recognised institutes was added as essential qualification, for Accountant cadre, qualifications recommended included a B.Com degree or BBA degree or a graduate with Economics or Statistics as a subject. A graduate other than in these disciplines was eligible only if he had a professional qualification like CFA or Intermediate in CA, ICWA, etc. Similarly, for auditor's cadre, the same qualifications as for the Accountant's cadre were prescribed. For Section Officers (Civil), a M.Com degree or Graduate with professional qualification like CFA, CA, etc. or MBA was prescribed. For Section Officers (Commercial), the essential qualifications recommended were same i.e. M.Com or graduate with CA, ICWA, CS or B.Com with CFA or MBA with specialization in finance.

(ii) The Committee also recommended improvements in compensation package distinct from that applicable to corresponding posts in the Central Government "to attract and retain more professionally qualified personnel". An important recommendation made was that it might not be desirable to absorb in Audit office, SOGE passed staff awaiting promotion in the A&E offices, and for this purpose the Committee recommended a dispensation for personnel of A&E office to appear in the Civil Audit branch of SO Grade Examination for their eventual absorption in Civil Audit offices.

The Committee was in favour of the continuing the direct recruitment in the Section Officers cadre in deficit offices. Regarding the surplus manpower in A&E offices, the Committee came to the conclusion that redeployment of such surplus manpower as identified by individual offices may be considered on case to case basis. However, the Committee could not come to any definite conclusion about surplus manpower existing in Commercial audit offices as a result of disinvestment exercise of the Government.

FOLLOW UP OF THE RECOMMENDATIONS

The amendment in the relevant Recruitment Rules is contemplated for incorporating enhanced qualifications for Group C posts and SOs posts. The Section Officer Grade Examination (Civil Audit) passed staff of A&E offices are being considered for permanent absorption as Section Officers in the deficit Civil Audit Offices.

IDENTIFYING SURPLUS MANPOWER IN A&E AND COMMERCIAL AUDIT OFFICES

Regarding A&E personnel, the Commitee said that due to absence of norms for determination of staff in the post VLC scenario, which were still to be worked out and notified, a precise quantification of such surpluses in A&E offices was not possible. It took note of the fact that, on ad-hoc basis, some surplus personnel, as identified by individual offices in the year 2002 were already utilised for audit of PRIs, ULBs, etc. The Committee found the position somewhat fluid in the Commercial Audit Offices. It desired Commercial Audit Wing in Headquarters to separately undertake this exercise.

A Task Force is looking into the issue of revising the existing work norms in the post computerisation scenario in the A&E offices.

RE-STRUCTURING COMMITTEE

A Committee of DAIs also went into the restructuring required in IA&AD and after deleberating on the issue, made the following recommendations in January 2007:

(i) Greater and more focused supervision by Group officers.

(ii) Reorganization of the CASS wing and increasing the focus on audit of sanctions.

(iii) Redeployment of the CAP wing on field duty.

(iv) Increasing the number of trained audit parties in IT audit to keep pace with computerization at the auditee's end.

(v) Setting up of a separate Autonomous Bodies wing in each big AG office.

(vi) Introduction of a modified Controlling Office based audit in the Local Bodies Wing.

These recommendations made by Restructuring Committee were approved by C&AG. An important recommendation of this Committee was that restructuring in accounts (A&E wing) should be effected only after the BPR recommendation relating to work norms are implmented.

DIRECT RECRUITMENT OF SOs

The direct recruitment through Staff Selection Commission commenced from 1991 and since then against the total requisition for 2569 vacancies (upto 2005), a total of 2419 candidates were sponsored.

EXAMINATIONS

IA&AD, being a department of professionals, has systems of examinations for promotions, grant of incentives and for confirmation in service. As of now, the following are some of the major examinations being conducted by the department for the purposes noted against each.

(i) Sections Officers' Grade Examination

(ii) Revenue Audit Examination for Section Officers/ Assistant Audit Officers

(iii) Depatmental Examination for Accountants/ Auditors

(iv) Limited Departmental Competitive Examination for Clerks for promotion as Stenographer Ordinary Grade

(v) Limited Departmental Competititive Examination for Matriculate Group 'D' Staff for promotion as Clerk

(vi) Departmental Examination for Clerks in A&E Offices

(vii) Incentive Examination for Senior Auditors/ Senior Accountants

(viii) Incentive Examination for SOs/ AAOs of A&E offices

Section Officers Grade Examination (SOGE), earlier called SAS examination, is rated as a highly prestigious examination in Government Accounting and Auditing field. The Department had not, for a long time, revised the syllabus of this examination after 1984—the year restructuring took place in IA&AD. It was an outcome of this that a Committee was constituted in 1993 for revising the complete syllabus of SOGE but it came to the conclusion that there was no need for big 'shake up' and it recommended an additional paper on Computer Systems (Theory & practical) which got included for the SOGE held in November 2001. Some local papers relating to P&T Audit Branch also underwent revision in consequence of corporatisation of Department of Telecom Operations and Services into BSNL—a Government Company. In the Perspective Plan (2003–08) of IA&AD, as adopted in the XXII Accountant's General Conference and apporved by the C&AG of India apart from other goals, was the revision of syllabus of SOGE. A comprehensive revision was accordingly carried out in the SOGE syllabus in January 2007 for application from the examination to be held in November 2007. The examinations whose syllabus were revised included SOGE, Revenue Audit Examination for AAOs/ SOs and Incentive Examination for Auditors. Extensive revisions in syllabus were overdue and necessary in view of several important developments that took place in country's public policies affecting C&AG's scope of work and the new emphasis being accorded to more scientific techniques in Auditing like Risk—Based Audit and Statistical Sampling. Also Performance Audit techniques have undergone a paradigm change in techniques and content. The new syllabus taking into cognizance these factors has, amongst others, introduced, besides a paper on Performance Audit, a new paper on Statistics and Statistical Sampling.

The revision of syllabus for Departmental Examinations for Auditors/ Accountants is currently being attempted by a Committee of 3 Group Officers.

A decision was taken in October 1996, not to conduct the SOGE in offices where the officials who had passed SOGE upto November/ December 1994 batch were awaiting promotion as section officers. On that basis 22 such offices were identified and SOGE was stopped in these offices. In 1997, for the same reasons SOGE did not take place in the offices of AG (A&E)-I, Maharashtra, Mumbai, AG (A&E)-II, Maharashtra, Nagpur. In 1996, court cases were filed by eight offices of A&E against the decision of not conducting SOGE in their offices. The Hon'ble Court, however, refused to grant any stay. However, in 1997 when AG (A&E) Maharashtra Nagpur candidates approached the Hon'ble Court, a stay was granted by the Court and candidates were allowed to appear in the examination. The matter is regularly reviewed and with the passage of time, gradual clearnace of backlog has taken place and the SOGE was restored in these offices. In 2006, due to stagnation in the promotion of SOGE passed officials in 16 A&E offices, the SOGE did not take place in these offices. There was however, no court case in any of these offices.

INCENTIVE SCHEME FOR HIGHER QUALIFICATIONS/ PROFESSIONAL QUALIFICATIONS

Incentives for acquiring higher or additional professional qualifications were prevalent in IA&AD since 1961. The normal mode of incentive was to give advance increments on acquiring higher qualifications.

In 1993, Government of India replaced the existing increment based incentives to lump-sum incentives. In pursuance of the recommendations of the Fourth Central Pay Commission, a Centralized Committee was constituted to draw a list of qualifications that would entitle sanction of lump-sum incentives, and also to lay down standard scales of incentives for each type of qualification. The grant of incentive in respect of the qualifications is subject to fulfilment of the criteria as mentioned in DOPT's OM dated 28 June 1993. The acquisition of the qualification should be directly related to the functions of the post held by him/her or to the functions to be performed in the next higher post. There should be a direct nexus between the functions of the post and the qualification acquired and it should contribute to the efficiency of the government servant. The quantum of incentive is uniform for all the posts irrespective of their classification or grade. No financial assistance is however, given to any one for pursuing these courses.

The Department in their circular of December 2000 brought out a list of all the qualifications eligible for grant of lump-sum incentives. The list contained eight courses viz. Intermediate and Final examination of the Chartered Accountants (CA), Cost & Works Accountants (ICWA), Company Secretary (CS), Chartered Financial Analyst (CFA), Post Graduate Degree/Degree/Post Graduate Diploma in Computer Science/Computer Application/ Information Technology and Diploma or equivalent in Computer Science/Computer Application/Information Technology. These incentives were made applicable with effect from 9 April 1999 presumably because the DoPT in their OM of 9 April 1999 had brought out a fresh scheme of grant of lump-sum incentive on acquiring fresh qualifications on the basis of recommendations of Fifth Pay Commission.

XXI Accountants General Conference, acknowledging the rapid changes in audit environment made recommendations under Change Management for financial assistance to IA&AS officers for undertaking professional courses like Certified Information System Auditor (CISA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE) etc. Based on these recommendations, a circular was issued in August 2001 granting reimbursement of registeration fee and examination fee for undertaking these professional courses by the IA&AS officers after their probation period subject to certain conditions. The scheme was extended to Group 'B' and 'C' employees of IA&AD vide Headquarters circular of 31 October 2001 for certain professional courses.

PROFICIENCY IN REGIONAL LANGUAGES IN THE IA&AD

The C&AG's jurisdiction being across all the States and Union Territories in the country, the question of knowledge of local regional or official language of the States/ Union Territories concerned becomes a material factor specially in the case of IA&AS officers who are transferable to any state in the country and also in case of directly recruited Section Officers through the Staff Selection Commission who are eligible for posting to any Accountant General's office where vacancies exist. The issue of knowledge of regional language by the IA&AS officers was first voiced as far back as Baksi's time (1972 to 1978). But nothing concrete came out. The question was again discussed in the Senior Officers' Meeting during the time of C&AG, Shunglu and, as a result, in November 1999 C&AG's office issued instructions regarding incentive scheme for IA&AS Probationers for successful completion of language training in Accountants General offices. Under this scheme, the probationers, when they are posted to the office of Principal Accountant General/ Accountant General (A&E) for field training, are required to undergo training in regional language of that State and on acquiring proficiency or passing the examination duly recognised by a Board or University or Government are declared successful. Where such institutional arrangements do not exist, a test of knowledge in the regional language would be taken by the concerned Accountant General and on being successful they would be given an incentive of Rs.5,000/ Rs.4,000/ Rs.2,000 depending on the grades of proficiency they have achieved.

By this system, the IA&AS officers would hopefully acquire knowledge of atleast one regional language and when posted to the State of that language, it would help them very much.

The other category involved in this context, was directly recruited Section Officers who can be posted to any office across the country. While the first two competitive examinations in 1991 and 1993 were conducted by Staff Selection Commission on zonal basis but from 1997 onwards competitive examinations are conducted on All India basis. In both these cases, however, there are always chances that the candidate belonging to a particular state or region may get appointment in another State where the official language may be different from the language of the candidate. In the case of Civil Audit Offices, the cadre of Section Officers and Group 'B' is not transferable outside the State. A person working as Section Officer/ AAO or AO has to perform extensive local audit inspection to check the records in the State Government's offices, practically all of these records in most of the States are in their local official language. Therefore, a good knowledge of regional language of the concerned State becomes necessary in the discharge of their duties. The Department, therefore, felt it necessary that such candidates acquired working knowledge of regional language of concerned State to properly discharge their duties. It was, therefore, decided that in the offer of appointment itself a clause should be added to the effect that during probation the candidates shall acquire knowledge of the official language of a State where they were appointed unless they already had passed an examination of at least matriculate standard in that language. In case, there were more than one language in use in the State, the probationers were required to learn the formally designated official language of the State. No such requirement, however, exists for persons posted to Audit Offices conducting audit of Central Government offices.

Since January 1999, the condition of passing the Regional Language Examination is also applicable in respect of those Group 'C' officials who join the department as a direct recruit.

ASSOCIATION MATTERS

Government of India, Ministry of Personnel, Public Grievances & Pensions, Department of Personnel and Training in November 1993 introduced CCS (RSA) Rules, 1993 restricting the membership of association to a distinct category of Government Servants having common interest.

In the IA&AD, a conscious decision was taken in consultation with DoPT in April 1995 to form Associations at the field level for various categories of employees. Three categories of employees on the audit side and four on the A&E side were identified for information of unit/field level Assocations.

Category	A&E offices	Audit offices
I	AOs/Sr AOs	AOs/Sr AOs
II	SOs/AAOs	SOs/AAOs
III	Group 'C' & 'D'	Group 'C' & 'D'
IV	DAOs/DAs	-

Since enforcement of CCS (RSA) Rules, 1993, there are 232 number of Associations (as on 30th September, 2005) duly recognized which have been formed in the field offices of IA&AD. Details of these Associations are given as under:

Category	Audit Offices	A&E Offices	Total
SrAOs/ AOs—Category-I	31	17	48
AAOs/ SOs—Category-II	49	26	75
Gr.'C' & Gr.'D'—Category-III	70	27	97
DAOs/ DAs—Category-IV		12	12
Total	**150**	**82**	**232**

Earlier, the Department Council of the IA&AD had been set up under the JCM Scheme of Government of India. In the Departmental Council the Official Side had 10 members and the Staff Side had 16 members. The distribution of Staff Side seats was as under:

(i)	All India Audit & Accounts Association	:	12
(ii)	All India S.A.S. Association	:	02
(iii)	All India Federation of Divisional Accountants Association	:	02
	Total	**:**	**16**

At present, five duly recognised Federations are in existence in the IA&AD (recognised in June/July 2004). Consequent to expiry of period of their recognition, these Federations have been granted recognition for a futher period of five years from the dates of grant of such recognition in the year 2007. The Departmental Council has been revived and its XXVIII Ordinary Meeting was held on 25th August 2006. The seat sharing arrangements amongst these Federations is given as under:

Name of the Federation/Association	Share out of 20 seats in last Council	Share out of 20 seats in ensuing Council
All India Audit & Accounts Association	7 seats	9 seats
National Audit Federation	3 seats	3 seats
All India Federation of Divisional Accounts Officers & Divisional Accountants Association	1 seat	1 seat
Reserved (un-allocated)	9 seats	7 seats

JCM Office Council in field offices of IA&AD have also been set-up w.e.f. December 2005.

IA&AS OFFICERS ON DEPUTATION/ FOREIGN ASSIGNMENT, ETC.

The sanctioned strength of the IA&AS Cadre was 673 in 1990 (as on 1 July 1990) and 694 (as on 1 August 2006) in 2006. The reserve posts viz. Deputation Reserve (120 for 1990 as well as 2006) and Leave + Training Reserve accounted for another 180 posts (both 1990 & 2006). Adding the two the total sanctioned Cadre strength was 853 in 1990 and 874 in 2006. The officers in position were 527 in all (on duty + deputation, Training and Leave Reserve) in 1990 and 613 in 2006. Since 1990 full Deputation Reserve has not been filled in. But the discerning feature of this period has been a significant number of officers on foreign assignment. This figure for 1990 was negligible, while in 2007 (1 March 2007) it was 24. The large number of persons on foreign assignment is a distinct feature of post UN auditorship of SAI India. But for this, the number of officers on deputation would have been far less than the deputation reserve.

ATTRITION IN IA&AS

During 1990 to 2005, 54 IA&AS Officers resigned and 70 voluntarily retired. Out of 247 officers directly recruited during the period, 31 left service for various reasons. The data regarding attrition in SOs cadre is not available in Headquarters.

Attrition, as far as voluntary retirements are concerned, is not bothering the Department but, the rate of attrition represented by direct recruit candidates in the Academy leaving for other Services after their UPSC attempt is a cause of worry. In some years, practically half the batch was out on this ground.

DELEGATION OF POWERS IN IA&AD

The Delegation of Financial Powers (DFP) Rules issued by Government of India from time to time convey the Government instructions on various administrative and financial powers of Union Ministries/ Departments and Heads of Departments. Such delegation was issued first in 1958 and subsequently, a comprehensive revision was done through '1978 Delegations of Financial Powers Rules'. As far as Indian Audit and Accounts

Department (IA&AD) is concerned, it is exempted from the DFP rules issued by Government of India and the IA&AD issues its own rules of 'delegation of powers' under article 148(5) of the Constitution. These are contained in C&AG's MSO (Administrative) Volume-II. However, the delegations issued by Government of India is a kind of benchmark for the Department for revision of its own powers. Therefore, when Ministry of Finance in October 2001 carried out some amendments in the Delegation of Administrative and Financial Powers, the Department followed by discussing further delegation of powers in the Shimla Conference held in December 2001, where C&AG and his senior Management Team and other concerned officers discussed the matter. Based on these discussions, more liberal delegation of powers was issued by the Department in December 2001.

Since the Ministry's order of 2001 had also been circulated by DG (Audit) to field offices in the usual normal course, a doubt had arisen whether the Ministry's orders were applicable to the Department. In the light of legal position brought out above, Headquarters issued a clarificatory instruction on 1 March 2002 saying that delegation of financial powers within IA&AD was governed by specific directions issued from time to time by Headquarters office and as contained in C&AG's MSO (Administration) Volume-II. The offices were, therefore, informed that the circulation of Government of India delegation to the field was meant only for information/ guidance of field offices that were auditing Central Government transactions and did not convey any authority to them for their use as Audit department functionaries.

INTERNAL OVERSIGHT

IA&AD has, of late, been giving a great importance to strengthening internal oversight functions to not only improve the systems and processes but also enhance the quality of audit reporting and, in general, adding value to the various functional groups in field offices. Broadly, these oversight services can be clubbed into three:

(i) Inspection of field offices

(ii) Peer Review of field offices

(iii) Internal Audit within the field offices

While the first two functions are performed by the C&AG's office, the third function, namely internal audit, is located within the AG (or equivalent) office in the field office under the direct charge of the Accountants General (by whatever designation he is called in the field).

INSPECTION OF FIELD OFFICES

The field inspection by Headquarters is conducted under the direct charge of Principal Director/ DG (Inspection) who functions under the overall supervision of DAI.

PEER REVIEW IN C&AG'S ORGANISATION

The most important development in Inspection Wing has been that, apart from inspection, the system of Peer Review was introduced from 2004–05. In that year, 4 offices were selected for Peer Review. In the succeeding years, the numbers of offices subjected to Peer Review has gone up to 13 (2005–06) and 21 (2006–07). For the ensuing year (2007–08), it was planned to subject 25 offices to Peer Review. In the initial phase of the Peer Review, only Civil (Audit) and Civil (Accounts and Entitlement) Offices were selected. Now, the offices of other wings like Commerical Audit are being selected. Eventually, every office will be subjected to Peer Review.

The Comptroller and Auditor General has formed a Peer Review Board as a kind of broader standing arrangement to oversee the Peer Review work in the Department. It is chaired by Dy.C&AG with two other Dy.C&AG and additional Dy.C&AG as members. Besides several other departmental officers, one non official member either from Institute of Public Auditors of India or a nominee of the President of the IPAI is also nominated.

Objectives: Peer review aims at strict adherence to professional accounting and auditing standards and best practices. It, inter-alia, seeks to review the following main aspects viz. planning and compliance with technical standards of the department.

The arrangements for Peer Review, as they exist today, are that every year a programme is laid down as to which offices will be subjected to Peer Review and based on that, the selected offices are supplied with a format for indicating the general profile of the office—accompanied by a model check list for Peer Review. After these formats are filled in and in turn are sent to the team leader of Peer Review group, field visits are undertaken. The field team consists of an AG or above level officer as team leader and a group officer if required by the team leader and generally four Assistant

Audit/Accounts Officers, two from the office of team leader and one each from Inspection Wing of Headquarters and ITA wing of the office under Peer Review. At Headquarters, DG (Inspection) is the overall incharge of the Peer Review work and Director, Peer Review is Secretary of Peer Review Board who renders all assistance to the Peer Review group.

The process of Peer Review involves three stages namely-planning stage, execution stage—that is the field visit to the concerned office, and finally, reporting stage. Time frames have been laid down for each stage and each process.

The Peer Review Group will generally look into the following broad areas:

For Audit Offices, the aspects to be reviewed are:

- ❖ Performance Measures, Effectiveness, General Quality Control and General Management Practices.
- ❖ Financial Statement Audits [Regularity (Financial)Audit]
- ❖ Performance Audits/ Reviews
- ❖ Transaction Audit [Regularity (Compliance) audit] and application of VLC system in auditing services.

For Accounts Offices, the aspects to be reviewed are:

- ❖ Performance Measures, Effectiveness, General Quality Control and General Management Practices
- ❖ Accounts, GPF and Pension Wings
- ❖ Reveiw of application of VLC system in accounting services.

The report of the Peer Review Group is processed at the Headquarters for submission to C&AG through DG (Inspection). The review report, amongst other things, also proposes grading of office on a one to ten scale. The report of the Peer Review is put up to Peer Review Board also which reviews the report and monitors the signals received from field offices for both compliance and rectification purposes. It also recommends to C&AG the measures to be taken to improve the effectiveness and efficiency of the field offices.

The system of Peer Review is now about 3 years old. A review of the system to assess the effectiveness of the Peer Review in improving matters may be on the anvil. However, some of the features that have been taken to strengthen the Peer Review are noted below:

- The selection of office for Peer Review and the reviewing officers is done by the Deputy C&AG i.e., at the very senior level of the management.
- The Peer Review is not reciprocal that is the office reviewed will not be given the job of Peer Review of the reviewer office to avoid any offices' *quid pro quo*.
- Big offices namely Civil Accounts and Entitlement and Civil Audit offices have been subjected to Peer Review; now, other offices are being subjected to Peer Review. Based on the total experience of the offices, the achievements could be appraised better.

Finally, a question often raised is about the difference between the Peer Review and the Inspection by the DG (Inspection). The difference between the two is in the composition of the review team and in the nature and functions of the two, the time they spent in the review of office and contents of the work which they do and that done by the inspection team of the DG(Inspection). In general, Peer Review group looks into the higher profile aspects of work having a vital bearing on quality of performance. They also make suggestions for improvement in the quality of performance.

The difference between the two has been summed up thus: while the Inspection Wing looks at the efficacy of the field offices as far as accounting/audit processes, administrative management, maintenance of initial records, etc. is concerned, the Peer Review is overwhelmingly concerned with the qualitative aspects of the various functions of AG office, in particular, about their accounting/auditing and reporting arrangements.

INTERNAL AUDIT IN THE IA&AD

The Department recognized the importance of Internal Auditing as an independent appraisal function from the early days when it set up internal audit section in various AG offices called Internal Test Audit(ITA) Sections. These sections were very small sections consisting of hand picked persons who had competence, knowledge and experience to scrutinize the work of the various other functional sections of the AG office. In fact, the C&AG's Manual 'MSO (Audit)' compared their functions as analogous to those of the Pr. Director of Inspection. In order to have this functionary as an independent entity, there was a working rule that, to the extent possible, ITA will be manned by an officer from another AG office.

However, ITA though very useful was still performing as a check office for the work done in various sections. Over the period, with changing perceptions of audit and its developments into areas like Performance Auditing and more recently to new major audits like IT Audit or Privatization Audit, Regulation Audit, etc. required that the role and scope of Internal Audit also was reviewed. The void was filled by the present Comptroller and Auditor General, Kaul who brought out a comprehensive Model Internal Audit Manual in February 2006. This Manual in fact, is the first Manual issued by the Headquarters office on the subject and it lays down the basic framework and guidance for the internal audit function in the field offices of IA&AD. In the Prologue to the Manual, it has been made clear that these guidelines are illustrative and Field Offices shall prepare their detailed Internal Audit manuals in conformity with the provisions of this Manual. The Manual defines the role of internal auditing to provide reasonable assurance that management's:

- ❖ Risk Management system is effective.
- ❖ System of internal control is effective and efficient.
- ❖ Governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability.

A look at the subjects in the Manual will indicate the coverage. It has provided:

- ❖ standards on Internal Audit;
- ❖ staffing of Internal audit ;
- ❖ role of risk in Internal Audit ;
- ❖ audit evidence and techniques ;
- ❖ use of sampling in Internal Audit;
- ❖ planning and procedure for Internal Audit;
- ❖ internal Audit of various groups such as Administration group, Accounts group, VLC and Computerization group, Funds group, Pension group, Pay and Accounts office and Internal Audit of Audit offices.

The manual also devotes a Section to the relationship between Internal Audit and Directorate of Inspection. It has also dealt with the relationship between the Internal Audit and quality assurance.

Finally, in the Appendices, the manual has included International Standards on Internal Audit.

WHO AUDITS C&AG?

A question often asked is who audits C&AG? There have been several demands that an external auditor should audit the C&AG's organisation. This practice prevails in some countries.

As far as SAI India is concerned, this question was examined when the C&AG's (DPC) Act was being drafted. The opinion of Attorney General (M.C. Setalvad at that time) was obtained. Setalvad in his opinion said that the clear implications of the relevant provisions of the Constitution being that the powers of audit in relation to all accounts of the Union and the States were vested in the C&AG, 'any provision which entrusts audit functions in respect of accounts of the IA&AD, which are part of the accounts of the Union, to another authority would be unconstitutional'. Therefore, no such provisions could be made in the C&AG's (DPC) Act as in the case of UK National Audit Act.

This legal complexity, however, has not prevented C&AG from approaching this issue seriously. There is a system of auditing C&AG also. C&AG's auditor of sanctions was created first in the Ministry of Finance. Subsequently, the function was entrusted to an office within C&AG's organisation. This function is entrusted to the office of the Director General of Audit, Posts & Telecommunications. He is:

- Auditor of C&AG's sanctions
- Auditor of AG's sanctions
- Auditor of the PAOs of IA&AD

He has the advantage of having a branch office practically in all the major States of India—this facilitates his task as C&AG's auditor.

Earlier some PAOs of IA&AD were audited by offices of C&AG other than DGAP&T but by 2001, all the PAOs were brought under the audit of DGAP&T.

In 2000, C&AG desired that a 'Review Report on the working of PAOs of IA&AD' for the period 1998–2000 be prepared by DGA, P&T and put up to him.

The Report, modelled on the 'Review of Treasuries' conducted by State Accountants General, highlighted some of the common omissions in the audit of PAOs. For example, some of the primary requirements for drawal of bills, sanction of second TA Advance, recovery of advances, maintenance of broadsheets were not being highlighted in the Audit Report. ADAI (P&T) pointing these out to DGA, P&T in August 2001 stated that since DGA, P&T audit was an independent audit, it should be possible for it to 'ensure that serious irregularities are flagged and pursued'. The letter also asked DGA (P&T) to prepare the Review Report on Audit of PAOs for every financial year and submit the same to DAI, who is the Chief Accounting Authority of the Department, not later than last working day of July of the succeeding year.

This Review Report is a regular annual feature now.

PROMOTING NEW INSTITUTIONS

Institute of Public Auditors of India (IPAI): IPAI was established in 1996 as a society under the patronage of the Comptroller and Auditor General of India to further the cause of Government audit profession, in particular with reference to accountability systems and procedures. The declared objectives of the IPAI include the following:

(i) to advance the discipline of public auditing, public finance, public sector accounting and to foster financial control and accountability;

(ii) to contribute towards effective accounting and auditing arrangements in various areas of activities of central and state governments, public enterprises, public institutions, government aided voluntary organisations, local bodies like Panchayati Raj Institutions, muncipalities, etc.

(iii) to undertake and conduct studies, workshops, advisory services and research in matters relating to public auditing and to recommend standards thereof.

(iv) to promote highest standards of professional competence in the area of auditing and accounting.

During its existence of about 11 years, the Institute has been able to achieve impressive results and success. Rightly, in the initial years, it gave priority to consolidating its financial position so that it could stand on its own. While the initial years were devoted to this consolidation through advisory services assignments, the Institute subsequently opened up to several areas of high end advisory services, research, publication of journal and training. It has recently signed a Memorandum of Understanding with a well known open University regarding conduct of professional examination. It has organised several high level Seminars and Round Table discussions on important contemporary topics, including one on Accountibility of PRIs and DRDAs. The deliberations in this Seminar paved the way for a bigger seminar in Shimla organised by C&AG. The inputs of these Seminars had an impact on final policy on the PRIs and Urban Local Bodies as contained in the XI Finance Commission Recommendations. Other notable seminars have been on Govenment and Voluntary Sector Partnership in Development and on Regulatory Bodies. Its contribution in training the PRI personnel was commendable and it has assisted C&AG's organisation in imparting training to PRI personnel and in the perparation of accounting documents. The Institute brings out a Journal called Indian Journal of Audit and Accountibility which has received general appreciation from the readers.

However, an area where it is yet to establish a mark is to establish itself as a serious think tank in the field of auditing and accountability—something which everybody looks it to be. Hopefully, with increased emphasis now being given to areas like research, publications, conduct of professional examinations etc. the institute would be, in near future, an appropriate forum for providing independent, objective and credible opinion and information on subjects of relevance.

Audit Advisory Board: Two other institutions that were created during this period of history deserve special mention. One is Audit Advisory Board which is an institutional mechanism established in March 1999, to provide C&AG with inputs for audit planning and for setting overall objectives. A detailed account of this body is given in Chapter 4 on Developments in Auditing.

Government Accounting Standards Advisory Board (GASAB): The second institution of great relevance and importance is GASAB set up in August 2002, headed by Dy. C&AG and having representatives of all other major Central Accounts Service and other stakeholders. A detailed discription of this is available in Chapter 17 on Accounts.

SOME OTHER DEVELOPMENTS

Right to Information Act 2005

C&AG has appointed Public Information Officers (PIOs) to assist in discharging the duties under Right to information Act 2005 in the Headquarters office and all the field offices.

The information given in this area is for the purposes of dissemination under the Act. The detailed procedure for seeking information under the Act is given below:

1. *Procedure of Filing of Application*: A person, who desires to obtain any information under this Act shall make a request in writing or through Electronic means in English or in Hindi along with prescribed fee.

2. *Format of Application Form*: The applicant should clearly mention his/ her name and address for correspondence, telephone No. (Optional) and specific information which he/ she wants.

3. *Fee*: (a) Fee may be made in Cash against proper receipt or by Banker's Cheque/ Bank Draft/ Indian Postal Order in favour of PAO, AG (Audit), Delhi.

(b) Quantum of Fee:- A request for obtaining information under Sub-Section(1) of Section 6 shall be accompanied by an application fee of Rupees Ten by way as mentioned at a) above. For providing the information under sub section (1) of Section 7, the fee shall be charged at the following rates:

- (i) Rupees two for each page created or copied (A-4 or A-3 size paper)
- (ii) Actual charge or cost price of a copy in larger size paper
- (iii) Actual cost or price for samples or models and
- (iv) For inspection of records, no fee for the first hour, and a fee of Rupees Five for each subsequent hours.

4. *Arrangements for Receipt of Application & Fee*: Arrangement for receipt of Application and Fee has been made at the Reception Counter of C&AG Office main building. An applicant can also remit the requisite fee as per procedure at 3(a).

5. *Appeals and Appellate Authorities, etc.*: Appeals against the decision of CPIO can be made before the Appellate Authority i.e. DAI in the C&AG Headquarters and Pr. Accountant General/ Accountant General/ Pr. Director of Audit in other offices of IA&AD in the States. These are available on the website of C&AG.

DISASTER MANAGEMENT AND CONTINUITY PLANNING IN IA&AD

C&AG instructed in September 2004 that there should be a 'Disaster Management and Operational Continuity Plan' for the offices in IA&AD. Accordingly, a micro level 'Disaster Management Plan' for offices of IA&AD and 'Guidelines for Formulating Safety Norms' were prepared by Estate Wing of Headquarters by evaluating the micro level plans issued by the Ministry of Home Affairs and Ministry of Agriculture etc. Phase-I (September 2004) contained detailed instructions on 'Disaster Management Plan' and 'Guidelines for formulating safety Norms', setting up of a Disaster Management Committee (DMC) in each office, to assess risk areas for probability of occurrence of disasters, to formulate safety norms, to establish a trigger mechanism and to handle disaster situation to bring in normalcy quickly. Information System Wing (IS Wing) of Headquarters office issued IS Security handbooks which lays down the various best practices ensuring the security of the IT infrastructure of the department. Further instructions for implementation of the security related instructions contained in the Security Handbook were issued to all offices in IA&AD in January 2004. A draft 'Back-Up' policy elaborating details of System Security and Continuity was also circulated by IS Wing to some select senior officers of the Department for response.

In Phase-II (November 2004), field offices were divided into six regions i.e. Eastern, Western, Northern, Southern, Central and North Eastern and Principal Accountants General (Audit), West Bengal, Maharashtra, Mumbai, Punjab, Tamil Nadu, Madhya Pradesh and Assam respectively were nominated as coordinator to devise an operational continuity plan for the region as a whole in consultation with other IA&AD offices of the region. On the basis of Operational Continuity Plan prepared by one region i.e. Southern Region, a model Operational Continuity Plan to ensure installation of suitable warning and security system, maintenance of uninterrupted communication system, create awareness among the staff about the Disaster Management Plan, publishing of contact numbers of responsible authorities, arrangement for periodical inspection by Fire and Rescue Department, conducting of mock drills and identification of critical functions was prepared by Headquarters and issued to the remaining five regional heads in December 2005 with directions to evolve suitable Operational Continuity Plan for the respective region in consultation with all

IA&AD offices under the region and to adhere to the instructions given in the model plan. Field offices were directed to submit quarterly reports in that regard.

GENDER COMMITTEE

In July 2004, the C&AG constituted a sub-Committee[4] to dwell on the gender issues that are increasingly becoming important as more and more women are joining the working environment. The Committee was expected to formulate significant changes/ contributions that would make the working place more satisfactory for women employees.

After several meetings of the sub-committee, a Gender Perspective Plan 2007–2012 was prepared by the Sub-Committee and approved by the Comptroller and Auditor General of India in February 2007. The main objective of this Gender Perspective Plan was to make the working places in the Indian Audit and Accounts Department more satisfactory for the working women. Specific action points, nodal officers and time frame were prescribed therein for each of identified categories of policies viz, (i) Strong Policy on Sexual Harrasment; (ii) an enabling enviroment for working mothers and fathers; (iii) RTIs/ RTCs/ In-house Training to run courses on Gender Auditing (iv) having a Gender expert advising Performance Audit Teams on various sectoral audits; (v) encouragement to members of IA&AD to participate in gender development programmes/ conference in the country; (vi) capacity building on bringing out attitudinal changes in work enviroment; and (vii) affirmative action on all recruitments, promotions, trainings, skill developments and bridging skill gaps.

The Committee having fulfilled its assignment was disbanded in February 2007. However, the implementation of the specific action points, etc. were to be monitored at the level of DAI.

INFRASTRUCTURE FACILITIES

The period covered in this compilation will stand out for unprecedented growth in the infrastructure facilities. Today, if IA&AD can boast of some excellent office buildings which are both aesthetically great and functionally very efficient, the credit for this goes to the personal interest taken in this activity by the concerned Comptroller & Auditors General. To monitor the timely completion of various on-going works projects in field offices including Headquarters office, a separate wing named 'Works &

Projects Wing' headed by a technical person, generally an Executive Engineer or Superintending Engineer from C.P.W.D. on deputation, designated as Deputy Director/ Director, was created in Headquarters office. The main functions of the wing are to examine various works estimates received from field offices, obtain the administrative approval and financial sanction of the C&AG on the estimates, its timely communication to field offices and monitoring of the projects. The fact that Comptroller and Auditor General has full powers to accord administrative approval for civil works of the Indian Audit & Accounts Department, is a contributory factor to the timely completion of most of the buildings in the Department. C&AG's power to sanction buildings are laid down in Manual of Standing Orders (Administration) Volume II as supplemented by various other orders from Headquarters office.

During this period, various new office buildings, buildings for RTIs and residential buildings were constructed. Both, C&AG V.K. Shunglu and C&AG V.N. Kaul showed great interest and initiative in boosting the infrastructure facility in the Department. Notable additions were made by the construction of several new office buildings as also residential colonies in cities where the officers and staff faced severe difficulty in having access to housing facilities. Some of the notable buildings that were constructed during this period include, a new complex comprising International Training Centre, hostel and residential quarters named as 'International Centre for Information System & Audit' (iCISA) having an area of about 10 acres of land constructed in Noida (UP) in 2002, and the National Academy of Audit and Accounts building in Shimla (2001). Some other field offices buildings constructed are shown in the Annex A and some important projects initiated during the past years and where work is in progress are shown in Annex B.

The existing main C&AG office building was constructed during 1956–58 and Annexe Building during 1971. During the past 10–15 years, activities of the Department increased manifold and various wings were created in Headquarters office and it became impossible to manage all the wings within the existing office space. To solve this problem, C&AG decided to have a new office building. A new plot of land measuring about 2.5 acre at Deen Dayal Upadhyay Marg, New Delhi was allotted to the Department in April 2004 for constructing new office building of the office of the C&AG of India. The foundation stone of the building was laid by

Dr. A.P.J. Abdul Kalam, President of India on 19 October 2006. The construction work of the new office building is in full swing. The new office building is going to be a model building with Building Management System (BMS).

A successful attempt worth mentioning was the extensive renovation of the Treasury Building in Kolkata which houses the office of Principal Accountant General / Accountant General (A&E). Treasury Building has a historical significance and is more than 100 years old. It is classified, therefore, as a heritage building and getting such a building renovated was a herculean task which required clearance from many quarters and needed careful handling by the architect and the civil engineers.

But the buildings are only one part of the infrastructure; an important, perhaps more important factor, is the working environment in the offices. In this regard from 1990 onwards conscious efforts were made to modernise the offices with computer facilities, modular seating arrangements, provision of neat and hygienic canteen facilities, supply of purified drinking water, removal of cluttered waste paper etc. from the offices and providing for well lighted sections and corridors. Alongwith these in many offices excellent flower plantation and green lawns also came up. All these contributed towards a much better working place which was conducive to efficient working that definitely helps in better output.

One of the major worries of a transferrable cadre like IA&AS was accommodation at various stations of postings. The residential building programme also got a fillip during this period when projects were sanctioned for residential complexes in various stations for the accommodation of IA&AS and for other cadres of the Department. Capital works programme in the Department got a tremendous boost during C&AG Shunglu's tenure which continued in the present C&AG's time.

Indian Audit and Accounts Department is a vast department having 219 offices spread throughout the country. Department has created its own residential colony at about 35 stations in the country to provide accommodation to its employees. Each colony was having its own allotment rules. One of the important developments in this context was that at the instance of C&AG, Kaul (April 2004) Headquarters issued in February 2006 Rules for Allotment for Government Residential Accommodation and Departmental Guest Houses in IA&AD. This compilation made for the first time, is uniformally applied for allotment of houses from the departmental housing pool across the country.

RECORDS MANAGEMENT IN IA&AD

The Central Government formulated the 'Public Records Act, 1993' and 'Public Records Rules 1997' to regulate the management, administration and preservation of public records of the Central Government. 'Records Management and Destruction of records' in IA&AD contained in Chapter XII of C&AG's MSO (Administration) Vol. I (Third Edition) was suitably updated and Guidelines on Records Management in IA&AD (along with copies of above Act) were issued, to each head of the office for necessary action. Guidelines also contained instructions regarding classification of records, microfilming of records, de-hiring of space occupied in storing old records and updating of libraries etc.

As per Rule 6(1) of the Public Records Act 1993, the Records Officer shall be responsible for periodical review, weeding out and the appraisal of public records which are more than twenty five years old in consultation with the National Archives of India (NAI). Old Record of Headquarters office pertaining to the period 1884 to 1960 was last reviewed by the team of NAI in 1986. In pursuance of the provision of 'Public Records Act 1993, and 'Public Records Rules 1997', office of the Director General, National Archives of India, was requested in November 2005 to depute a team of NAI for appraisal of records prior to the year 1980 i.e. 1960 to 1980 due for appraisal of the records. The work was started by the team of NAI on 4 May 2006 and completed on 31 May 2007. 15,500 old files of various sections were reviewed by the team of NAI, out of which 11,093 files were identified as having historical or administrative importance and recommended for transferring to NAI for permanent preservation. These were transferred to NAI in five batches by June 2007.

COMMITTEES AND WORKING GROUPS

C&AG reviewed, in September 2005, issues relating to creation/continuation of Committees in C&AG office and streamlined the systems by establishing a three tier system comprising (1) Boards/Standing Committees; (2) Working Groups; and (3) Task Forces.

The existing Committees were reclassified accordingly. The guidelines on the subject were prescribed for future guidance. According to these, all Committees of a permanent nature should be designated as Boards/ Standing Committees. C&AG's specific orders for their constitution was necessary. Dy. C&AG will review their functioning once in two years to determine their continuance necessary and take orders of C&AG for continuance.

Working Groups are meant for addressing specific subject, especially technology related issues that need detailed examination e.g modernization, revision of manuals, guidelines, standing orders etc. These are also to be constituted under specific orders of C&AG.

Task Forces are to be set up for dealing with 'issues of significant but transient interest in the organization'. These should be given time limit of maximum of one year to submit their Report. The constitution of Task Force as well as its terms of reference should be approved by C&AG. Any extension beyond one year would need C&AG's approval.

Of the permanent Committees in C&AG's office, the more important ones are Central Training Advisory Committee headed by Dy. C&AG, Disciplinary Committee of Commercial Audit Wing headed by DG (Commercial), Audit Board for Central PSUs for Commercial undertakings performance audit, Government Accounting Standards Advisory Board set up for setting accounting standards for Government and also assigned the job of working on the migration to accrual based accounting in Government.

ACCOUNTANTS GENERAL CONFERENCES

Accountants General Conferences were held, more or less, regularly every alternate year in the post 1990 era. The Conference, a gathering of all the heads of field offices of the level of AG (Joint Secretary Level) and above and supervisory officers in C&AG office, takes stock of the contemporary issues in auditing and any other subjects of relevance to Department—very informative and clear agenda notes are sent to the participants in the Conference. Through their deliberations on the various issues listed, the Conference, lays out a road map for the working of the department for the next two years. These Conferences during the period of this compilation were inaugurated by the President of India or the Prime Minister of India.

Commenting on the significance of this forum of discussion, C&AG Shunglu remarked that with AGs Conference happening every two year the department had an upgraded road map with some items or projects already available for review and monitoring. His personal experience was that the deliberations of AGs in the Accountants General Conference was perhaps one of the most important inputs available to him for taking policy decisions on IA&AD's working. He made extensive use of these deliberations for such decisions. C&AG Kaul, while addressing the valedictory function of the XXIII Accountants General Conference, also had high praise for this forum when he said that 'the biennial Conferences of Accountants General play an extremely valuable role in determining the direction of growth of our Organization. Exchange of ideas and experiences across functions in these Conferences generate the vitality which sometimes can be absent from routine and formal structures. I, therefore, attach great importance to these Conferences and devote a lot of personal attention towards their preparation.'

The agenda notes, discussions, proceedings of deliberations and finally recommendations, followed by decisions taken by the C&AG offer a very clear view of the direction towards which department was moving in each period. These documents also give an insight into various developments initiated in these Conferences on auditing systems, methodologies, techniques, procedures etc. A brief account of some of these, mainly (but not exclusively) from the view point of auditing practices, is given below:

The 1991 Conference which was the first for C&AG Somiah had a heavy agenda that included following topics:

(i) Scope of Audit, (ii) Audit Strengthening, (iii) New Areas and New Techniques, (iv) Perspective Plan of Audit, (v) Audit Reports, (vi) Reporting and Follow Up.

Under the theme 'Approach to Audit Perspective', the Conference emphasized that audit should carry out more prominently social and economic analysis of important schemes and projects. It also advocated adopting social audit concepts. This concept was explained by the C&AG in his observation thus 'there is a growing awareness of the need to protect the society and the environment from all possible adverse side effects of development. Air pollution, water pollution and other environmental degradation, health and safety hazards—these are some of the adverse effects. Any enterprise, be it in private sector, has a social responsibility. This has to be enforced through social audit which is slowly gaining ground even in our country'.

He cited in this context Sachar Committee Report on companies where a Chapter on the 'Social Responsibilities of Companies' was devoted. He also pointed out to the social audit concept that was internalized in some of the technology missions of the Government. Specially in the context of role of audit, he pointed out to the legislations designed to protect the citizens and the environment from exploitation in the process of development and agencies that are charged with the responsibility of enforcing these legislations. When such agencies and projects are audited, social audit concepts have to be kept in view.

Interestingly some years later, the Government policies and enforcement agencies have pushed this agenda e.g. social responsibility in Companies and legislations on environmental issues. Audit emphasis on these aspects that began in early nineties has got a big boost in two subsequent C&AG's time.

This conference also devoted considerable time to discuss manpower audit—this theme became subsequently a standing theme in the Audit Reports in C&AG Shunglu's time. Another area discussed on audit strengthening was audit of borrowing and management of debt. The Conference deliberations, later fructified into a full fledged review of Public Debt which was very much acclaimed. The Conference also devoted time to another important subject viz. evaluation of internal control and internal audit. Years later in AGs Conference of 2003, this theme was revisited and based on the deliberations, C&AG V.N Kaul streamlined the system of internal control and internal audit and issued direction that every year AG should conduct a review on internal control of atleast one Department of the Government—since then this topic is one of the important annual feature in each year's Audit Report.

A remarkable theme in the 1991 Conference was new areas and new techniques where subjects which were to assume great significance a decade later were discussed, these included use of statistical sampling techniques, adoption of qualitative techniques, audit of panchayati raj institutions. While statistical sampling application in IA&AD was discussed again in 1996 Conference, it was in present C&AG's period that comprehensive set of instructions including guidance regarding scientific statistical sampling were laid down and, in fact, many wings of the department are using risk analysis and statistical sampling in audit.

It will be interesting to revisit the goals set by 1991 Conference. The agenda paper said that the reorientation of audit should be such as would achieve the following goals:

(i) To make audit more effective as an aid to administration and as an instrument of ensuring accountability of the administration.

(ii) To help establish and/ or strengthen internal audit in all governments and public sector bodies.

(iii) To ensure increased responsiveness of the administration to audit and audit findings.

The Conference discussed an interesting theme viz. Audit of Public Financial Institutions including commercial banks. This subject was very topical those days because of the securities scam and malpractices by commercial banks and Public Financial Institutions were coming to light. It is relevant to mention in this context that C&AG Somiah had appointed a Committee to prepare a Status Paper on the implications of Department getting the audit of Nationalized Banks especially with reference to staff requirements and availability. The Committee[5] had prepared a detailed report on the subject, that contained details of work to be done, how it would be tackled, how much staff would be needed and how the requirements would be met. The Conference devoted a lot of time to training needs and HR issues. Interestingly, in April 1997, the then Dy. C&AG P.K. Lahiri addressed Finance Secretary Montek Singh Ahluwalia suggesting amendments to Section 14 ,18 and 19 of the DPC Act and Article 151 of the Constitution of India. A note attached to the letter detailed the need for these amendments. Significantly, the letter also mentioned that nationalised banks and public finance institutions should be covered by independent audit by the Comptroller and Auditor General of India. The above suggestions emanated from the deliberations held in XIX Conference of Accountants General held in December 1996 on the subject efficacy of auditing.

The 1991 conference also considered, at length, the subjects of strengthening of accounts and using it as an aid to management and finally it devoted time for discussing use of Electronic Data Processing and audit of EDP Systems. It also discussed a specific topic that was included at the behest of C&AG viz. improvement of the quality of Chapters I and II of the State (Civil) Audit Reports on which a paper had been prepared by Dharam Vir. As a result, chapter I and II of Audit Reports Civil, were revised significantly.

The next Conference in 1993 devoted time to an important issue namely Audit Planning on which recommendations had been made by the Dharam Vir Committee. As a follow up of these recommendations, in November 1994, the Headquarters issued the path breaking Audit Planning circular which emphasized on the prioritisation of audit vis-à-vis the fixed quantum of audit checks, thereby redefining ‘arrears in audit’ concept. It laid the foundation of risk based audit approach. Subsequent developments in audit planning owe significantly to this unique order.

1996 AGs Conference had the star subject of 'Computerization' for discussion. This discussion eventually led to one of the most important decisions taken in audit department namely Voucher Level Computerization (VLC) of State Accounts. As a result of introduction of VLC, a sea change has come about in timely production of monthly and annual accounts as also generation of a number of other reports which are of value to the State Government, even though the full potential and use of VLC is yet to be achieved and managerial reports turned out are yet not of that value to the State Governments as it should be.

In the XX AG's Conference held in April 1999, attention was mostly on the strengthening of Treasury Inspection and demarcation of work between AG (A&E) and AG (Audit). Flowing from this discussion, several important orders were issued from Headquarters on these two subjects.

One important subject discussed was restructuring of IA&AD for integrated audit of Energy Sector which included Union Government, State Government, Central PSUs and State Electricity Boards. Though this was a very laudable concept because this advocated a totally integrated audit of energy sector (which is a vital sector of Indian Economy) but the follow up of this left a lot to be desired. The observation that no holistic audit is possible and audit comments lack wholesomeness, depth and sharpness was very true and it wanted feasibility of integrating entire audit effort relative to energy sector within the existing organization structure and allocation of audit responsibilities. Unfortunately, these could not take off.

The XXI AG's conference held in April 2001 had the important subject of 'Change Management' on the agenda. The theme was very topical in the context of the audit department entering the new millennium. The subjects discussed were changes in IA&AD needed to cope up with changes that were taking place or would take place shortly in public policy, administration, technology etc. It discussed the important aspect of human resource management and manpower planning, promotional avenues for non SOGE passed officers and time bound promotion for SOs and AAOs. It discussed and made recommendations for early promotion to IA&AS of promoted officers and it also discussed a significant subject of lowering the training load by recruiting commerce graduates in the Department for Auditors and SOs posts (we have separately discussed change management in Chapter-3). This Conference also discussed important subject of ethics and impact on HR developments, audit of privatization and disinvestment and important subject of audit and accountability of Panchayati Raj Institutions and Local Bodies.

Risk analysis and statistical sampling were discussed in this Conference too as also IT Audit which had a unique role in IA&AD. The Conference devoted considerable time to the discussion on audit in a computerized environment.

In this Conference, Prime Minister A.B. Vajpayee had stated in his inaugural speech that future Annual Reports of each Ministry/ Department in the Central Government must carry C&AG's Report for that Ministry or Department even if it pertained to previous year. Before the next Conference in 2003, thanks to the follow up by the C&AG, the Government decided that Annual Report of every Department and Ministry would contain a summary of important audit observations on the functioning of the Ministry extracted from the most recent C&AG's Report. The material for this summary is provided by the C&AG's office.

The XXII AG's Conference held in July 2003, the first for C&AG Kaul, had a very heavy agenda and devoted considerable time to discuss the broad theme of 'Towards an Improved Accountability Regime' which had five sub-themes viz:

(i) Building Accountability.
(ii) Building Audit Image.
(iii) Spreading the Message.
(iv) How to make audit an effective accountability instrument?
(v) Auditor—Auditee Relationship.

Of these, the one key subject for discussion was 'Building a Workable Best Practice Regime' that went into issues of Modernization, Better use of Computers, Redefining Jobs at Supervisory levels, Rebuilding Libraries, Creating a Policy unit, Recalibrating Official Codes & Manuals, Redesigning the Audit Reports and Journals. It dealt with in details on Capacity Building and building Core Competencies, Growth Centre Approach for Special Skills.

On training, the conference advocated a network approach for Training Institutions. Its best contribution was in the area of improving audit methods and techniques with a base paper on Risk Analysis and Statistical Sampling. The subject which was earlier discussed in two previous Conferences of Accountants General, was to become a practicing system this time.

Finally, one of the most important subjects on which the Conference deliberated was Draft Perspective Plan 2003–2008 of the IA&AD; and it recommended its adoption.

The XXIII Conference held in September 2005, discussed the following main themes:

(i) Enhancing Effectiveness of Audit
(ii) Adopting Best Practices from ASOSAI Guidance on Audit Quality Management System
(iii) Audit Challenges and Prospects
(iv) Mid Term Review of Perspective Plan 2003–08.

In item (i), the dominant sub theme discussion was on implementing Performance Audit guidelines. It discussed items like Development of audit criteria, Definition of parameters, Techniques of evidence gathering, Simplification of procedures, Interaction with Auditee, Reporting of performance audits, Allocation of time for Performance Audit, Pursuance of findings of performance audits, Training of Personnel for Performance Audit and finally, Encouraging good performance Audits through quality standards. Another important sub theme discussed was taking up comprehensive appraisals of Government Department including department based audit planning which essentially focused on shifting from DDO based audit approach to CCO/ Department based audit approach. This issue has been suitably discussed elsewhere in this compilation. As regards the theme adopting best practices from ASOSAI guidance on audit quality management system, it had three sub themes:

(i) Human Resources Development (including recruitment training and performance appraisal)
(ii) Audit Performance (including audit planning, IT tools and consultation and advice)
(iii) Continuous Improvement (inspection and peer review, internal quality assurance)

On all these issues several recommendations were made on the basis of which suitable actions were taken by the Department which have been brought out in relevant Chapters. Under 'Audit Challenges and Prospects' the most important subject discussed was gearing up for adoption of accrual accounting where a number of recommendations were made which included capacity building at AG/ State level promoting auditing skills and accrual environment, information systems requirements; what was required in the interim was also spelt out.

A discussion was also held on the theme 'Audit of NGOs receiving Government Grants'. The recommendation was that these should be brought under audit scrutiny of C&AG by insertion of a new enabling sub-section 15(3) in the DPC Act. However, on subsequent examination of the subject in the office it was concluded that the existing laws of DPC Act were enough to empower C&AG for NGOs' audit.

Finally, the Conference discussed the important subjects of mid term review of Perspective Plan 2003–08 and made several important recommendations on various aspects of Perspective Plan which are now being implemented.

ANNEX A

OFFICE BUILDINGS

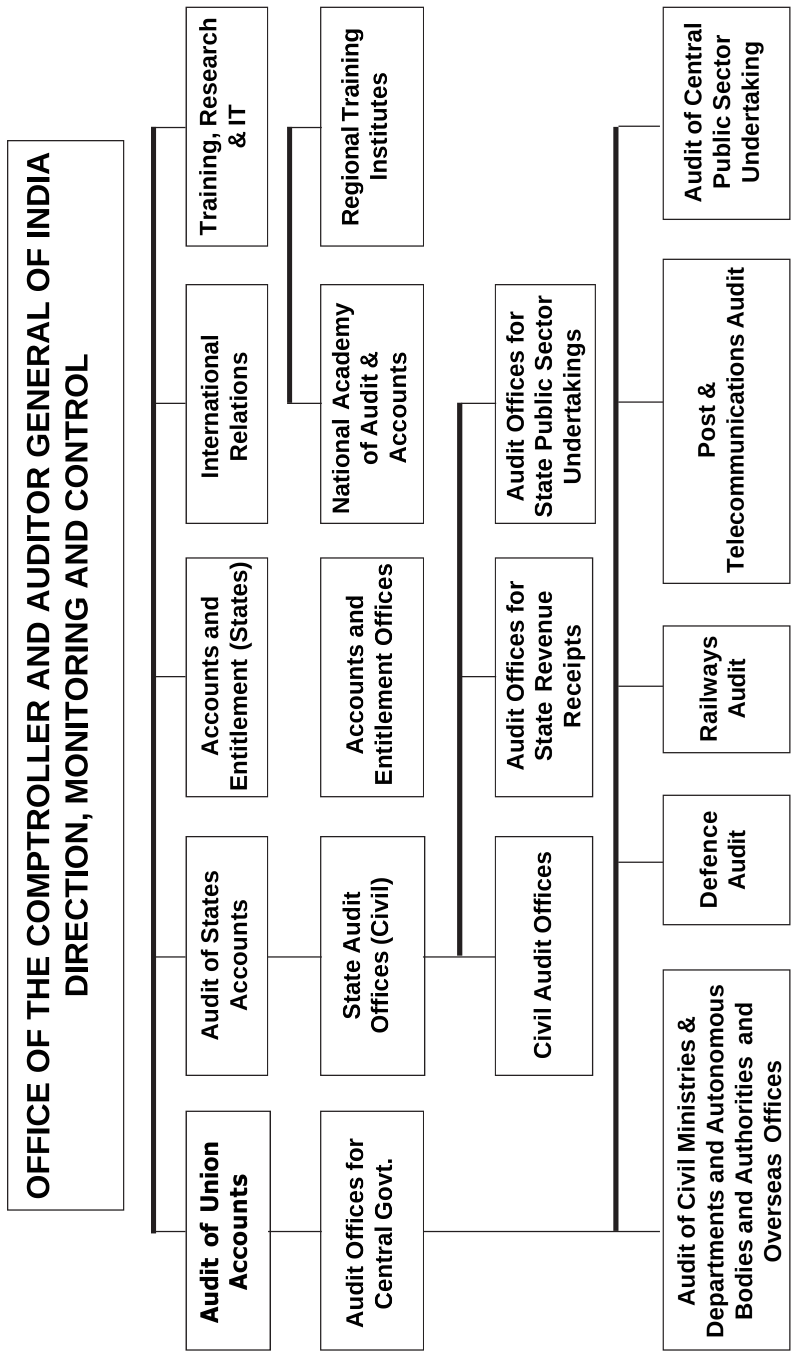
Name of the office	Year of construction
Pr. AG (Audit), Punjab, Chandigarh	2007
AG (Audit) and Sr. DAG (A&E), Sikkim, Gangtok	2006
Pr. AG (Audit) and AG (Audit)-II, M.P, Gwalior	2005
AG, Goa	2001
NAAA, Shimla	2001
RTI, Nagpur	2001
Pr. AG (Audit), Gujarat, Ahmedabad	2001
Pr. DA (Central), Mumbai	1998
Pr. AG (Audit) and AG (A&E), Assam, Guwahati	1998–99

ANNEX B

LIST OF PROJECTS IN WHICH WORK IS IN PROGRESS

Name of the office	Name of the work
C&AG of India	Construction of new office building at Deen Dayal Upadhyay Marg, New Delhi
AG (Audit), Nagaland, Kohima	Construction of Annexe building
Pr. AG (Audit), Tamil Nadu , Chennai	Construction of Branch office at Madurai
RTI. Mumbai	Construction of RTI building and hostel at Bandra Kurla Complex, Bandra (E), Mumbai
AG, Chhattisgarh, Raipur	Construction of office building at Raipur
AG, Mizoram, Aizwal	Construction of office building at Aizwal
AG, Chhattisgarh, Raipur	Construction of residential quarters at Zero Point, Raipur
Pr. AG (Audit)-I, Gujarat, Ahmedabad	Construction of residential complex at Ahmedabad
AG (Audit), Nagaland, Kohima	Construction of residential complex

ORGANISATION CHART OF IAAD AS ON MARCH 1990



HEADQUARTERS OFFICE OF C&AG AS ON MARCH 1990

Comptroller and Auditor General of India

Deputy Comptroller and Auditor General

Headquarters

Commercial

Additional Deputy Comptroller and Auditor General

Commercial

Revenue Audit

Report Central

Report States

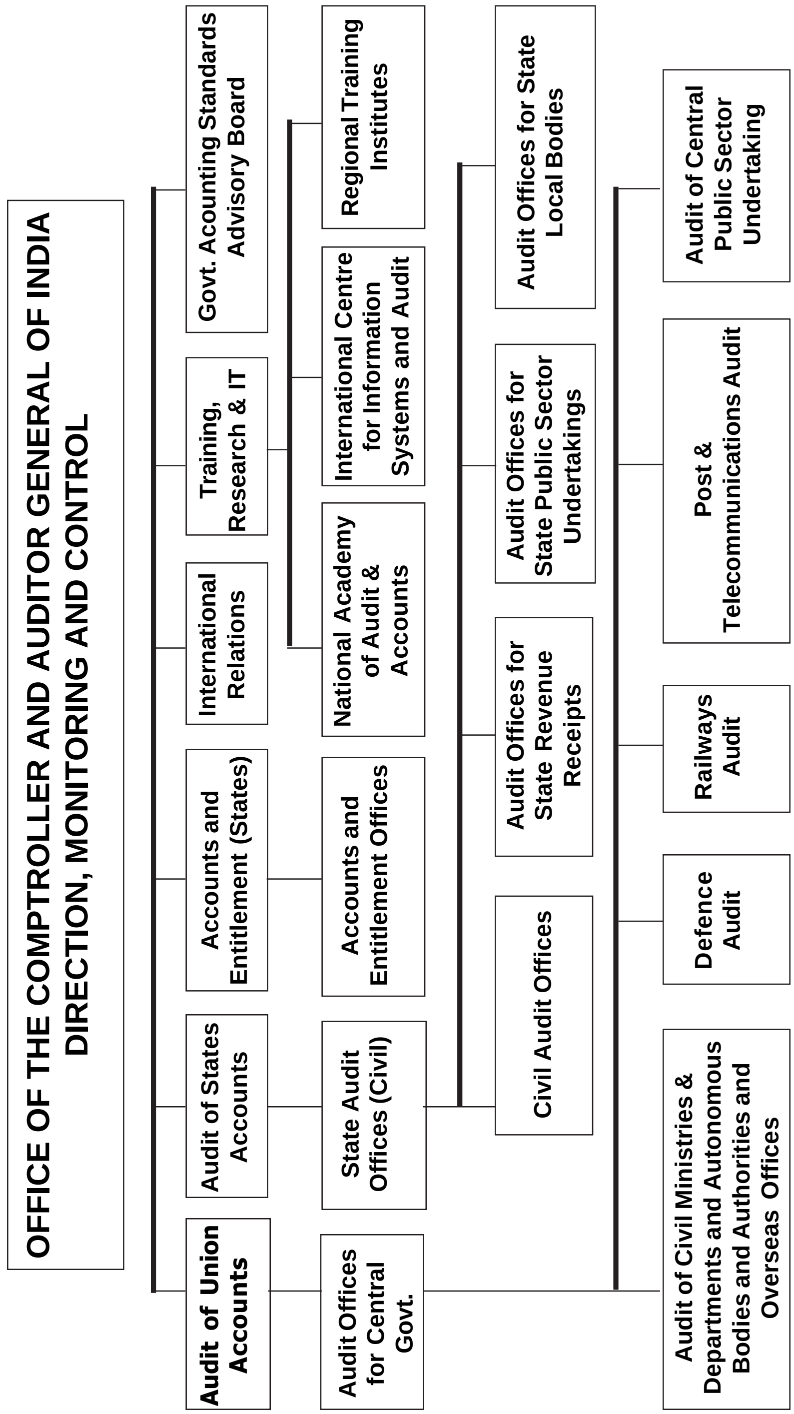
Principal Directors

- PPRE
- Staff
- INDT
- DT
- Report State-I
- Report State-II
- O&M&T
- Report Central
- Inspection
- Audits

Directors General (AE&C)

On Deputation

- Dy. Director (Statistics)



ORGANISATION CHART OF IAAD AS ON 1 MARCH 2007

HEADQUARTERS OFFICE OF C&AG AS ON MARCH 2007

Comptroller and Auditor General of India

Deputy Comptroller and Auditor General

Headquarters

Commercial

Local Bodies & Accounts

Additional Deputy Comptroller and Auditor General

Commercial & Special Category States

Revenue Audit

Report Central

Report States

International Relation

Directors General
- Inspection
- OSD (Communication Policy)
- Performance Audit
- Commercial
- Audit/ O&M
- AE&C
- Training and IT

Principal Directors
- Report Central
- Railways
- Direct Taxes
- Indirect Taxes
- Autonomous Bodies
- Report States
- Report Special Category States
- Staff
- Local Bodies

On Deputation
- Economic Advisor
- Dy. Director General (NIC)
- Director (Works)
- Statistical Advisor
- Media Advisor

NOTES: CHAPTER-3

[1]. D.O letter No. DAI/1/94 dated 20 January 1994 and No. DAI/2/94 dated 02 February 1994

[2] D.O letter No. 860/DAI/3/94 dated 01 March 1994.

[3] D.O letter No. DAI/1/94 dated 20 January 1994 and No. DAI/2/94 dated 02 February 1994

[4] The Members were (i) Ms. Sushma V. Dabak, AG (A&E)-II, Maharashtra, Nagpur; (ii) Ms. Sudha Krishnan, AG (Audit)-II, Karnataka, Bangalore; (iii) Shri P.J. Mathew, Pr. Director (Staff), office of the C&AG, New Delhi; and (iv) Ms. Mamta Kundra, Pr. DCA & Ex-officio MAB-I, New Delhi.

[5] The Committee had Dharam Vir as Chairman and P.K. Lahiri, Vijay Kumar and Dr. A.K. Banerjee as Members.

LIST OF KEY EVENTS

28 October 1987	Sh. T.R Krishanmachari in his note detailed 28 October 1987 brought out legal opinion of Attorney General Shri M.C. Setalvad that entrustment of audit function in respect of accounts of IA&AD to another authority would be unconstitutional.
28 February 1990	The existing desginations of IA&AS officers holding the posts of Joint Director, Director/Accountant General and Principal Director were revised as Director, Principal Director/Principal Accountant General and Director General respectively.
24 March 1990	Shri TN Chaturvedi former C&AG, was bestowed the prestigious Civilian award-the Padma Vibhushan on 24 March 1990.
April 1991	Direct recruitment at S.O. level in Civil and P&T Audit offices started.
1 April 1992	Post of Sr. Audit/Accounts Officer created in the pre revised scale of Rs. 2200–4000.
May 1993	Computerised budget information system for IA&AD was introduced.
9 December 1993	Government of India, Ministry of Personnel, Public Grievances & Pensions, DoPT notification dated 5 November, 1993, stating that membership of Association would be restricted to distinct category of Government servant having common interest, was forwarded to all heads of offices, etc.
16 May 2001	Government of India, Ministry of Personnel, Public Grievances & Pensions Department of Personnel and Training issued orders regarding optimisation of direct recruitment to civilian posts.
6 October 2001	Recruitment Rules for Accounts Officer/Audit Officer published in Gazette.
November 2001	A paper on Computer system (Theory & Practical) introduced for SOGE.
December 2001	Post of DAI (Local Bodies) approved by ACC.
31 December 2001	Revision of delegated powers to heads of Departments and Heads of offices in IA&AD.
3 January 2003	C&AG constituted a committee consisting of three DAIs to examine qualifications for direct recruitment of clerks and Section Officers, filling up of vacancies in the cadres of Section officers/AAOs in Civil Audit Offices and Balancing of surplus manpower in A&E and Commercial Audit Offices
March 2003	DAIs Committee gave its report.
12 August 2003	Decision of Headquarters to allow certain category of candidates from A&E stream to appear at SOGE (Civil Audit) for eventual absorption in Civil Audit Offices.

January 2004	C&AG set up a Human Resource Committee under the Chairmanship of DAI
April 2004	H.R. Committee gave it recommendations
22 September 2004	Detailed instructions were issued to field offices regarding disaster managment plan.
6 May 2005	C&AG wrote to Minister of State for Personnel that due to restructuring of cadre in respect of Group 'C' posts, no direct recruitment in any of the cadres in Group 'C' & 'D' is proposed this year.
16 February 2006	Common allotment rules were framed and made applicable in all the IA&AD colonies.
18 October 2006	Orders regarding outsourcing of routine jobs performed by Group 'D' were issued by Headquarters office.
31 January 2007	Restrcuturing Committee constituted in 2006 gave its report.
12 February 2007	Gender Perspective Plan 2007–12 approved by C&AG circulated to all heads of offices.

DOCUMENTS

1

Extract from note of Sh. T.R. Krishnamachari, Director of Audit dated 28 October, 1987

III. As regards external audit of IA&AD the legal position as brought out by the Attorney-General (Shri M.C. Setalvad) when the C&AG's (DPC) bill was at the draft stage was that the clear implications of the relevant provisions of the Constitution being that the powers of audit in relation to all accounts of the Union and the States are vested in the C&AG, any provisions which entrust audit functions in respect of accounts of the IAAD, which are part of the accounts of the Union, to another authority would be unconstitutional. Therefore, no such provisions could be made in the C&AG's (DPC) Act as in the case of U.K. National Audit Act quoted by Shri K.P. Joseph. However, there are standing arrangements for the expenditure incurred by each office of the IAAD to be audited by another office independently. Further, the Director of Inspection periodically inspects every office. His report to the C&AG includes an overall picture of the state of affairs in each office inspected indicating the general impression he has formed of the efficiency, accuracy etc. which will give the C&AG a correct appreciation of the state and efficiency of work in different wings of that office (Para 18.15(1) of Manual of Office Procedure). There is also a system of monitoring of the State of work of the field offices. There is thus adequate arrangment for audit and inspection.

2

Circular No. NGE/34/93
No. 449-N4/40-93
Dated: 09.12.1993

To

i) All Heads of Offices in IA&AD as per mailing list (excent overseas Audit offices in Washington and London)
ii) A.C (P). Director (P). AC (N), AC (C) of HQrs. Office.
iii) OE & Admn. Section, GE. I., GE, II. C.A.I. Section Legal Cell of HQrs. Office

Sub: Central (Civil) Services (Recognition of Service Association) Rules, 1993.

Sir,

A copy of Government of India, Department of Personnel and Training, New Delhi, O.M. No. 2/10/80-JCA dated the 9th November, 1993 along with Notification No. 2/10/80-JCA (Vol. IV) Dated the 5th November, 1993 on the above subject is forwarded for information.

2. A copy of the Central Civil Services (Recognition of Service Associations) Rules 1993, may please be provided to all associations of employees in your office.

3. In future, while forwarding the application for recognition of associations compliance with the provisions of the new rules may be examined and compliance of non-compliance indicated. Association which are already recognised may specifically be apprised of the provision of rule 4,5,6 and 7.

4. Kindly acknowledge the receipt of this letter.

Yours faithfully,

Sd/-
(S.K SHARMA)
Administrative Officer

No. 2/10/80-JCA (Vol. IV)
Government of India
Ministry of Personnel, Public Grievances & Pensions
(Department of Personnel & Training)

New Delhi, the 5th November, 1993

NOTIFICATION

In exercise of the powers conferred by the proviso to article 309 and clause (5) of article 148 of the Constitution, after consultation with the Comptroller and Auditor General in relation to persons serving in the Indian Audit and Accounts Department, and in supersession of the Central Civil Services (Recognition of Service Associations) Rules, 1959 except as respects things done or omitted to be done before such supersession , the President hereby makes the following rules, namely:

1. Short title and commencement: (1) these rules may be called the Central Civil Services (Recognition of Service Associations) Rules, 1993. (2) They shall come into force on the date of their publication in the official gazette.

2. Definition: In these rules, unless the context otherwise requires,
   a. "Government" means the Central Government.
   b. "Government servant" means any person to whom the Central Civil Services (Conduct) Rules, 1964, apply.

3. Application: These rules shall apply to Service Associations of all Government servants inlcuding civilian govenment servants in the Defence Services but shall not apply to industrial employees of the Ministry of Railways and workers employed in Defence Installations of Ministry of Defence for whom separate Rules of Recognition exist.

4. Service Associations already recognized: A Service Association or a Federation which has been recognized by the Government before the commencement of these rules and in respect of which the recognition is subsisting at such commencement, shall continue to be so recognized for a period of one year from such commencement or till the date on which the recognition is withdrawn, whichever is earlier.

5. Conditions for recognition of Service Associations: A Service Association which fulfills the following conditions may be recognised by the Government, namely:
    a) An application for recognition of Service Association has been made to the Government containing Memorandum of Association, Constitution, Bye-laws of the Association, Names of Office-Bearers, total membership and any other information as may be required by the Government;
    b) The Service Association has been formed primarily with the object of promoting the common service interest of its members;
    c) Membership of the Service Association has been restricted to a distinct category of Government servants having common interest, all such Government servants' being eligible for membership of the Service Association;
    d) (i) The Association represents minimum 35 percent of total number of a category of employees provided that where there is only one Association which commands more than 35 percent membership, another Association with second highest membership although less than 35 percent may be recognized if it commands atleast 15 percent membership; (ii) The membership of the Government servant shall be automatically discontinued on his ceasing to belong to such category.
    e) Government employees who are in service shall be members or office bearers of the Service Association;
    f) The Service Association shall not be forced to represent the interests, or on the basis, of any caste, tribe or religious denomination or of any group within or section of such caste, tribe or religious denomination;
    g) The Executive of the Service Association has been appointed from amongst the members only; and
    h) The funds of the Service Association consist exclusively of subscriptions from members and grants, if any, made by the Government, and are applied only for the furtherance of the objects of the Service Association.

6. Conditions subject to which recognition is continued: Every Service Association recognized under these Rules shall comply with the following conditions, namely:
    a) the Service Association shall not send any representation or deputation except in connection with a matter which is of common interest to members of the Service Association;
    b) The Service Association shall not espouse or support the cause of individual Government servants relating to service matters;
    c) The service Association shall not maintain any political fund or lend itself to the propagation of the views of any political party or a member of such party;
    d) All representations by the Service Association shall be submitted through proper channel and shall be addressed to the Secretary to

the Government/Head of the Organization or Head of the Department or Office;

e) A list of members and office bearers, and up-to-date copy of the rules and an audited statement of accounts of the Service Association shall be furnished to the Government annually through proper channel after the general annual meeting so as to reach the Government before the 1st day of July each year;

f) The Service Association shall abide by, and comply with all the provisions of its constitution/bye-laws;

g) Any amendment in the constitution/bye-laws of the Service Association, after its recognition under these Rules, shall be made only with the prior approval of the Government;

h) The Service Association shall not start or publish any periodical, magazine or bulletin without the previous approval of the Government;

i) The Service Association shall cease to publish any periodical, magazine or bulletin, if directed by the Government to do so, on the ground that the publication thereof is prejudicial to the interests of the Central Government, the Government of any State or any Government authority or to good relations between Government servants and the Government or any Government authority, or to good relations between the Government of India and the Government of a foreign State;

j) The Service Association shall not address any communication to, or enter into correspondence with, a foreign authority except through the Government which shall have the right to withhold it;

k) The Service Association shall not do any act or assist in the doing of any act which, if done by a Government servant, would contravene any of the provisions of the Central Civil Services (Conduct) Rules, 1964; and

l) Communications addressed by the Service Association or by any office-bearer on its behalf to the Government or a Government authority shall not contain any disrespectful or improper language.

7. Verification of Membership:

   1) the verification of membership for the purpose of recognition of a Service Association shall be done by the check-off-system in pay-rolls at such intervals and in such manner as the Government may by order prescribe.

   2) the Government may, at any time, order a special verification of membership if it is of the opinion, after an enquiry that the Service Association does not have the membership required under sub-clause (i) of clause (d) of rule 5.

8. Withdrawal of Recognition:If, in the opinion of the Government, a Service Association recognized under these rules has failed to comply with any of the conditions set out in rule 5 or rule 6 or rule 7 the Government may after giving an opportunity to the Service Association to present its case, withdraw the recognition accorded to such Association.

9. Relaxation:The Government may dispense with or relax the requirements of any of these rules to such extent and subject to such conditions as it may deem fit in regard to any Service Association.

10.Interpretation: If any question arises as to the interpretation of any of the provisions of these rules or if there is any dispute relating to fulfillment of conditions for recognition it shall be referred to the Government, whose decision thereon shall be final.

Sd/-
(J.S. Mathur)
Joint Secretary to the Government of India

3

No. 2/8/2001-PIC
Government of India
Ministry of Personnel, Public Grievances & Pensions
Department of Personnel & Training
New Delhi, the 16th May, 2001

OFFICE MEMORANDUM

Subject: Optimisation of direct recruitment to civilian posts

The Finance Minister while presenting the Budget for 2001–2002 has stated that "all requirements of recruitment will be scrutinised to ensure that freash recruitment is limited to 1 percent of total civilian staff strenght. As about 3 percent of staff retire every year, this will reduce the manpower by 2 percent per annum acheiving a reduction of 10 percent in five years as announced by the Prime Minister."

1.2 The Expenditure Reforms Commission had also considered the issue and had recommneded that each Ministry/Department may formulate Annual Direct Recruitment Plans through the mechanism of Screening Committee.

2.1 All Ministries/Departments are accordingly requested to prepare Annual Direct Recruitment Plans covering the requirements of all cadres, whether managed by that Ministry/Department itself, or managed by the Department of Personnel & Training, etc. The task of preparing the Annual Recruitment Plan will be undertaken in each Ministry/Department by a Screening Committee headed by the Secretary of that Ministry/Department as Member Secretary. The Committee would also have one senior representative each of the Department of Personnel & Training and the Department of Expenditure. While the Annual Recruitment Plans for vacancies in Groups 'B', 'C' and 'D' could be cleared by this Committee itself, in the case of Group 'A' Services, the Annual Recruitment Plan would be cleared by a Committee headed by Cabinet

Secretary with Secretary of the Department concerned, Secretary (DOPT) and Secretary (Expenditure) as Members.

2.2 While preparing the Annual Recruitment Plans, the concerned Screening Committees would ensure that direct recruitment does not in any case exceed one percent of the total sanctioned strength of the Department. Since about 3 percent of staff retire every year, this would translate into only 1/3rd of the direct recruitment vacancies occurring each year being filled up. Accordingly, direct recruitment would be limited to 1/3rd of the direct recruitment vacancies arising in the year subject to a further ceiling that it does not exceed one percent of the total sanctioned strength of the Department. While examining the vacancies to be filled up, the functional needs of the organisation would be critically examined so that there is flexibilityin filling up vacancies in various cadres depending upon their relative functional needs. To amplify, in case an organisation needs certain posts to be filled up for safety/security/operational consideration corresponding reduction in direct recruitment in other cadres of the organisation may be done with a view to restricting the overall direct recruitment to one-third of vacancies meant for direct recruitment subject to the condition that the total vacancies proposed for filling up should be within the 1 percent ceiling. The remaining vacancies meant for direct recruitment which are not cleared by the Screening Committee will not be filled up by promotion or otherwise and these posts will stand abolished.

2.3 While the Annual Recruitment Plan would have to be prepared immediately for vacancies anticipated in 2001–02, the issue of filling up of direct recruitment vacancies existing on the date of issue of these orders, which are les than one year old and for which recruitment action has not yet been finalised, may also be crtically reviwed by Ministries/Departments and placed before the Screening Committees for action as at para 2.2 above.

2.4 The vacancies finally cleared by the Screening Committees will be filled up duly applying the rules for reservation, handicapped, compassionate quotas thereon. Further, administrative Ministries/ Departments/Units would obtain before hand a No Objection Certificate from the Surplus Cell of the Department of Personnel and Training/Director General, Employment and Training that suitable personnel are not available for appointment against the posts meant for direct recruitment and only thereafter place indents for Direct Recruitment. Recruiting agencies would not accept any indents which are not accompanied by a certificate indicating that the same has been cleared by the concerned Screening Committee and that suitable personnel are not available with the Surplus Cell.

3. The other modes of recruitment (including that of ‘promotion’) prescribed in the Recruitment Rules/Service Rules would, however, continue to be adhered to as per the provisions of the notified Recruitment Rules/ Service Rules.

4. The provisions of this Office Memorandum would be applicable to all Central Government Ministries/Departments/organisations including Ministry of Railways, Department of Posts, Department of Telecom, autonomous bodies—

wholly or partly financed by the Government, Statutory corporations/bodies, civilians in Defence and non-combatised posts in Para Military Forces.

5. All Ministries/Departments are requested to circulate the orders to their attached and subordinate offices, autonomous bodies, etc. under their administrative control. Secretaries of administrative Ministries/Departments may ensure that action based on these orders is taken immediately.

6. Hindi version will follow.

Sd/-
(Harinder Singh)
Joint Secretary to the Government of India

To,
1. All Ministries/ Departments to the Government of India (as per standard distribution list)
2. Chairman, RRB, SSC, UPSC and C&AG
3. All Financial Advisers (By name)

4

Circular No. 31/NGE/2003
No. 611-NGE (App)/37-2003
Dated: 12 August, 2003

To
1. All Heads of Department in IA&AD
2. A.C.(C)/Direcftor (P)
3. G.E. II/NGE (Entt.)/NGE (JCM)/Examination/O.E. & Bills (Estt.)/Audit (Rules)

Subject: Permission to A&E staff to appear in S.O.G.E. (Civil Audit) for their eventual absorption in Audit stream.

Sir/Madam,

It has been decided to allow following categories of candidates from A&E stream to appear at the SOGE (Civil Audit) for their eventual absorption in Civil Audit Offices:

a) Those who have already passed Part II of SOGE (Civil Accounts) and are still awaiting promotion as Section Officer (Accounts) or Ad-hoc Section Officers (Accounts) who are still awaiting regularisation as Section Officers will have to clear only the remaining papers of Part-II of SOGE (Civil Audit). Their appointment as Section Officer (Audit) shall be reckoned from the date of joining to the post after clearing remaining papers of Part-II of SOGE (Civil Audit).

b) Those who have passed Part I of SOGE (Civil Audit) will have to clear Part II of SOGE (Civil Audit).
c) Those who have not cleared some of the papers of Part I/Part II of SOGE (Civil Accounts) will have to clear the remaining papers of SOGE (Civil Audit).
d) Fresh candidates subject to conditions laid down in para 9.2.16 of C&AG, MSO (Admn.) Vol. I.

2. The candidates of A&E offices passing SOGE (Civil Audit) will be absorbed in Civil Audit offices against vacancies in Section Officer's cadre remaining unfilled due to non-availability of eligible audit staff for promotion as Section Officer.
3. The seniority of candidates of A&E stream getting absorbed in Civil Audit stream after passing SOGE (Civil Audit) would be determined as below:

(i) All the A&E candidates on their absorbption as Secion Officer (Audit) shall rank below the promotees of Civil Audit Office promoted as Section Officer (Audit) on the same occassion.
(ii) Among the A&E candidates of the same batch of SOGE (Civil Audit), their seniority in the cadre of SO (Audit) would be determined as per their inter se seniority in the parent A&E office subject to provisions of para 5.7 of C&AG, MSO (Admn.) Vol. I. However, in the cases of A&E candidates coming to a Civil Audit office from more than one A&E offices, their seniority would be determined as per their length of service in the feeder cadres in their respective offices.

4. The candidates from A&E stream will have their pay protected on their absorption as Section Officer (Audit) in Civil Audit Offices.

5. Hindi version will follow.

Your faithfully,
Sd/-
(Manish Kumar)
Asstt. Comptroller & Auditor General (N)

5

Circular No. 32 N.G.E. (App)/2006
No. 829 N.G.E. (App)/43-2006
Dated: 18.10.2006

To

1. All Heads of department in IA&AD (as per mailing list)
2. All officers in the Headquarters office

Sub: Outsourcing of routine services performed by the Gr. 'D' staff-regarding.

Sir/Madam,

In the interest of economy and efficiency in the department, the issue of outsourcing the routine jobs such as cleaning, maintenance, moving papers/ dak etc., performed by the Gr. 'D' staff , was under consideration for some time past. It has now been decided that offices, where such work can not be managed due to shortage of regular employees, may consider the desirability of getting these works done wholly or partially through outsourcing. If considered necessary, the proposal for outsourcing along with full justification may be sent to this office for approval. While getting the work done through outsourcing, the following guidelines, in additon to the instructins contained in Rule 178 to 185 of GFRs-2005, may also be kept in mind:-

a) The outsourcing agency should be selected through competitive bidding and must be of repute as well as registered with the Labour /EPF Commissioner.

b) The comparative performance of the agencies making the bid should not be merely judged through documents presented by them but the same should also be ascertained through their previous /present employers as well as through local resources.

c) The total cost involved in outsourcing must not exceed the cost, which would have been incurred while getting the job done through regular employment.

d) In the contract entered into with the outsourcing agency, the terms of contract must be definite, unambiguous and containing provisions for revocation or cancellation of the said contract at any time before the expiry of contract period if the outsourcing agency fails to carry out any of the provisions of the contract satisfactory.

e) In case, government property is entrusted to the outsourcing agency for performance of the jobs agreed to, there must be a provision in the contract to safeguard the said property.

f) After outsourcing any service, no casual worker should be engaged for that and the cost of outsourcing is to be met from the budget under the head 'Other Office Expenses'.

Yours faithfully
Sd/-
(Manish Kumar)
Asstt. Comptroller & Auditor General (N)

6

Circular No. 03-NGE/2007
No. 108-NGE(Disc.)/10-2005 KW
Dated: 12.02.2007

To,
All Heads of Department in IA &AD
(as per mailing list)

Subject: Gender Perspective Plan 2007–2012

Sir/Madam,

I am to invite a reference to this office Circular no. 5/NGE/2006 issued under letter No. 86-NGE (Disc.)/10-2005 KW dated 08.02.2006 with regard to Guidance Note on combating sexual harassment of working women. To evolve a policy on concern areas of working women the Gender Persepctive Plan of the Indian Audit & Accounts Department was under consideration in this office.

The Gender Perspective Plan 2007–2012 has now been approved by the Comptroller and Auditor General of India. A copy of the Gender Perspective Plan (GP Plan) 2007–2012 is forwarded herewith for information and its strict compliance. The main objective of this Gender Perspective Plan is to make the working places in the Indian Audit and Accounts Department more satisfactory for the working women. Specific Action Points, Nodal Officers and Time frame have been prescribed therein for each of eight identified categories of policies.

It is hence requrested to ensure its compliance to achieve the desired targets.

The receipt of the circular may kindly be acknowledged.

Yours faithfully,
Sd/-
(Manish Kumar)
Assistant Comptroller & Auditor General (N)

Enclosure: As above

GLOSSARY OF ABBREVIATIONS

A&E	Accounts & Entitlement
BMS	Building Management System
BSNL	Bharat Sanchar Nigam Limited
CA	Chartered Accountant
CAP	Central Audit Party
CASS	Central Audit Support Section
CCO	Chief Controlling Officer
CFA	Certified Financial Analyst
CPIO	Central Public Information Officer
DFP	Delegation of Financial Powers
DoPT	Department of Personnel & Training
EDP	Electronic Data Processing
HoD	Head of Department
HR	Human Resource
ICWA	Institute of Cost and Works Accountants
IGNOU	Indira Gandhi National Open University
IIM	Indian Institute of Management
IPAI	Institute of Public Auditors of India
ITA	Internal Test Audit
MBA	Master of Business Administration
OM	Office Memorandum
P&T	Post & Telecommunications
PAO	Pay and Accounts Office
PSU	Public Sector Undertaking
RTI	Regional Training Institute
SOGE	Section Officers' Grade Examinaiton
UDC	Upper Division Clerk
UPSC	Union Public Service Commission

4

Developments in Auditing[1]

AN OVERVIEW OF DEVELOPMENTS

The decade of Nineties and the beginning of new Millennium saw exciting developments in auditing profession of SAI India. First, several entirely new audits were introduced along with new audit concepts. For example, audit of privatization and audit of regulation as a consequence of Government policy on disinvestment/ privatization came into their own during this period. INTOSAI's efforts to draw up guidelines on these two audits succeeded after a High Level Committee, chaired by Sir John Bourn, C&AG of UK finalized a comprehensive set of Audit Guidelines on these two. SAI India also issued its own set of Guidelines on these two audits in 2005. There was a renewed emphasis, with greater urgency, for environmental audit, thanks to widespread public attention to environmental issues across the globe. Audit of local bodies was brought within the ambit of C&AG's audit through a novel concept of Technical Guidance and Supervision (TGS). And a series of scandals involving some high profile global companies and remissness of some leading CA firms forced the Government to tighten the regulatory mechanism at one level; at another level, concept and techniques of risk assessment and fraud acquired special thrust and emphasis in audit literature. In commercial audit, governance issues in Public Sector Undertakings (PSUs) were given special attention by C&AG Kaul. Amongst the prominent developments can be included new comprehensive system of audit planning. New systems that entered auditing dictionary included outsourcing of specific surveys, engagement of experts as consultants in audit work, new evidence gathering techniques, etc. The concept of peer review got operationalized in the Audit

Department for the first time. An old branch of auditing viz. performance audit also went through a big overhauling but perhaps the most important development was the emergence and use of IT audit as a distinct technique of audit which is set to have a dominant place in future audits. Internal auditing was given a more prominent role and at the initiative of C&AG Kaul, now Government of India is also in the process of putting in place a revamped internal audit system as per suggestion of the C&AG.

Some new auditing processes were attempted. Of these theme-based and department- based audits introduced by C&AG Shunglu take the cake. C&AG Kaul made an important decision of demarcating audit into two broad streams viz. transaction audit and performance audit—the division also meant some earmarking of staff in Audit Offices for the two streams.

A new improved approach of evaluating the financial and accounting system of State Governments as also Central Government was adopted. This was further refined through the induction of an economist as Economic Advisor in C&AG's office.

Finally, the notification of Regulations on Audit and Accounts by the C&AG in November 2007, will rank as another major development, for, now this book sets out, the guiding principles of auditing.

Some developments that were not very welcome for the Department also took place. The question of audit mandate was raised at least on three occasions by different authorities. The same was however settled without any detriment to the authority of C&AG and in fact C&AG's authority for carrying out audits in an unfettered manner was established. Non-production of records remained an issue. Audit responsiveness left much to be desired.

AUDIT MANDATE

The Comptroller and Auditor General of India derives his authority and powers from the provisions of Articles 148 (3) and 149 to 151 of the Constitution of India. In consonance with the provisions of Article 149 of the Constitution, which provides that the C&AG shall exercise such powers and perform such duties in relation to the accounts of the Union and the States and of any other authority or body as may be prescribed by or under any law made by Parliament, Parliament passed Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act in 1971 effective from 15 December 1971. While the Act sets out the duties and powers in relation to the audit and accounts of the Union, States and the Union Territories and other authorities or bodies, the detailed instructions on such audit were till recently contained in the C&AG's MSO (Audit). Section 23 of the Act authorizes the C&AG to frame regulations defining the scope and extent of his audit including the general principles of Government accounting and broad principles in regard to audit of receipts and expenditure. The Regulations have been notified in the official gazette on 20 November 2007. The Regulations have clearly provided that within the audit mandate, the C&AG is the sole authority to decide the scope and extent of audit to be conducted by him or on his behalf. It is laid down that 'such authority is not limited by any consideration other than ensuring that the objectives of audit are achieved'. The broad categories of audit as provided for in the Regulations are financial audit, compliance audit and performance audit. These are elucidated in separate chapters in the Book. It has been laid down therein that the scope and extent of audit would be determined by the C&AG. It has, in fact, been so over the years.

While the position is now made abundantly clear by C&AG through the issue of Regulations which are statutory hence binding on the stakeholders, earlier, it had been laid down in the MSO that the scope and extent of audit would be determined by the C&AG. This was considered in conformity with the provisions of the Act as held by several distinguished constitutional and legal authorities from time to time.

Making use of this prerogative, successive C&AGs attempted to cope with the fresh demands on Audit in response to new challenges, technological innovation and public policy developments. Resultantly, new audit areas evolved. For example, Efficiency-cum-Performance Audit (ECPA) first introduced in early sixties, later got translated into fuller performance audit in the time of A. Baksi (C&AG from 1972–1978) and has since then made more progress, culminating in a thorough revamping in 2004 by the present C&AG V.N. Kaul. Similarly, scope of the receipt audit was vastly enhanced and a very comprehensive system of audit of receipts developed, that includes systems audit and performance audit. Similar developments took place in commercial and other branches of C&AG's audit.

There were a few occasions when C&AG's right to conduct audit as per his discretion was challenged during the period under discussion. These concerned C&AG's jurisdictional issues and also production of records. Though not falling under the period covered by this volume of History, it is relevant to begin with the first.

The first question regarding C&AG's right to have access to records arose during the 'Emergency' (1975–1977) when Government by an executive instruction dated 25 September 1976 precluded the C&AG from having access to confidential files containing the views of the Government officers at different levels, cabinet notes and decisions etc. Fortunately, this repressive order was withdrawn immediately after the new[2] Government came to power and issued an amended order on 23 September 1978 restoring the *status quo ante* viz the instructions of January 1955, issued by Secretary, Department of Revenue and Expenditure, Ministry of Finance which had clearly stated that all files including secret and top secret were to be made available to Audit.

The C&AG's jurisdictional issues cropped up again in 1995. During the tenure of C.G. Somiah (C&AG March 1990 to March 1996) when Mrs. Shiela Kaul was the Union Urban Development Minister and the audit of the Ministry regarding Out-of-turn allotment of the Central Government Quarters was going on, the Ministry refused to give files to the Audit on the plea that no financial matter was involved in this review. When the C&AG wrote (March, 1995) to the Minister on the subject, she, in turn, gave the same reason which her Department had earlier given and refused to give the files.

Earlier, the C&AG in his letter of January 3, 1995 to the Minister of Urban Development (Sheila Kaul) made an unusual gesture of bringing to her notice the findings of the Principal Director of Audit, Economic and Service Ministries (who was the officer dealing with the audit of the Ministry) which had revealed that allotment of houses to the Government servants was being made 'in a manner which is neither commensurate with the rules or the guidelines framed by the Government in this regard'. In fact, he pointed out that prevailing rule dealing with out-of-turn allotments had since been deleted and allotments were being made only in relaxation of normal rules of allotment—the percentage of out of turn allotments in the first half of year 1994 was of the order of 60 per cent. An analysis of these cases further showed that they were not given on any of the grounds specified by the Government in their replies to the Public Accounts Committee which went into this issue in 1984. The C&AG, therefore, concluded that 'allotments are indeed being made only on personal grounds and in a seemingly arbitrary manner'. The C&AG while intimating these facts, also informed the Minister that once the audit review on this subject was complete he would appropriately report to Parliament the findings; but he thought it fit to alert the Minister in the meanwhile so that 'immediate necessary action to streamline the allotments keeping in view the fairness and equity in such matters is taken by you at the earliest'. Though the C&AG had requested for a line in reply there was none from the Minister.

The C&AG followed it up by another letter of March 31, 1995 to the Minister where he referred to the reply of the Secretary, Urban Development to the PDAESM stating that 'it may not be possible for the Directorate of Estates to produce files relating to out of turn allotment for scrutiny by Audit as there was no audit point involved'. The C&AG reasoned out that any relaxation of the rules which had the effect of displacing the basic character of the rule was open to question in audit on grounds of propriety and legality. He stated that he was deeply disturbed by the stand taken by the Ministry in regard to the production of files required by Audit. The Minister sent a reply to this letter reiterating what the Secretary to the Ministry had stated. The C&AG then decided to write to the Prime Minister (Shri Narasimha Rao at that time) in the matter. Apparently due to the Prime Minister's directions, the Ministry agreed to give the files.

In a recent case of such refusal to produce files and records to Audit, the Ministry of External Affairs questioned C&AG's right to carry out performance audit of commercial and passport offices in Indian Missions abroad. The reason given for this was strange— that an inter-ministerial group was already set up by Foreign Secretary, Shyam Saran to look into the aspect of performance audit and based on their recommendation and also the fact that outcome budgeting was likely to be introduced soon, Ministry of External Affairs would like both the performance audits to be postponed. The DGACR addressed the Foreign Secretary in January 2006 reminding him of the unfettered discretion of the C&AG regarding the subject, extent and methodology of his audit and it was unfortunate that his discretion to conduct performance audit had implicitly been questioned by an inter ministerial group. The matter was eventually taken up at the highest level when the C&AG had to write to the Prime Minister and as a result, Ministry of External Affairs agreed to give the files. More important, a general clarificatory circular was also issued in June 2006 by the Ministry of Finance[3]. It stated that performance audit which is concerned with audit of economy, efficiency and effectiveness is deemed to be within the scope of audit by C&AG for which Performance Auditing Guidelines drawn up by the C&AG already existed. State Audit Wing, in 1999, faced a similar situation when Karnataka Government refused to part with the files relating to postings and transfers of police personnel when a systems audit of 'Manpower management of Police Department in Karnataka' was being done.

The reluctance of executive, at times, to give files to C&AG on some ground or the other, more often on the plea that the proposed audit was not within the competence of the C&AG, was fortunately limited to a very few cases. It is very difficult to comment on the real reasons or intentions behind such reluctance; but, at least in the case of out-of-turn allotment of government houses, it had something to do with the discretionary practic that was rampant those days in the Directorate of Estates. Subsequently, out-of-turn allotment case reached Supreme Court via a PIL and the Hon'ble Court ordered that all such out-of-turn allotments which were not covered by rules be cancelled and penal rent be recovered. The Court also directed a special audit of out-of-turn allotments by the C&AG.

Barring the 1976 order which was issued during Emergency, it would be noted that in all other cases, help to Audit came from the highest level of Prime Minister. In both cases of Urban Affairs Ministry and Ministry of External Affairs, C&AG was able to have his way on Prime Minister's intervention. While this is a redeeming feature of the Indian democracy that so far there has been no occasion to test the powers of the C&AG in a court of law because the executive at the highest level is sensitive to his concerns, the question remains that should it be left to executive to decide what is within the scope of C&AG's audit? That is the question which C&AG Somiah clearly answered in his letter to Prime Minister when he said that Minister's reply 'would suggest that the ultimate decision regarding production of files to audit rests with the Executive. This, I am sure, is not the intention of the collective decision of the Government which is prevailing since 1955 besides being contrary to law and will seriously interfere with the proper discharge of my Constitutional responsibilities'. He went on to say 'The stand taken by the Minister is not merely incongruous with the mandate of audit.... but also negates the concept of transparency in administration and can occasion avoidable apprehensions which the Department, would, no doubt, like to avoid'.

In the context of the foregoing, the recently notified C&AG's Regulations on Audit and Accounts have addressed major issues that confront Audit Department from time to time and put them on sound legal footing to avoid any doubts in future. Important provisions of Regulations are discussed in Chapter 21 of this volume.

AUDITING STANDARDS AND MANUALS

C&AG has laid down for the guidance of Auditors, instructions and guidelines for conducting audit. The basic principles and practices which the Auditors should follow in the conduct of audit are laid down in Auditing Standards. These were first issued in 1994 by C&AG Somiah. These were comprehensively restructured and updated to take care of changes and developments taking place in the auditing profession and public administration and revised Auditing Standards were published in 2002 suitably adopting the restructured auditing standards issued by INTOSAI in 2001. Manual of Standing Orders (Audit) which contains audit principles and concepts has for long been the basic Audit Manual of the Department till Regulations were issued in November 2007. First issued in 1962, it was then called C&AG's Manual of Standing Orders (Technical) and was reprinted in 1969 and 1973. It was revised and updated in 1991 and issued by the then C&AG C.G. Somiah, with a changed name 'C&AG's MSO (Audit)'. The procedures etc. regarding certification of finance accounts and appropriation accounts and preparation of audit reports, were earlier detailed in another Volume called MSO (Technical) Volume-II. The 1991 edition included these in the revised MSO (Audit). It was revised and updated and issued by the then C&AG V.K. Shunglu in March 2002. Between 1991 and 2002, a lot of changes had taken place including the famous 1991 liberalization and considerable exposure which the Department had of international audit practices while auditing U.N. and allied organizations. The 2002 edition incorporated, wherever possible, best international audit practices consistent with C&AG's mandate.

Manual of Standing Orders (Audit) is a comprehensive document that sets out in the beginning C&AG's functions, duties and powers under the Constitution of India and C&AG's (DPC) Act, 1971; rest of the Manual 'sets out the general principles and instructions that are to be observed in auditing the accounts, reporting the results of audit and preparation of Audit Reports'. Besides, this general Manual, there are Manuals that are subject specific and set out detailed instructions on conducting audit of relevant subjects. Most of others are about emerging audits like Audit of Regulatory bodies, Audit of Disinvestment and series of guidelines and instructions on IT Audit. Mention in this context must be made of Performance Auditing Guidelines issued by C&AG, V.N. Kaul in 2004 which have overhauled the performance audit systems and practices.

In 2003, the Department formally adopted an Audit Vision and Audit Mission. While the first reflects the basic objective of the SAI India, as promoting excellence in public sector audit and accounting services towards improving the quality of governance, the second brings out the long term mission of the Department that includes enhancing accountability of the executive to the Parliament and State Legislatures by carrying out audits in the public sector and providing accounting services in the States in accordance with the Constitution of India and laws as well as best international practices and where entrusted, to provide technical guidance and supervision to local bodies including Panchayati Raj Institutions to enhance their accountability.

CATEGORIZATION OF AUDIT FUNCTIONS

C&AG's audit functions are broadly classified into three categories:

(i) Financial Audit;
(ii) Compliance Audit; and
(iii) Performance Audit

(i) FINANCIAL AUDIT

C&AG conducts financial audit and issues certificates on the following:

- Finance and Appropriation Accounts of Union, States and UTs having Legislative Assembly.
- Accounts of statutory organizations.
- Government companies and deemed government companies
- Statements of Expenditure (SOEs) of externally aided programmes projects.
- Plan expenditure on schemes.

While audit may have discretion in other types of audits as regards its periodicity, in the case of financial audit there is limited leeway available. Financial audit is mostly mandatory and has to be done annually (subject to accounts being available). This audit enables the C&AG to make sure that the accounts are complete and correct.

Finance Accounts and Appropriation Accounts are the two principal annual accounts of the Union and State Governments. Their audit and certification is conducted in terms of provisions contained in Section 13 of the DPC Act 1971 and C&AG's MSO (Audit) (Second Edition-2002). C&AG certifies both these accounts. Financial audit of accounts of bodies and authorities like DRDAs or Zilla Parishads is done by the respective Principal Directors (Audit)/Accountants General. Detailed guidelines on audit of autonomous bodies where C&AG is the sole auditor exist in the latest Manual of Autonomous Bodies brought out by C&AG in July 2007.

The annual accounts of Government (Finance Accounts and Appropriation Accounts) are audited by the concerned Accountant General (Audit) or Director General of Audit in respect of State Governments and Central Government respectively. These are then submitted to the C&AG for certification. In the case of Union Government, Finance Accounts are compiled for the Union Government as a whole including transactions of the Department of Post and Telecommunications, Defence, and Railways as well as transactions of the Union Territory Government under the Public Accounts. The three Departments namely Department of Posts and Telecommunications, Ministry of Defence and Ministry of Railways prepare their respective Appropriation Accounts duly signed by their respective Finance Heads and countersigned by the concerned Secretary and in the case of Railway by Chairman, Railway Board.

The current system of Appropriation Accounts and Finance Accounts audit is that after the CGA has signed the accounts, it is audited by the DGACR or DGA, P&T or DGA, Defence Services, as the case may be, and after the rectification of accounts on the basis of audit observations, the concerned Secretary signs it and then it is sent to the C&AG for his signature.

In the case of State and Union Territory accounts, except accounts of State of Goa and Union Territory of Pondicherry (now Puducherry), the responsibility for finalizing the Finance Accounts and Appropriation Accounts is on the concerned Accountant General (A&E). A system is in place for getting these accounts checked both at the intervening and final stages by the Internal Test Audit Wing of Accountant General (A&E) and subsequently by Accountant General (Audit). The finalized accounts are then submitted to C&AG for his signature with the prescribed audit certificate.

Governments of State of Goa and Union Territory of Pondicherry prepare their respective Appropriation Accounts and Finance Accounts which are checked by Principal Director of Audit, Central, Mumbai and Accountant General, Tamil Nadu respectively at the draft stage. The final compiled Appropriation and Finance Accounts are prepared taking into account the observations of audit; in case audit suggestions are not accepted, the Principal Director of Audit or Accountant General will incorporate such audit comments as he considers necessary. The accounts are signed by the Director of Accounts & Treasury and countersigned by the Secretary Finance of the concerned States. Principal Director of Audit, Central, Mumbai (now AG, Goa)/ Accountant General (Audit), Tamil Nadu forward the same with prescribed audit certificate for the signature of the C&AG.

Certification of World Bank And Other Externally Aided Projects: The World Bank as well as other funding agencies have accepted the arrangement that C&AG of India be an independent auditor for certification of accounts of projects being executed in India through their assistance. It speaks for the credibility of the SAI-India auditing system that these institutions have reposed so much trust in the C&AG's audit. There is a calendar prescribed for the finalization of these accounts and their certification. There have been cases of delay in the issue of audit certificates for externally aided projects but these are mainly due to delays in the receipt of SOEs from the project implementing authorities.

The prescribed audit certificate is signed by the Accountant General/Principal Director of Audit as the case may be.

Certification of Accounts of Central/ State Autonomous Bodies: Where the C&AG is the sole auditor of these bodies, the audit certificate on the annual accounts is issued by the concerned Principal Director of Audit or Principal Accountant General/ Accountant General (Audit) as the case may be. The format of the audit certificate was revised in April, 2006 for adoption in all cases of accounts to be certified/ separate audit reports issued to the Government/Management from 1 July, 2006 onwards.

Certification of Accounts of Railways is dealt with in Chapter 10 on Railway Audit.

(ii) COMPLIANCE AUDIT

Compliance audit is the current expression in the department for what was earlier called transaction audit, is concerned with compliance with applicable laws and regulations. Essentially, this involves "verifying that the expenditure conforms to the relevant provisions of the Constitution and of laws and rules made thereunder". All transactions are reviewed in audit from these basic requirements. The expression Compliance audit has been adopted now because it is in line with the international practices and C&AG's Report on transaction audit has been renamed as C&AG's Compliance Audit Report from the year 2007. Details of interesting audit findings on compliance audit are contained in Chapter 5 on Audit Reports (Civil).

(iii) PERFORMANCE AUDIT

It 'Is concerned with the audit of economy, efficiency and effectiveness'. It is also called value for money (VFM) audit in some countries. It has also been defined as 'an independent assessment or examination of the extent to which an entity, programme or organization operates efficiently and effectively, with due regard to economy'. The concept, its development over the period and its application are discussed in detail in Chapter-12.

AUDIT METHODOLOGIES AND TECHNIQUES

Government Audit employs different methodologies to achieve its aims and objectives viz. (i) securing executive accountability to Parliament, (ii) providing assurance to Parliament that funds voted by it have been applied for the purpose they were given and, they have been spent wisely as any prudent man will do with his own money, and (iii) provide very useful data to Administration and information on the spending; more importantly, giving independent assessment of the quality of that spending.

How does Audit go about its job? In India, where Audit has evolved for over a century, presently two-main systems operate:

- Field Audit
- Central Audit

Bulk of the auditing is field audit or on site audit like everywhere else. Due to historical reason of C&AG also being the compiler of accounts and, therefore, having the advantage of getting all the vouchers from the treasuries in his office, (this is not applicable for Central Government Offices where the Accounts were departmentalized in 1976), a system of Central Audit or offsite audit also prevails. The vouchers used by the Accountant General (Accounts & Entitlement) for compiling the monthly and annual accounts are subsequently passed on to the Accountant General (Audit) whose team called Central Audit Party (CAP) audits them in the A&E premises. Central Audit Support Section (CASS) in Audit offices coordinates and pursues the work of Central Audit parties and performs all support functions. Central Audit is supplemented heavily by local audit and inspections as prescribed by the C&AG. In cases where accounts have been departmentalized (like Central Government Departments, State of Goa etc), the entire audit is being done locally and there is no central audit. On introduction of VLC in A&E offices in January 2000, checks being manually exercised hithertofore can now be done through computer generated reports. It was, therefore, expected that central audit would become much more effective. This, however, is yet to happen.

Of the 27,270 persons deployed in Audit work in the IA&AD as of March 2005, 20,499 are deployed on Civil Audit (75 per cent). The field audit deploys much of the C&AG's staff—the audit of Union Government Accounts is done totally through field audit work. In case of State (Civil) Audit also, nearly 75 to 80 per cent of audit staff is deployed on field audit.

The basic expenditure audit unit is the Drawing and Disbursing Officer (DDO) of the Department but the audit also covers Controlling Officers, and Heads of Departments besides the Ministries or the Departments of the Government. A data-base of all the auditable entities is maintained by each audit office that contains their relevant particulars. This is naturally revised and updated each year. The quantum of audit checks, the periodicity of audit etc. are governed by C&AG's Memorandum of Secret Instructions as modified by HQrs circular of December 1994 on Audit Planning that allows the Accountants General/ Principal Accountants General to deviate from the norms subject to conditions detailed in this circular. With clear guidelines on risk based planning in 2005, Audit Plans have now adopted these as their basis with refinements taking place every year. The Performance Audit Stream, as explained in a separate Chapter, has a totally different system of preparation of Audit Plan for its reviews which includes acceptance at the HQrs. In State Civil Audit, significant developments took place in the post 1990 period. A detailed account of these is given in the

Chapter on State Audit Reports. However, a brief mention of these would be relevant here. C&AG, Shunglu introduced theme-based Transaction Audit which was a new feature. Amongst these were audit of foreign travel expenses and hiring and utilization of vehicles by State Government Department. In addition certain system based audit were also introduced. Examples of these are integrated audit of a department, manpower audit of a department, audit of personal ledger account/ PD Account. All the above audits were conducted across various States. In addition, emphasis in his period was also on the Environment Audit and Compliance Audit of certain important Acts like Prevention of Food Adulteration Act, Water and Air Pollution Act etc.

DEPARTMENT-WISE/ CONTROLLING OFFICER BASED AUDIT

Currently, the C&AG is debating a proposal for moving on to Department/ Controlling Officer wise audit from the DDO based audit as a unit. The C&AG had constituted a Task Force in December 2005 which concluded that an amalgamation of good features of the DDO and the proposed Department/ CCO audit system would be appropriate. C&AG approved the recommendations of the Task Force in May 2006 to be tried on experimental basis. The new systems were not to cover commercial, state receipts and performance audits and would also not be applicable to the audit of Union Ministries and Departments. It will cover civil transaction audit in States only. To begin with, the system was to be tried in two large and two NE States. These 4 pilot studies were in progress. The study was to be confined only to one high risk Department in each of the Pilot Study States.

REGIONAL AND NATIONAL WORKSHOPS

The regional workshops and national workshops on Civil Audit held from 1996-97 onwards provided an extremely good forum for exchange of ideas and discussions in a business like manner on already identified themes which had lead paper presented by the designated officer and a review of main audit output in the pipeline. For example, in such a workshop held in February 2000, the theme papers presented in the workshop concerned Integrated Audit of a Department, additional guidelines on risk analysis, impact analysis in performance audit and environmental auditing. Besides, audit planning and distribution of staff in HQrs and field offices were also discussed. For each topic, specific action points were identified and conveyed to participating Accountants General. One of the important themes discussed in this workshop related to audit of purchases. The Principal Accountant General, Tamil Nadu gave a presentation on the theme about the system of computerization of sanctions relating to purchases by Government departments developed by his office so that a proper data base was available for audit planning. Amongst the suggestions made was that similar computerized data base should be maintained in all the Accountant General's offices for planning, conducting and monitoring the audit of purchases. It was also suggested that software used by Tamil Nadu Office could be adopted with suitable modifications by other offices. Finally, a Committee of three Principal Accountant General level officers was constituted to finalize guidelines for audit of purchases. A review of ongoing work on Audit Reports is done in regional workshops—every branch of C&AG's audit viz. Civil, Receipts, Railways, etc. have their own systems of holding workshops for this purpose.

COMPLETE AUDIT OF DISTRICT

In February 2000, instructions were issued from the C&AG office to all the field audit offices to take up at least one district in their State for complete audit. This audit would cover the entire expenditure incurred at the district level by all the agencies like DRDAs and Panchayati Raj Institutions. It would include all the schemes both State or Centrally sponsored. One of the objectives of this audit was to see the extent of duplication of various development schemes and examine whether a convergence would be possible for a more efficient and effective implementation of the programmes. Pursuant to these instructions, AG, Madhya Pradesh had conducted a comprehensive audit of Bastar District. Subsequently, on the formation of a separate Chhattisgarh State, this report was discussed by the PAC of Chhattisgarh Assembly which gave its detailed recommendations. (This is discussed in Chapter on 'Key' audit paragraphs).

In April 2003, ADAI (Report State) addressed the field Accountants General on several issues including District Audit. His views on this were based on Regional Workshops held at Kolkata, Bangalore and Delhi. The consensus was that District audit would need new methodology and would be a success 'in drawing the attention of state governments to several developments and accountability issues'. A multidisciplinary approach for this audit was recommended covering works, revenue and commercial audit. All the major schemes implemented in a district including autonomous bodies like universities would be covered. The co-ordinating Accountant General would be AG (Civil) to whom, revenue audit and commercial audit results were to be conveyed for incorporation in the Report. These were broad suggestions, which had been enthusiastically endorsed.

In practice, district audit concept did not take off on a full scale. At least three State Accountants General namely Kerala, Orissa and Tamil Nadu included results of district audit in their Audit Reports of 2003-04.

NEW METHODOLOGIES: BENEFICIARY SURVEYS

Although the basic audit methodologies have remained the same over the years in the sense that audit investigations are carried out through an examination or scrutiny of accounts and related records and documents, certain subtle but important changes have taken place over the last 18 years which have refined the system of audit scrutiny and examination and at the same time introduced certain innovative techniques to gather information. For example, C&AG Shunglu (1996–2002) for the first time introduced a system of commissioning beneficiary surveys through reputed agencies to assess the impact of some of the major socio-economic programmes of the government. ORG Marg was commissioned (June 1999) to carry out beneficiary surveys on Public Distribution System and Rural Employment Generation Programme—two programmes that were being evaluated through Performance Audit for inclusion in Audit Report. The idea was that these independent surveys will capture perception of the beneficiaries or the target group of these programmes regarding the benefits they have derived from these programmes or schemes and thereby give an idea of the effectiveness of the programme. Additionally, the survey would help the audit department to assess the programme delivery as well as the quality of delivery and to some extent the integrity of the delivery system. In retrospect, one can say that the beneficiary surveys did yield a wealth of data and information to audit on the impact these programmes made on the beneficiaries or the target group. ORG Marg prepared the delivery profile for every state concerning these programmes to enable the AG to incorporate findings in their relevant Audit reviews while the national profile was used for the Union Reports/ All India reviews. The executive summary prepared by ORG Marg was appended to the Audit Report containing the reviews. This strategy is often employed in the performance audits carried out by the GAO, the NAO, the OAG and other SAIs.

The subject of engagement of specialized agencies for carrying out beneficiary surveys was again debated at length in the year 2000 and a conscious decision was taken to use them wherever it was seen as of value to audit. This was done after the matter was deliberated at length at HQrs on the basis of a Report of an in-house Committee set up to determine (i) the need to carry out the beneficiary surveys on the schemes for which All India reviews were to be undertaken during the year (there were 4 such reviews) (ii) selection procedure of the agency for the work, (iii) terms or the parameters on which beneficiary survey should be carried out, and (iv) time frame of the beneficiary survey. The committee suggested two All India reviews for the purpose of beneficiary survey (i) National Family Welfare Programme, and (ii) District Primary Education Programme. The C&AG, while approving the proposal of the Committee to outsource the survey, desired that the surveys conducted by the Department of Family Welfare to the extent they provide objective information could be made use of and for the rest, sponsored survey should be able to establish the efficiency of the programme.

During the present C&AG Kaul's tenure, instructions in this regard have been refined much more and form part of Performance Auditing Guidelines. Amongst others, following broad conditions are laid down for engaging a consultant:

- ❖ Document transparently the assessment of knowledge and skill required for each performance audit;
- ❖ Examine and document how the required skill can be fully met in-house, without compromising the audit quality; and
- ❖ Follow the procedure in vogue within the SAI in the matter of procedure for procurement of services of expert/ consultants.

C&AG Kaul commissioned beneficiary surveys for the following schemes:

(i) Sarvasiksha Abhiyan (Ministry of Human Resource Development)—The Social and Rural Research Institute conducted the survey from December 2005 to March 2006. The results were included in Audit Report placed in Parliament in August 2006. Public Accounts Committee selected this Report for detailed examination and submitted its Report containing their recommendations to Parliament.

(ii) Implementation of the Consumer Protection Act and Rules—ORG Marg carried out survey in July–August 2005. The Ministry appreciated the methodology and expressed the view that the findings could be used by them as a benchmark during future evaluation of the impact of the consumer protection measures.

ENGAGING CONSULTANTS

Apart from the beneficiary surveys, another significant development in C&AG Shunglu's time was the engagement of consultant for Audit Report work. It was rather unusual at that point of time to engage an expert for helping audit in their duties but the bold step taken in this matter brought out rich dividends in most of the cases. The consultants who were engaged during that period (1996 to March 2002) related to a variety of audit reviews. Thus, for Defence Audit Report, a consultant, who was a retired Lt. General and had a wide and rich experience in defence equipment purchases, upkeep and maintenance, was drafted to provide technical inputs for the audit review on 'Inventory Management in Ordnance services' for C&AG's Report on Army. By all accounts, his contribution was commendable and the Review was well received. The Report had given several recommendations, most of which were accepted by the Government. Similarly in the performance audit of 'Inventory Management in the Indian Navy', CAG engaged a consultant—an ex senior Naval officer.

An audit review was undertaken on the Commercial Audit side on a major National Programme called 'Golden Quadrilateral Project' which was being executed by the NHAI and which had colossal investment of Rs.58,000 crore; phase-I was to be completed in a time span of five years. A new strategy consisting of two parts was adopted to execute this audit— one of this was to get manpower support from other offices of the IA&AD, mostly Civil Accountants General (Audit) Offices because of the reason that MAB's office did not have either the required number of manpower to carry out this gigantic audit nor had they adequate technical expertise in auditing big works projects. Therefore, civil audit parties were drafted under the overall guidance of Director Commercial Audit to go out to the field formations and to carry out the audit.

The second important decision was to engage the Central Road Research Institute (CRRI), a reputed autonomous organization under the CSIR to (1) provide inputs on technical audit to the auditors, (2) prepare a design for the audit of the NHAI project (Golden Quadrilateral Project) in collaboration with MAB's office, and (3) carry out, at random, technical audit of certain completed works of the project to determine whether these were executed as per the technical specifications laid down for their execution in the project. The outcome of this technical collaboration was tremendous. It was a unique event in many ways—it was perhaps for the first time that a top technical institute was involved in audit work for checking the technical execution of work with significant results. This collaboration between the audit department and the CRRI proved useful and the technical evaluation and quality checks done by the CRRI of the constructed roads disclosed significant shortcomings in the construction of the roads that were detailed in the Report of the C&AG—Public Sector Undertakings for the year 2003–04 (No.7 of 2005).[4] The impact of such solid findings especially in case of programmes like this one that are still underway, was tremendous. NHAI took due notice of these observations of audit and went in for major overhaul in their future systems and procedures.

The services of CRRI were again availed of for survey in the Performance Audit of 'Pradhan Mantri Gram Sadak Yojana' carried out during 2005. Although, the Ministry had put in place quality assurance measures in their project, the examination by CRRI revealed that quality of roads was deficient involving risks like premature distress, clogging of sand layers, inadequate strength to resist heavy load, etc.

Earlier, the IA&AD in 2001 had another very successful collaboration with a technical consultant for the purpose of redesigning Central (Civil) Audit Report No.1 containing comments on Finance and Appropriation Accounts. The C&AG engaged an economist in February 2001 from the National Institute of Public Finance and Policy as a consultant in HQrs to help drafting the Report. The result again was very satisfying; the Report became a trend setting analytical account of Union Government's fiscal policies and programmes with a wealth of data and trend analysis on important indicators of macro level financial management. Subsequently, of course, HQrs went a step further and appointed a fulltime inhouse economist as consultant by bringing an officer of the Indian Economic Service on deputation to the department. This officer refined the report further in the subsequent years. He was also made incharge of drafting Chapter-I of the State Audit Reports dealing with the State finances and accounts. These volumes have rich information and data with sharp analyses based on time series data on various parameters. The system of having an economist on deputation has continued since then.

In the case of IT, the C&AG has had the benefit of having a consultant for several years now. A senior officer of the NIC is posted in the HQrs to guide and advise on the IT related issues. Besides, there are other specialists on regular staff of C&AG on deputation like Director (Works) and Statistical Advisor.

AUDIT PLANNING

As far back as 1975, the HQrs in their circular of 5 August 1975, emphasized that annual programming of local audits should be consistent with available staff with a reorientation of frequency and periodicity and consequently there should not be any audits programmed but not carried out. It also said that 'old yardsticks of fixed schedules of annual or biennial local audits in respect of institutions have become obsolete and the concept of any 'arrears' in local audits should therefore not arise'. The principle of working out priorities was also invoked in this circular in the context of un-audited units.

The Conference of the Accountants General in July 1993, amongst other things, discussed a paper on 'Audit Planning' which was part of Dharam Vir Committee Report. The Committee pleaded for more scientific and meticulous audit planning both at the macro level and at the micro level. The objective of audit planning was to ensure that Audit itself fulfils the criteria of the 3 Es i.e. Economy, Efficiency and Effectiveness with a view to review the Government activities. To achieve this, it was imperative that audit should be conducted with minimum of scarce manpower and avoiding wasteful deployment (economy).

In December 1994, the Department issued a circular on 21 December 1994 on the subject of audit planning to the audit offices. It could be said that perhaps in a formal manner, this was the first detailed direction on the reorientation of the concept of audit planning.

Very briefly, the circular laid down four criteria that an efficient audit plan should include viz:

(a) denovo examination of periodicity of audit and duration of individual audits;

(b) prioritization of audit assignments;
(c) matching the available audit resources with the audit requirements; and
(d) acquiring indepth knowledge of the auditee organization and developing appropriate data base.

It could be said that given the period, when it was issued, the contents produced a significant impact on audit programming, the concept of arrears etc. that seemed quite a deviation from the traditional norms. Firstly, it demolished, in one stroke, the notion that the existing norms relating to periodicity and composition of audit parties are inflexible. Secondly, even more importantly, AGs were empowered to relax the percentage of audit prescribed in the Manual of Secret Instructions. Thirdly, it deployed the concept of matching availability of manpower resources with the audits to be undertaken and for that purpose, a scheme of prioritization was set out in which the first priority was, of course, the statutory and obligatory audits. The mandatory audits naturally did not admit any flexibility. The circular placed All India Reviews and Local Reviews as the next charge on audit resources. The remaining resources were to be used for other local audits.

The circular emphasized the importance of understanding auditee organization and its environment (Auditing Standard 8.3). It stressed building-up necessary data bank and documentation.

The audit plan prepared in the above manner was to be submitted to HQrs, by 15 April every year accompanied by an appreciation note 'indicating the priorities adopted, relaxation in percentage of audit, if any, applied vis-à-vis those prescribed'.

For central audit, the audit plan was to be framed in terms of D.O. letter No. F.102-Audit II/91 dated 29 October, 1993 from N. Sivasubramanian, the then Deputy C&AG.

The above instructions still remain the basis for audit plan and even though these were meant for State (Civil) Audit and Central (Civil) Audit wings, other wings were given the freedom to have their own system of Audit Plan or adapt this suitably. However, the instructions of 1994 have been greatly supplemented by periodical instructions issued from time to time. One of the developments was that from August, 1999, each AG office was to form an Audit Planning Group (APG) that will be responsible for the preparation and monitoring of the implementation of Audit Plan. Interestingly, the Group was also to associate Pr.AG/ AG (A&E) as an invitee 'so as to benefit from the inputs which can be provided by the Accounts Wing'. The Audit Plans were to be framed for 2 years—a detailed Plan for the year in question and a broad framework plan for the next year. During the year this plan would be updated. Thus, the biennial Audit Plan was a kind of rolling plan.

December 1994 orders on Audit Planning created some misgivings in the minds of staff associations. They feared that tailoring the quantum of audit according to availability of staff would result in non-filling of even wastage vacancies and at the same time steady decrease in the volume of audit coverage, etc. Their apprehensions were duly removed by HQrs in their letter of 23 February 1995 by AO (JCM) where it was mentioned that audit planning was not a new concept or policy and all that was being advised to the Accountants General was to plan audit by optimum use of available resources, for which purpose, a prioritization scheme had been indicated. The quantum of audit was not necessarily to be reduced where adequate man-power was available and Accountants General could project the requirement of staff based on prescribed quantum and periodicity.

One can argue that C&AG's Memorandum of Secret Instructions was diluted by the 1994 circular. On the other hand, it can be viewed as a very timely and necessary circular to take care of 'real audit requirements' and avoid proliferation of staff in routine audits. The circular, however, had several ramifications for Accountants General. One of them was the availability of information and data on the auditees and another was that the audit plan should be prepared by the Top Management Team itself and not delegated downwards. The concept of a sound data bank of auditee profiles was the key to the success of the Audit Plan.

SAMPLING TECHNIQUES & RISK BASED AUDIT

The era of 1990s marks a quantum shift of IA&AD towards more refined auditing techniques. Some of the techniques that started getting emphasis in nineties were risk based auditing, use of scientific sampling techniques and audit of fraud and corruption. As early as 1991 in the Conference of Accountants General, it was recommended, amongst others, that the use of statistical sampling techniques be promoted to enhance the credibility of audit observations. The Conference of 1996 considered this again and detailed recommendations were made regarding the use of globally accepted techniques for planning and conduct of audit in areas like central audit of vouchers, audit of DDOs and in the field of financial audit. It also recommended the use of statistical sampling techniques in review of schemes and departments wherever feasible. It, therefore, concluded that the application of statistical sampling be introduced initially in some selected offices involving Civil audit, Railway audit and Commercial audit. It also recommended these offices to be authorized to engage statisticians as consultants to help them in the matter. The desirability of manualising the sampling methodology to achieve transparency in audit methodology was also emphasized. Need for appropriate training to different levels of staff was also emphasized. The Conference expected that detailed guidelines for introduction of statistical sampling may be issued by HQrs and suitable amendments to various provisions of MSO (Audit) also be made. In July 1999,[5] in the context of formation of Audit Planning Group in each AG/ PD office for the preparation of Audit Plan, instructions were issued to the effect that Audit Plan should also be accompanied by a note on the proposed risk assessment methodology/ techniques adopted. In November 1999,[6] instructions were reiterated that while detailed audit programme/ plan may be sent in the format as prescribed in DG (Audit)'s letter of January 1997,[7] this should be accompanied, amongst others by a note indicating the significant high risk and sensitive areas of audit identified as per the indicators suggested in the Report State Wing Circular of 13 July 1999.

The XXI Accountants General's Conference in 2001 again considered both risk based approach and statistical sampling for audit. The Conference made recommendations on various aspects like risk perception, risk identification, risk based audit for certification of accounts, risk based audit in VFM and skill development. The Conference identified expected outputs of risk based and statistical sampling methodology as better use of scarce audit resources, audit attention on priority to significant and high risk items, units, accounts etc. and improved materiality of audit findings and conclusions. It identified expected outcomes also which were: better accountability and transparency in audit, higher credibility of audit and improved planning, execution and reporting. It would be noted that while these new techniques were under the consideration of C&AG for more than a decade, in reality, very little was achieved in terms of the actual application of these techniques in auditing in the sense these were envisaged. These were still broad ideas and not converted into any formal system to be followed by all offices compulsorily. In that sense, these concepts were still developing even as Department was very much conscious of their advantages.

Time was, therefore, ripe when the topic of risk analysis and statistical sampling was discussed in XXII Accountants General's Conference in 2003 to convert these ideas into operational systems. And that is what happened.

After this, things have moved fast. In 2004, Performance auditing guidelines were issued by the C&AG where main emphasis was on risk based technique in planning, selection and audit of entities and programmes. Individual wings in the Department have either already established the system of risk based planning and auditing or are in the process of doing so as detailed in individual Chapters. As regards State (Civil) Audit Wing, instructions were issued in March 2004 in the context of the Perspective Plan of the Department for 2003–08 on sample selection for audit through statistical sampling and risk analysis. The letter mentioned about instructions already issued on this subject in September 2003 and October 2003 and desired a compliance of those instructions. However, the letter also talked about urgent need to firm up parameters/ weights for risk analysis and sampling techniques to be adopted in selected pilot studies for both financial and VFM audits. The matrices were prepared later and circulated to field offices in May 2006. These were aimed to categorise and classify the auditee units specially for Transaction Audit in Civil and Works Department. An annexure to the letter detailed out these matrices and the weightage to be given. Currently, in the preparation of audit plan, these matrices are being used by the State Accountants General.

There have been more developments regarding audit methodologies. In C&AG Kaul's time, new techniques of evidence gathering have been made a part of formal auditing methodology apart from documentary evidence and analytical evidence. These include questionnaire, interviews, expert opinion, impact evaluation, physical inspections, surveys and photographic evidence.

STRATEGIC PLAN AND PERSPECTIVE PLAN

One significant development that took place in present C&AG's time has been the preparation of a Strategic Plan (2002–08) and a Perspective Plan (2003–08). While the Strategic Plan was prepared basically as an audit strategy using the tenth five year plan document as the base for identifying the key expenditure areas for audit purposes during the five or six year period, the Perspective Plan represents the overall action plan for the department as a whole which includes, apart from audit wing, the other wings also namely, accounts, training, HRD, administration etc. which have no place in Strategic Plan. It is the Perspective Plan which the department monitors in terms of progress made towards achieving the goals. It conveys the broad contours for medium term progress of the organization. There is a regular monitoring of the achievements of the various goals set out in the Perspective Plan for all the concerned goal supervisors. The progress in implementation of Perspective Plan was discussed at length in AG's Conference of 2005 and suitable directions wherever necessary were also given. The advantage of having these two plans is that while one i.e. Strategic Audit Plan helps the department in identifying the major audit areas, the other that is Perspective Plan gives not only audit related goals but also deals with the important audit methodologies and practices that aim at the quality improvement as also impact of the Audit and also helps in adopting best international practices.

Strategic Plan (2002–2008): The role and functions of Strategic Plan are best described in the document itself:

'The Strategic Plan is a framework for facing impending challenges based on our identification of certain critical themes that would influence the development process. The Plan also outlines our broad goals and strategic objectives, the attainment of which will be in support of our primary task of informing Parliament'.

The Strategic Plan divided the entire audit field for next six years into five broad themes. These were:

- Human Development
- Economic Liberalization
- Infrastructure Modernization
- Technology upgradation
- National Security

For each of these themes, the Plan laid out specific audit goals and objectives.

To give two examples of this- for the theme Human Development, the stated goal was to assess the execution of governments' interventions aimed at enhancing the quality of life of the people. Related strategic objectives were to study the implementation of different social sector programmes in the following areas:

- Poverty Alleviation
- Health Sector Management
- Population Stabilization
- Education
- Food Security
- Mainstreaming Gender Equality

The second example is that of the theme Economic Liberalization where the goal was that Audit 'will review measures taken to reopen the process of economic reform and to optimize resource usage.'

The connected strategic objectives were to examine Government interventions in the areas of:

- Fiscal Management
- Tax Reform
- Management of Subsidies
- Privatization

The Plan closely followed the Tenth Five Year Plan Documents approach and activities listed therein. This was because Audit will mostly be conducted on the expenditure projected for next 5 years on the various schemes and programmes listed in this document. In retrospect, it can be seen that the major Performance Audit Reviews which have appeared in Audit Reports like Food Security, National Highways Project (Golden Quadrilateral Project), Privatization, Subsidy Management etc. are in line with those identified in the Strategic Plan.

The NAO Consultants praised the Strategic Plan prepared by C&AG's office as 'a sound analysis of the future direction of Government programmes and core issues'.

Perspective Plan (2003–2008): The concept of a Perspective Plan for a five year period was recommended by NAO Consultants in their study Report on SAI, India. Accordingly, a Perspective Plan for the period 2003 to 2008 was prepared. This document is the blue print of the future developments in the Audit Department. The Perspective Plan for the Indian Audit and Accounts Department prescribes the broad contours for medium term progress of the organization. It has set out specific time bound goals that need to be pursued to realize Audit Vision and Mission, and for each goal relevant specific programmes have been detailed (13 goals were identified). The accountability centers i.e. the authorities responsible for implementing them (called Goal Supervisors and Goal Managers) were also identified for each goal. 'Each functional wing will draw up annual programmes which will reflect the requirements of the perspective plan. Resource commitments and specific activities will be incorporated in these programmes'. In relation to the State Auditing functions contained in the Perspective Plan, a communication from HQrs in March 2004 gave a framework of action on two important programmes listed in the Perspective Plan namely programmes for 'Audit Methodologies' and 'Performance Audit'. The following instructions relating to the specific actions on each item of programme listed in the Perspective Plan were given in the letter.

(a) All Accountants General were asked to prepare an electronic database of auditable entity profiles, audit plans, audit outputs and follow up of audit observations by September 2004. This was to be updated regularly and improved as per the suggestions of the HQrs, to whom a copy of the initial database was to be sent by 30 September, 2004.

(b) The updated methodology of sample selection involved more scientific statistical sampling and risk analysis. HQrs had issued several instructions on this subject to the field offices from where compliance was to be ensured. In addition, the letter emphasized that some select pilot studies be done for both financial as well as VFM Audit where the parameters for risk analysis and sampling techniques should be firmed up and used in these pilot studies.

(c) The letter emphasized upon Computer Assisted Audit Techniques (CAATs)—Instructions on this had been issued in July 2002 and the letter asked the AsG to carry out some pilot projects using the VLC data. This assignment was to be completed by April 2004. It was also enjoined that a cell would be set up and proper training will be imparted to all the cell members by March 2005.

(d) Categorization of Audit—The letter emphasized the new categorization system of audit into financial/ transaction audit and performance audit and emphasized the necessity to formulate distinct methodology for these audits. Audit personnel should be trained in RTIs and RTCs. The target date set in new methodology was March 2005 and for other related works, March 2006.

(e) Evidence gathering through modern techniques—the letter impressed upon the adoption of new techniques of evidence gathering like questionnaire, interviews, expert opinion, impact evaluation, physical inspection, surveys etc. Necessary guidelines on how to look for evidence were included in HQrs Circular of 21 October 2003. Whatever be the evidence, it has to satisfy the criteria of competence, relevance and reasonableness. The letter advised that additional evidence techniques should be used in selected audits during 2004-05. It was also enjoined that a workshop should be held to decide on the applicability of new techniques of evidence gatherings.

(f) Internal Control Mechanism—HQrs had already introduced an evaluation of internal control and internal audit system of government departments from the Audit Report 2003–04. The letter emphasized that the review should be on the lines of INTOSAI guidelines and further the office should develop benchmark for this review based on standards of Institute of Internal Auditors. It was recommended to carry out pilot studies and then frame standards.

The letter advised compliance with reporting standards by all AsG Audit. It also advised them to give 'a balanced appreciation in the administrative context' rather than only indicate shortfalls and weaknesses in Performance Audit Reports. It was also advised that audit should make constructive and practical recommendations after taking into account views of the auditee units.

The letter mentioned about evaluating effectiveness of audit for which a matrix has been devised separately for reviews and paragraphs. Accountants General were also to submit assurance memos and they were also asked to liaise with State PACs requesting them for selective examination of earlier Audit Reports so that their recommendations become more current.

On Performance Audit, the letter asked the AsG to assess the progress of critical programmes of Governments as enunciated in the tenth five year plan with focus on poverty alleviation, health sector management, population stabilization system, education, food security, mainstreaming gender quality for preparing the annual audit plan which should identify thrust area specific to the concerned States. This would also include quality infrastructure for greater economic growth. A mid term review of the Perspective Plan was done in September 2005 in the XXIII Conference of Accountants General.

AUDIT OF FRAUD AND CORRUPTION

An area which has drawn the attention of present C&AG is the issue of audit of fraud and corruption. The C&AG had participated in discussions in the UN Panel on this issue. It gave him good idea of the role and responsibility of Audit in the area of fraud and corruption. His initial impulse to activate and include this system of audit in SAI-India system, came from these discussions in the UN Panel.

C&AG set up a Committee in August 2003 to examine the issues involved and submit recommendations for setting up of 'fraud detection mechanism' and road map to 'identify areas, conceptualize audit methods, to train staff and manualise' the system of fraud examination in the IA&AD.

The Committee's draft report was discussed in a meeting of Senior Management with C&AG in December 2003 and based on the inputs, the report was revised and the final report was approved by the C&AG on 31December 2003. In April 2006, HQrs issued instructions on the subject which were to be followed by the concerned audit offices from the financial year 2005–06 for all transaction Audit Reports of the Union Government and transaction audit chapters of the State Audit Reports. These, *inter-alia*, included the following:

(i) A review of audit plans to focus on high risk areas, specially those that were highlighted by the Chattopadhyay Committee and in para 2.28 of the ASOSAI Guidelines dealing with fraud and corruption;
(ii) Paras relating to fraud and corruption should be printed in bold type in Audit Reports;
(iii) Submission note relating to Bond copy should make a specific mention of these cases;
(iv) C&AG's annual post-audit report letter to Chief Ministers should also make a mention of these cases in the Audit Report; and
(v) All such cases should be taken up with appropriate authorities after the approval of bond copy, which contain these paras along with others.

It was also mentioned in the said letter that standing orders/ guidelines on the audit of fraud and corruption were under preparation and would be issued soon. The above instructions were circulated to the DAIs/ ADAIs by DAI (LB) with the request that within their respective charge they may issue necessary instructions to the field offices.

In September 2006, HQrs issued standing orders on role of audit in relation to cases of fraud and corruption. Detailed guidelines were to be issued 'as and when the need arises'. While dealing with the role of audit, the HQrs letter made it clear that the responsibility for prevention and detection of fraud and error primarily rests with the management through implementation and continued operation of accounting and control systems designed to check frauds. Audit role was to evaluate and report on the adequacy of systems in place and competence with which management has discharged its responsibility regarding prevention, detection, response and follow up measures in relation to fraud and corruption. The audit does not make legal determination of whether fraud has actually occurred—what audit teams and officers can do is to put red flags (which is an indicator that further scrutiny of the concerned transaction or item would be needed) which need further investigation by appropriate agency. Where evidence is clear, audit can come to a conclusion about a suspected fraud and include in their findings.

The instructions were detailed and defined audit responsibility in fraud examination. They defined characteristics of corruption and fraud as also nexus between fraud and corruption. The order emphasized the importance of independent risk assessment at audit planning stage—audit plan in relation to fraud and corruption should focus on high risk areas. It identified by way of illustrations some of the more prominent and common high risk areas. At the audit execution stage, the audit teams should be vigilant and seek explanations wherever they come across possible fraud indicators.

The instructions focused extensively on IT frauds and gave detailed instructions on how to deal with them. Regarding the reporting and follow up, a procedure was laid out. The initial report of individual case of fraud or corruption should be confidentially reported to the controlling authority concerned with the approval of group officer. More serious cases should also be reported to the Secretary of the Administrative Department and investigative authorities like Central Vigilance Commission (CVC), State Vigilance Authorities or Lok Ayukta over the signature of the Accountant General or with his approval. It was also enjoined that cases of suspected fraud and corruption should be specially highlighted by printing them in bold type in the IRs and Audit Reports. There has to be a clear distinction between an audit para on mismanagement and one on fraud and corruption. A para that reaches the benchmark specified in the instructions alone will qualify to be a para on fraud and corruption.

At the bond copy stage of the Audit Report, the Accountant General should indicate in his/ her forwarding letter the number of cases of fraud and corruption included in the report.

After approval of the bond copy, these cases should also be taken up with respective vigilance authorities in Central and State Governments.

An important instruction in the circular of September 2006 required the audit teams to provide a memorandum/certificate of assurance which will include, *interalia*, examination of issues relating to fraud and corruption.

Results of these instructions are encouraging. In the latest Audit Reports, there is a marked increase in audit paras dealing with fraud and corruption.

While the foregoing instructions have laid out the latest drill of the audit of fraud and corruption and its follow up, there was some system in place earlier also on the subject including coordination[8] between C&AG and CVC as well as State Vigilance or Lok Ayukta authorities. As per instructions issued in August 1997, Accountants General/ Principal Directors of Audit were required to suggest to respective ADAIs cases of fraud and corruption included in the audit report for the purpose of bringing them to the notice of investigating agencies. Similarly, in regard to Audit Reports of Union Government a similar decision to forward the suspected cases of fraud and corruption to the Central Vigilance Commission was taken in February 2001. The CVC in turn directed[9] all his CVOs to scrutinize the audit reports of C&AG for necessary follow up or vigilance action (in respect of Central Reports only). Instructions in the matter were also issued in August 2003[10] and September 2006 on follow up of these cases.

While earlier a system of reporting of suspected fraud/ corruption cases to the appropriate administrative and vigilance authorities was in place, a paradigm shift in audit policy has taken place now. This shift concerns audit approach towards its responsibility in detecting cases of suspected fraud and corruption. Not only is there recognition now that audit has a definite role in this regard, the new instructions have given the broad road map to audit laden with techniques and approach to detect such cases both in the case of traditional regularity (transaction) audit and for IT related transaction audit. To that extent, one would expect better findings from audit in this area. In fact, audit results on fraud and corruption, as discussed in Chapter on Audit Reports have shown significant cases of suspected fraud and corruption detected by Audit.

QUALITY ASSURANCE: PEER REVIEW

More and more SAIs across the World are getting to the view that just as they (SAIs) assess the accountability and effectiveness of the executive and their programmes, the SAIs also ought to be measured on the same scale and this will require that the SAIs should also be subject to some external and independent peer review besides independent financial audit. United States General Accounting Office (GAO) (now renamed as Government Accountability Office) and the Canadian Auditor General's office both have underwent independent peer review done by external auditors. In the case of GAO, the peer review was conducted in April 2005 by a multi member team of SAIs led by the Office of Canadian Auditor General with other members drawn from counterpart Supreme Audit Institutions of Australia, Mexico, Netherlands, Norway, South Africa and Sweden. In essence they 'reviewed the quality assurance system that the GAO has established for managing its performance audit practice'. The Canadian Office of Auditor General was, in fact, the first Supreme Audit Institution that underwent a peer review in 1999 by an international team of SAIs led by the National Audit Office of the UK.

In the case of SAI India, the situation is somewhat different: while a formal review by an independent multinational audit team has never been conducted, in 2002, the National Audit Office of UK was commissioned as Consultants under an IDF Grant 'to assist the office of the C&AG to improve the efficiency and effectiveness of the public audit function in India'. The report of the National Audit Office, UK team was given in January 2003. The report, in many ways, was first attempt, of an independent review of the C&AG's organization by an external body.

The objective of this evaluation study was 'to assist/ advise the C&AG's organization in devising a strategic plan for the development of a vision, mission and related assessment of core capacities of the office of C&AG'. Specifically, the National Audit Office Consultants was to carry out the following tasks:

- study the existing institutional systems of public auditing by the C&AG and identify requirements for strengthening the institutional capacity of the C&AG's organization;
- moderate a seminar with facilitation and content expertise;
- help in finalizing a strategy plan for strengthening the institutional capacity for skill development in areas to be identified; and
- help in designing an action plan with a definite timeframe for implementation of the strategy.

The Consultants after their study, made a number of recommendations to improve the matters even as they asserted that their findings and recommendations are to be reviewed 'against the considerable strengths that the IAAD has and its pivotal role in promoting better governance in India'. They recognized the 'strong legal independent frame work in which the C&AG operates' and very effective process of developing a well respected cadre of senior staff to lead the organization as they are the key strengths of the organization.

The Consultants wanted that a clear vision for the organization must be stated that would take a longer term view of the changes that may be required and establish clear objectives and milestones against which progress can be measured. The Consultants hoped that their recommendations, if implemented, will expand the current character of the C&AG's office from primarily a policing role to a more effective agent for change. Against this background, following major recommendations were given:

(i) There was a need to develop and implement a Corporate Plan, that included a statement of vision and mission to act as a focus for further development of the Organisation;
(ii) A policy unit in C&AG's office should prepare the Corporate Plan and a comprehensive management information system;
(iii) The Audit Department should establish a Human Resource Unit to develop strategy to address issues of recruitment, promotions and staff evaluation;
(iv) A review of existing training provision should be carried out;
(v) The strategic audit plan should be developed further and indicate clearly resources to be applied to achieve the strategic plan;

(vi) Various audits undertaken by C&AG should be clubbed into two categories i.e. financial and performance audit with clear objectives for each.

(vii) Greater use of risk based auditing should be undertaken with statistical sampling techniques and audit should develop additional approaches to gathering audit evidence. Initially, pilot audits should be conducted on the basis of this new approach and results of these evaluated before any changes are fully introduced.

(viii) Department should establish financial and performance audit methodology teams.

Audit Reports should be more balanced and even-handed. The Audit Report findings should be set in a clear context and offer constructive and practical recommendations for improvements. The IA&AD should consider alternative ways in which the results of its work can be disseminated.

The Department should develop a strategy for external relations that will identify a number of key messages that it wishes to get across and means of delivering those messages. In this context, it was recommended that the strategy should include a sub-strategy for dealing with the media.

Senior management of the Department should continue to meet their counterparts in the audited organizations on a regular basis to discuss important issues.

An important recommendation was that senior staff involved in the finalizing C&AG's reports should be involved much earlier for discussion with the auditable entities about the contents of the Audit Report.

There was a need for fundamental review of the organisational structure for efficient and effective operation of the Department.

The Consultants wanted IA&AD to consider establishing specialist Value for Money teams both at Union and State level, establishing a job-costing system to allow the costing of individual audits, and other activities like training to be accurately measured. A methodology for assessing the impact—financial or otherwise—of the C&AG's work should be developed initially on a pilot basis.

FUTURE ROADMAP

The AG's Conference in 2003 recommended a four step strategy for future roadmap as indicated below:

- ❖ Review all our existing systems and procedures in the light of NAO recommendations. Complete the necessary adjustments/ restructuring by March 2005. Plan for joining the GWG initiative from April 2005. Open up financial and VFM audit practices to Peer Review thereafter.
- ❖ Obtain ISO 9002 certification for entitlement services for one office on a pilot basis. Extend gradually to others.
- ❖ Engage peers for IT audit of VLC applications.
- ❖ Associate NCAER, NIPFP or an IIM for peer reviews of major performance audits, particularly those entailing evaluation of impact of government programmes.

ASSIGNMENT OF ORIGINAL WORK IN LOCAL AUDIT TO GROUP OFFICERS

A circular assigning original work in local audit to group officers was issued in February, 1996 with a view to improving the quality of audit and upgrading the audit skills of group officers. Its importance has been reiterated by DAI's Committee also. In undertaking original work, all queries and audit memos had to be drafted/ issued by group officers. Group officers could take their personal assistants on tour, if necessary, for secretarial assistance. Specific mention of the extent/ quality of direct work done by Group Officers was to be made in their annual confidential reports. The areas of work in various wings which were assigned to group officers were also specified in the circular. HQrs had observed in March 2002 that there were significant shortfalls in supervision carried out by the group officers of the field audit parties. In some cases, even cent percent shortfall was noticed. Field offices were requested to ensure that the group officers overcome shortfalls in future and adhere to requirement of minimum seven days supervision.

Actual number of days spent by a group officers in most offices was far less than prescribed 7 days. With regard to their contribution to the Audit Report material, most of the offices drew more or less blank but there were some notable exceptions. These are good signals and eventually the role of group officers will be crucial in Audit. In 2007, it was decided to increase the supervision by group officers from 7 days to 10 days in a month. Of these, atleast 5 days must be outside their HQrs.

RANKING THE PERFORMANCE OF AUDIT OFFICES

For the first time, the Department devised a system for ranking the performance of audit offices in terms of 10 parameters which were prescribed by the HQrs and transparently included in the scheme of ranking system. Amongst these 10 are: quality of Audit Reports, quality of implementation of audit plan, quality of timely issue of inspection reports, group officers' supervisions and their impact, dispatch of material for Audit Reports to HQrs in terms of specified milestones and training of personnel, specially utilization of slots allotted by RTI and percentage of earmarked trainings conducted. Timely issue of audit certificates is also a criteria. The system was notified in November 2004. A matrix devised for each parameter was also explained in the November 2004 letter but the application of the matrix for the first time for the purpose of ranking was done in the year 2006. The points and the grade earned by individual offices were circulated to them for the first time in November 2007. Some skewedness had been observed in the application of the matrix and efforts are on to perfect the matrix to get as appropriate a ranking as possible.

While it is too early to make any comment on the impact of this system on the efficiency and motivation for the offices, the fact that a system of ranking the offices on transparent parameters is in place, would surely motivate the offices to go in for excellence.

MEASURING AUDIT EFFECTIVENESS

A Committee was constituted by C&AG in May 2003 to examine the issue of audit effectiveness and develop appropriate criteria for the purpose of:

(i) external dissemination of the contribution made by us towards the larger end of improved governance and to meet public expectations; and

(ii) internal evaluation so that performance could be assessed and benchmarks could be set for enhancing results in future. Such internal evaluation would take into account the different circumstances in which offices function and comparisons of performance would necessarily be inter temporal rather than inter state.

As per decision taken on the Report of this Committee, each functional wing in the HQrs office was to determine the weightages to be assigned to various paragraphs which were included in the Audit Reports related to their wings. Apart from this, the wings such as Railway Audit Wing which are concerned with certification of various finance accounts and related statements were also required to determine the additional parameters that were necessary to make a proper assessment. This matrix was used for the audit reports for the year 2002–03.

In January 2004, C&AG decided to get the matrix reviewed by a Committee of senior officers which included Economic Advisor M.C. Singhi, besides five Principal Directors of various functional wings of C&AG office.

The Committee dwelling on the logic and purpose behind the development of matrix said that while earlier also a money value for draft para was assigned, this new system of matrix was an attempt 'to systematize the assigning of weighted money values on a more sound basis. It placed audit findings on a hierarchical basis i.e. greater emphasis is placed on audit findings which have a more significant impact.'

The Committee concluded that the existing matrix may continue with minor adjustments in some cases.

INTERNAL AUDIT IN GOVERNMENT

On the basis of his experience of evaluation of internal controls which is being carried out now since the year 2003 as a standing practice in atleast one Ministry/Department for incorporation in the Audit Report, the C&AG came to the conclusion that there were serious deficiencies in the existing system of internal controls including internal audit. His impression was that the internal audit arrangements as they existed were ineffective and 'fail to support openness, integrity and accountability in Government in any substantial measure'. In his view this also had an adverse impact on governance.

The C&AG felt so much concerned about this state of affairs that he decided to take up the matter with the Finance Minister whom he addressed in May 2006. In this communication, he gave six suggestions to completely overhaul the internal audit arrangements in the government. These included securing independence for internal auditors functioning in various Ministries/Departments of Government of India, broadening the audit mandate to include performance audit for internal audit, proper and systematic audit planning, development of a clear set of internationally benchmarked standards for internal audit, training for development of skills where he offered the services of his organization and, finally, he pleaded for an effective follow up of internal audit findings by strong Audit Committees with a majority of independent members on the pattern of UK.

The Government responded by requesting C&AG to set up a small group that could go into the benchmarking of the status of internal audit in Government of India and identify the specific areas that needed improvement. The C&AG accordingly set up a Task Force[11] in July 2006 which submitted its Report in October 2006. The C&AG accepted the findings of the Task Force both on the status of internal audit in the Central Government and also its specific recommendations for measures required to bridge the gap between existing standards and global standards of internal auditing in Government. The recommendations of Task Force interalia were on issues relating to the mandate, independence and auditing standards needed for internal audit in India, requirements for training, reporting and follow up. Finally, the Task Force suggested the constitution of a Board of Internal Audit and in that context also examined the question of improving synergy between the internal and external audit. The C&AG forwarded the Report of the Task Force to the Government in November 2006 suggesting that this could form the basis of internal audit reforms in Government of India.

AUDIT ADVISORY BOARD

An institutional mechanism of considerable significance was established when in March 1999, C&AG V.K. Shunglu constituted an Audit Advisory Board to provide him with inputs for audit planning and for setting overall audit objectives. Senior Management Team of the C&AG (initially all DAIs and ADAIs were Ex-officio members along with DG (Audit) as Secretary of the Board, at present only 3 DAIs are ex-officio members of the Board), and outside members numbering 12 (comprising persons of eminence in various disciplines or fields such as academics, medical profession, engineering profession, civil services, industry leaders, civil society) constitute this Board. The President, Institute of Chartered Accountant of India by convention is also ex-officio member.

A look at proceedings of various meetings of the Advisory Board suggests that the Advisory Board, besides discussing the Audit Reports of the C&AG, discussed concurrent and interesting themes. In February 2003, the Board discussed highly relevant contemporary subjects namely Strategic Plan of the Department for 2003-08 and the Report and Action Plan of NAO Consultants. In February 2004, the Advisory Board discussed a very interesting theme, namely, role of C&AG as an instrument of reconstruction rather than an agent of criticism and ways of fulfilling his mandate in respect of financial accountability. In the same meeting the Board also deliberated role of audit in detecting fraud and corruption, nature and scope of performance audit and need for a more pragmatic approach. In September 2004, the Board had presentations on the following important themes by the eminent persons as noted against each:

- Information Technology (theme paper by Shri N.R. Narayana Murthy)
- Development of an appropriate audit strategy for audit of receipts—by Shri N. Rengachari
- Development of indicators for audit of environment and related issues—by Shri R.K. Pachauri.
- Reliable and effective model for audit of social projects—by Dr. Y.K. Alagh.

Further, the Board discussed in April 2005 the papers on 'Accountability reforms and movement from a cash basis of accounting to accrual system' and 'Audit of Scientific Departments'.

Besides, the Board also discussed issue of audit planning in March 2000. In October 2000, discussions were held on audit reports for the year ended 31st March 1999, Receipt Audit Reports and Reports on Voluntary Disclosure of Income Scheme (VDIS), Audit Report on Public Distribution System (PDS) and Audit Plan for the year 2000–01. It further discussed in March 2001 Audit Report of Central Government for the year ended March 2000, present position of Centre/ State Finances and the financial position of the Electricity Sector (Electricity Board and Companies) and Road Transport Sector.

The Audit Advisory Board mechanism has given a definite edge to the Department in as much as it gets the opinions and suggestions of the most eminent persons in the concerned area which goes a long way in shaping the audit strategy and audit philosophy regarding its role as the Supreme Audit Institution of the Country.

KNOWLEDGE SHARING AND DISSEMINATION OF INFORMATION

The Audit Department is unique and somewhat different from others in one respect. It continuously needs to widen its knowledge base, upgrade its skills as an auditor and financial analyst and generally grasp and adjust to the developments or changes across the public administration and socio-economic areas. An excellent beginning towards exchange of ideas and knowledge sharing was made by C&AG V.K. Shunglu during his period (1996–2002). Every year, the C&AG would hold at least two seminars devoted to a specific theme of contemporary interest in which eminent persons from outside were invited to participate. Besides, the seminars were attended by a number of officers of the IA&AD—while most of these were attended by all the DAIs and ADAIs, a fair number of participants were Pr.AGs/ AG level officers. The seminars were mostly held in NAAA, Shimla and after the new building of Academy came up in 2001, the intake of participants also increased because of better infrastructure facility available. The present C&AG V.N. Kaul also continued the practice of holding seminars on important subjects.

Seminars have been held on a variety of subjects and themes which included:

1. Liberalization and After (13–14 September 1996)
2. Fiscal Deficit (1–2 May 1997)
3. Fiscal Deficit in States (18–19 September 1997)
4. Financial Sector Reforms (27 April 1998)
5. Financial Health of State Governments (8–9 October 1998)
6. State Level Public Sector Undertakings (6–7 May 1999)
7. Accountability of Local Bodies and DRDAs (15–16 September 1999)
8. Voucher Level Computerization (May, September 2000)
9. Impact Evaluation of Government Programmes (21–22 June 2001)
10. Government Assets (1–2 September 2003)
11. Performance Indicators—Economic and Social Sectors (8 June 2005)
12. Accountability of Local Bodies and Role of CAG (26–27 June 2007)

Besides Shimla, a couple of national seminars were held in Delhi also. These included Seminar on Disinvestment and a follow up of the Seminar on Impact Evaluation of Government Programmes at Neemrana (Rajasthan).

NOTES: CHAPTER-4

[1] This Chapter is mostly concerned with Audit Systems, Procedures etc. in Civil Audit. However, developments common to all streams of Audit are also included in this Chapter.

[2] This was done by new Government under the Prime Ministership of Shri Morarji Desai.

[3] MOF DEA Budget Division No. 6(5)-B (R)/99 dated 13 June 2006.

[4] Report of the Comptroller and Auditor General of India for the year ended March 2004, Union Government (Commercial), National Highways Development Project of National Highways Authority of India, No.7 of 2005

[5] No. 742-Rep(S)/116-99 dated 13 July 1999

[6] P.K. Mukhopadhyay, Pr. Director (RS) D.O. No. 1161-Rep(S)/112-99 dated 29 November 1999

[7] DG Audit No. 54-Audit(Audit Planning)/193-94 dated 24 January 1997.

[8] N Vittal's DO No. CVC /2001/570 dt. 8 May 2001

[9] CVC letter No. 001/VGL/5 dt. 8 May 2001.

[10] Divya Malhotra, Director (RS) D.O. No. 1149- Rep (S)/187-2003 dt. 28 August 2003.

[11] The Task Force was headed by Dr. AK Banerjee, Director General of Audit, Central Revenues.

LIST OF KEY EVENTS

5 August 1975	Orders were issued placing emphasis on annual programming of local audits consistent with available staff with a reorientation of frequency and periodicity.
1991	First Edition of Manual of Standing Orders (Audit) was issued after bifurcating existing MSO (Tech) into two separate Manuals one for Audit offices and MSO (A&E) for A&E offices.
1994	Norms of basic principles and practices which Government auditors are expected to follow were prescribed by the C&AG in Auditing standards.
21 December 1994	Format of Audit plan for Local Audit and Central Audit, distribution of men in position, deployment of parties, target of DPs, etc prescribed.
3 January 1995	C&AG wrote to Minister of Urban Development regarding allotment of accommodation in a manner not commensurate with guidelines of Government and alerting the Minister, so that action was taken to streamline the allotments.
31 March 1995	C&AG wrote to Minister for Urban Development for making available files relating to out of turn allotments.
30 April 1995	Minister of Urban Affairs and Employment replied to C&AG that files relating to out of turn allotments need not be made available to Audit in routine.
30 May 1995	C&AG wrote to Prime Minister for providing guidance to the Minister of Urban Affairs and Employment in the matter of production of records to Audit.
15 June 1995	C&AG wrote to Minister of Urban Affairs and Employment welcoming the latest instructions issued by the Ministry in the matter of allocation of Government accommodation.
5 August 1997	DG (Audit) issued instructions indicating that while forwarding Bond copies of Audit Reports, Pr. AG/AG would suggest issues concerning corruption, malpractice which could be brought to the notice of the investigating agency.
5 June 1999	ORG-MARG engaged as consultant for beneficiary survey of Public Distribution System.
30 July 1999	It was decided that in each AG/PD office an 'Audit Planning Group' will be formed. PAG (Audit)/ AG(Audit) will be the convener of Audit Planning Group.
1 January 2000	Agreement concluded by the Headquarters office with M/S Generals Combine for study of management of inventory held by DGOS and Corps of Engineers which included assistance right from framing audit objectives till finalization of Draft Review

11 February 2000	A circular was issued to State AsG to take up at least one District in their State for complete audit.
1 April 2000	Agreement concluded with M/S 'Generals Combine' for assistance in conducting Performance Audit of Directorate General of Quality Assurance.
23 May 2000	ADAI (R-C) approved the need for beneficiary survey for Family Welfare Programme and District Primary Education Programme.
24 January 2001	C&AG approved engaging NIPFP as Consultant for improving upon the economic analytical content of Report No. 1 (Civil) relating to Accounts of the Union Government.
8 May 2001	CVC stated that serious cases of malpractices having vigilance angle would also be sent to them by C&AG for examination and follow up action.
31 August 2001	Instructions were issued by Headquarters that fraud and corruption cases appearing in Audit Reports which warrant vigilance investigation would be communicated to Chief Secretary and Administrative Secretary for taking up the matters with State Vigilance Authority
6 March 2002	Issue of Revised edition of Auditing Standards adopting suitably the restructured Auditing Standards issued by the INTOSAI in 2001.
7 March 2002	Second Edition of MSO (Audit) incorporating latest instructions and wherever possible best international audit practices consistent with IA&AD's mandate, was issued.
2003	Perspective Plan containing interalia 'Vision of SAI India' and 'Mission of SAI India' issued.
January 2003	National Audit Office of UK submitted a Report regarding modernization and capacity Building of the office of the C&AG of India.
14 July 2003	DG (Audit) circulated Report of the Committee on 'Measuring Audit Effectiveness' and format for 'Weighted aggregate of Money Value' to DAIs/ADAIs of functional groups.
4 March 2004	Programmes for the 'Audit Methodologies' and 'Performance Audit' and action to be taken on those was circulated to all Pr. AG (Audit)/AsG (Audit) .
July–August 2005	ORG MARG engaged to carry out survey for the Performance Audit of 'Implementation of the Consumer Protection Act and Rules'.
December 2005– March 2006	Social and Rural Research Institute carried out beneficiary survey for 'Sarvasiksha Abhiyan'.
17 March 2006	C&AG wrote to PM (Manmohan Singh) requesting his intervention to ensure that Performance Audits of Economic and Commercial Wings of the Indian Missions and Passport, Visa and consular services were allowed to proceed.

DOCUMENTS

1

No. 380-Codes.I/41-74/Gr.V
Dated 5.8.75

To
The Accountants General

Sub: Arrears in local audits programmed but not conducted during 1974–75.

Sir,

Kindly refer to the Annexure II to this office letter communicating approved provisions allowed for inclusion in the Revised Estimates 1974–75 (Extracts enclosed). It was requested therein that you may organize the local audit programme in such a way as to ensure that audit of bodies and authorities selected under Section 14 & 15, Corporations and other Institutions audit of which is entrusted under Section 19 or under any law made by Parliament is completed according to prescribed schedule. The reviews of schemes selected, was also required to be completed with the existing staff. The balance of staff were then to be deployed on the normal OAD work which was to be phased in a suitable manner. In this context therefore the old yardsticks of fixed schedules of annual or biennial local audits in respect of institutions have become obsolete and the concept of any "arrears" in local audits should therefore not arise. Our intention was that all institutions should be covered in local audit over a period of time without any fixity of schedules. The period for which the institutions which were not audited during 1974–75 would no doubt be taken into consideration while working out priorities for future annual programmes.

As the emphasis is now on annual programming local audits consistent with available staff with a reorientation of frequency and periodicity, there should normally not be any audits programmed but not carried out.

You may kindly confirm that the annual programming of local audits is being done accordingly.

Yours faithfully,
Sd/-
(Vijay Kumar)
Deputy Director (Codes)

2

Copy of letter No.79-Audit (Aud.Plg.)/9-96 dated 1st February, 1996 issued under Circular No.2 of 1996 by Mrs. Pravin Tripathi, Principal Director (Audit), O/o the C&AG of India, New Delhi addressed to All Principal Accountants General/Accountants General (Audit) and All Directors General of Audit/ Principal Directors of Audit (including P&T, Defence, Railway and Commercial Audit offices).

Sub: Assignment of original work in local audit to Group Officers.

Sir,

The issue regarding assignment of original work in local audit to Group Officers in various wings was under consideration of this office for some time past. It has now been decided to make a beginning in this regard. Such assignment is intended to serve two distinct purposes, i.e. (i) to improve the quality of audit and (ii) to upgrade the audit skills of Group Officers. The areas in which original work is to be handled by Group Officers are given in the annexure. These would be reviewed in due course in the light of experience gained.

2. In operation of these instructions, the following points may be noted:

(i) The direct work so done by the Group Officers would be reckoned towards the presently prescribed minimum monthly supervision by them.

(ii) In undertaking original work, all queries and audit memos would be drafted/issued by Group Officers. They may take their personal assistants on tour for secretarial assistance, if considered necessary.

(iii) The Group Officers would report to the Heads of offices on the direct work done by them immediately on conclusion of each spell.

(iv) The Heads of the offices may give further directions to the Group Officers, as considered necessary.

(v) The Heads of the offices should make a specific mention of the extent/quality of direct work done by the Group Officers in the annual confidential reports.

3. Please acknowledge receipt.

4. Hindi version will follow.

ANNEXURE

Statement showing areas of work in various wings which are to be assigned to Group Officers for doing original work in local audit.

(1) Civil Audit

(i) Detailed planning, pilot studies, field work and drafting of review by the Group Officer; the Group Officer will personally supervise the pilot studies and also undertake audit of one of the units selected for detailed audit for preparing a review.

(ii) Purchase cases/supply orders, contracts of over Rs.25 lakhs.

(iii) Audit of one Autonomous Body involving certification of accounts.

(2) Public Works Department

(i) Detailed audit planning, pilot studies for the projects selected for review for the Audit Report.

(ii) Audit of one construction division in a quarter with annual expenditure of Rs.1 crore and above.
(iii) Allotment of contracts over Rs.1 crore and above.

(3) State Receipt Audit
(i) At least 20 assessments in a major sales tax circle headed by Deputy Commissioner/Assistant Commissioner.

(4) Central Excise Audit
(i) One unit each of small scale industries and the units manufacturing a commodity selected for detailed system appraisal.
(ii) One unit with revenue yield of Rs. 2 crores and above.

(5) Customs
(i) Audit of cases relating to Advance Licensing Scheme and Export Promotion Capital Goods Scheme where duty foregone exceeds Rs. 25 lakhs.
(ii) Review work which needs effective supervision and close liaison with other agencies.
(iii) Audit of end use based exemption notifications where the duty foregone exceeds Rs. 20 lakh [e.g. import of (a) donation goods by charitable organizations, (b) instruments and apparatus by hospitals, and (c) concessional/duty free import by the electronic industry etc.)].

(6) Income Tax Receipt Audit
(i) Overall supervision of an assessing officer of an important charge viz. Dy. Commissioner (Special Range), Asst. Commissioner (Company Circle) etc. The Group Officer must spend at least eight days in a quarter in one spell, or in two spells of four days each, in auditing one such assessing officer and should personally scrutinize not less than 20 assessment cases.
(ii) Intensive involvement in the system appraisals. This would include supervision of all aspects of any pilot study either assigned by Headquarters or selected by the AG. For other reviews the Group Officer should, besides monitoring the progress from local Headquarters, visit at least one party for each review and supervise a part of its work.

(7) Commercial Audit
(i) At least one company in a year at the time of supplementary audit of accounts.
(ii) One major contract for purchases.
(iii) One major investment proposal.

(8) Railways
(i) Procurement of stores over Rs. 1 crore.
(ii) Works programme over Rs. 5 crores.
(iii) One major investment proposal.

(9) Defence Audit
- (i) One major purchase transaction over Rs.1 crore.
- (ii) One major civil work over Rs. 5 crores.

(10) P&T Audit
- (i) One major purchase contract over Rs.5 crores.
- (ii) One major civil/exchange work costing over Rs.10 crores.

3

DO No. 472-Audit (MOM) 217-97
Dated: 05.08.1997

Sub: Reporting cases of fraud or corruption to Vigilance and Investigative authorities and Holding of Press Conference after the audit Report is tabled: Recommendations No. 2.1.1 and 3.1.6 of the XIX Conference of Accountants General.

Dear

Kindly refer to recommendation No. 2.1.1 of the XIX conference of Accountants General held in November 1996 regarding extension of co-operation and assistance to vigilance and investigative authorities by reporting cases of fraud or corruption noticed during the course of audit.

2. The matter has been further examined. It has been held that if a particular case of fraud/irregularity is considered serious enough to merit attention of the investigative authorities, it ought to find mention in the Audit Report and as the Audit Reports are published and available to all concerned, sufficient dissemination and information is available to the public. It has been decided that Accountants General/Principal Directors of Audit etc. shall not report on their own any case to vigilance or any investigative authority nor will they endorse a copy of extracts from the Inspection Report to any such agency. While forwarding the Bond Copy of the audit report to Headquarters, the Accountants General/Pr. Directors of Audit would suggest to respective ADAI cases which ought to be brought to the notice of an investigative agency. Only such of the cases which have the concurrence of ADAI will then be brought to the notice of investigative agencies like CBI/CVC/State Vigilance and Intelligence Agencies/ Lok Ayukta. While forwarding the cases to the investigative agencies Accountant General/Pr. Directors would appropriately state the subject and may also, where necessary, send details of the case indicating names of individuals, firms, addresses etc. which may be available in his office but not mentioned explicitly in the audit report. The entire exercise may be completed without waiting for the availability of printed audit reports. Similar procedure may be followed in respect of audit reports relating to Railways and Commercial Wings.

3. Reference is also invited to item No. 3.16 of the recommendation wherein Accountants General were advised to call for a Press Conference to apprise the media about the highlights of the report and to arrange panel discussion on television after the Audit Report is tabled. After reconsideration it has been decided that Accountants General etc. should not hold press conference as a matter of routine or hold a panel discussion on television. Only under exceptional

circumstances the Accountants General etc. should brief the press after obtaining prior approval from the Headquarters by approaching the DAI/ADAI concerned. However, existing practice of issuing a press brief based on the 'Overview' of Audit Reports in terms of Headquarters circular letter No. 1321-Rep(S)/97-87 dated 30th November, 1988 will continue.

With regards,

Yours sincerely,
Sd/-
(Sudha Rajagopalan)

Shri V. Srikantan,
A. D. A. I
O/o the Director General of Audit,
Defence Services,
L-11 Block, Brassey Avenue,
NEW DELHI-110001.

4

001/VGL/5
Government of India
Central Vigilance Commission
Dated the 8th May 2001

Subject: System improvement to fight corruption through better synergy between C&AG and CVC.

Under the powers vested in the DOPT Resolution No. 371/20/99-AVD-III dated 4th April 1999, para 3 (v) the following instructions are issued:

The audit reports of the Comptroller and Auditor General many a time reveal not only administrative and financial irregularities but also actual cases of corruption. The C&AG reports are generally well documented and would be useful in bringing the corrupt public servants to book.

There is a need for introducing a system for prompt follow up action in the cases of corruption brought out by the C&AG in its audit reports. The Public Accounts Committee and the Committee on Public Undertakings which scrutinize the C&AG reports may not have the time to scrutinize all the reports and all the paragraphs. At the same time, the valuable information available through the C&AG audit reports in the form of documented cases of corruption call for prompt action on the part of the disciplinary authorities.

It is therefore decided that with immediate effect the CVOs in all the organisations must scrutinise the C&AG audit reports issued after the date of this circular to check whether any cases of corruption are revealed in them. In all such cases immediate action must be initiated against the public servants concerned through the standard practice of referring vigilance cases to CVC.

The Commission had also been in correspondence with the C&AG on this subject. It has been agreed that all serious cases of malpractices reported by C&AG which are perceived to have a vigilance angle would be sent to the Commission for examination and follow up action. On receiving such references from C&AG, the CVC would take follow up action with the disciplinary authorities. In this way, it will be ensured that the cases of corruption and issues having a vigilance angle are not lost sight of and there is effective synergy between C&AG and CVC to strengthen the system to fight corruption.

This instruction is also available on the CVC web site at http://cvc.nic.in.

Sd/-
(N. VITTAL)
CENTRAL VIGILANCE COMMISSIONER

5

D.O. No. CVC/2001/570
Dated May 8, 2001

N. VITTAL
Central Vigilance Commissioner

Dear Shri Shunglu

You may kindly recall that we have been discussing from time to time the issue of synergy between C&AG and CVC to strengthen the forces against corruption. In this connection, I enclose herewith copy of an order we have issued under CVC powers arising from para 3 (v) of DOPT Resolution dated 4th April 1999.

I shall be grateful if you could kindly nominate a suitable officer from your organization to ensure coordination with CVC.

With regards,

Yours sincerely,
Sd/-
(N. Vittal)

Shri V.K. Shunglu
Comptroller and Auditor General of India
10, Bahadur Shah Zafar Marg
New Delhi- 110 002
Encls: a/a

6

DO No. 1149- Rep (S)/187-2003
Dated: 28th August, 2003

Divya Malhotra
Director (RS)
Dear

As per instructions contained in Headquarters letter No. 843-Rep (S)/40-2001 dated 31.08.2001, cases of Fraud and corruption appearing in the Audit Report which warrant vigilance investigation are to be communicated by the Accountant General (Audit) to the Chief Secretary / Administrative Secretary to the State Government for taking up the matters with State Vigilance

Authority. It was further clarified in Headquarters letter No. 932-Rep (S)/187-2003 dated 30.6.2003 that such cases should be forwarded for obtaining prior approval of the Headquarters only after the Audit Report has been approved.

In order to streamline and regulate the process, it has now been decided that all Group Officers, while approving an Inspection Report should identify and submit to the Principal Accountant General/Accountant General the cases of suspected fraud, malafide and corruption warranting vigilance investigation. Accountant General would examine the cases and record speaking orders before forwarding the extracts of Inspection Report paras to the Administrative Secretaries of the Department concerned demi-officially in strict confidentiality, highlighting the need of making vigilance investigation under intimation to the ADAI. The matter would be followed up with the Government till finality. Meanwhile, in case the matter is proposed for inclusion in the Audit Report, the fact of having intimated the State Government for taking urgent action on the matters may also be mentioned in the final Audit Para.

Kindly acknowledge the receipt of this letter.

Yours sincerely,
Sd/-
(Divya Malhotra)

7

F. No. 6(5)-B(R)/99
Ministry of Finance
Department of Economic Affairs
Budget Division
New Delhi the 13th June,2006

OFFICE MEMORANDUM

Subject : Performance Audit by Comptroller and Auditor General of India

Clarification has been sought whether Performance Audit falls within the scope of audit by C&AG under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

2. The Government has considered the matter. Under the section 23 of the DPC Act, 1971, the Comptroller and Auditor General of India has the powers to make regulations for carrying into effect the provisions of the Act in so far as they relate to scope and extent of audit. In pursuance of these provisions C&AG has been conducting performance audits in addition to financial audits and compliance audits based on guidelines/principles/regulations framed for the purpose. All audit reports of the C&AG are placed before Parliament and State legislatures, as the case may be, as constitutionally mandated.

3. It is therefore, clarified that performance audit, which is concerned with the audit of economy, efficiency and effectiveness in the receipt and application of public funds is deemed to be within the scope of audit by Comptroller and Auditor General of India for which Performance Auditing Guidelines drawn up by the Comptroller and Auditor General of India already exist.

4. All the Ministries/Departments are accordingly expected to facilitate the conduct of audits including performance audits by providing access to all the documents required by C&AG in connection with such audits. In this regard attention of all the Ministries is invited to O.M.F. No. 1(43)-B/78 dated 23rd September, 1978 issued from the Ministry of Finance, clarifying the procedure in respect of submission of official documents for audit without any apprehension and with due care with respect to custody and handling of classified files in accordance with standing instructions.

5. The respective subordinate offices and other entities that come under the purview of the C&AG audit may also be advised accordingly.

Sd/-
(P.R. Devi Prasad)
Officer on Special Duty (FRBM)

To

1. Secretaries to Government of India (All Ministries/Departments)
2. Chief Secretaries of State and Union Territory Governments.
3. Financial Advisers (All Ministries/Departments of Government of India)
4. Copy for information and record to:
   (i) The Cabinet Secretariat and
   (ii) The Office of the Comptroller and Auditor General of India.

8

No. 126/Audit (AP)/1-2004
Dated : 06.09.2006

To

All Directors General (Audit)/Principal Accountants General (Audit) / Principal Directors (Audit) /Accountants General (Audit) (as per the mailing list)

Sir/Madam,

Sub: Standing Order on role of Audit in relation to cases of Fraud and Corruption

Introduction

Examination of system for detection and prevention of fraud and corruption will henceforth be an integral part of all regularity audits and also of performance audits, whenever it forms one of audit (sub) objectives. The standing order in the Annexe to this communication is issued in supersession of the existing instructions on the subject. As and when the need arises detailed guidelines will be issued. Some of the important points to be kept in view are as under:

(1) Corruption and fraud are generally interlinked. In fact corruption is a special type of fraud and treated as such in many jurisdictions. In any case audit teams/

officers should be well aware of the complex distinction as well as correlation between the two. Appendix-A to the Annexe contains some illustrative (not exhaustive) types of fraud and corruption that the audit teams may come across.

Fraud examination

(2) Fraud examination is a part of the normal auditing procedures. Fraud has a legal (criminal) connotation. Audit teams/officers do not make legal determinations of whether fraud has actually occurred. Hence, audit teams/officers can put red flags (an indication that further scrutiny of the items would be required) which need further investigation by appropriate agencies. When the evidence is clear, audit teams/officers can come to a conclusion about a suspected fraud and include it in their findings.

Respective responsibilities of management and audit

(3) The responsibility for the prevention and detection of fraud and error rests primarily with the management of the audited entity through the implementation and continued operation of accounting and control systems designed to check fraud. Audit must, however, evaluate and report on the adequacy of the systems in place and competence with which the management has discharged its responsibility in relation to prevention, detection, response and follow-up/remedial measures in relation to fraud and corruption.

(4) During audit of financial statements, two types of intentional misstatements are relevant to the audit teams/officers viz, misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Similar considerations apply in case of performance audits. In performance audits, while selecting themes and issues/sub-issues, the vulnerability to fraud and corruption should be given due consideration.

Professional skepticism

(5) Audit teams/officers should maintain an attitude of professional skepticism (an attitude that includes a questioning mind and a critical assessment of audit evidence) throughout the audit.

Fraud awareness at the audit planning stage

(6) The field offices should carry out independent risk assessment and prioritize their audit planning accordingly. The audit plans in relation to fraud and corruption should focus on high risk areas. Some of the common high risk areas (illustrative) are contracts of service/procurement, inventory and asset management, sanctions/clearances, performance information, revenue receipts, cash management, general expenditure, grants, financial statements, operating information, computerized environment, privatization of government entities and any other areas involving public interface.

(7) While planning audit, the field Accountants General, etc. should assess the risk that fraud may cause to the financial statements to contain material misstatement or record material irregular transactions. Based on the risk assessment, the Accountants General should develop the audit objectives and design audit procedures so as to secure reasonable expectation of detecting

and evaluating material misstatement and irregularities arising from fraud and corruption.

Vigilance about fraud at audit execution stage

(8) At the commencement of each audit, information about the fraud and corruption awareness, detection and prevention policy and related environment (including any instances of fraud and corruption noticed since last audit and action taken on such instances including strengthening of internal control systems) should be collected from the audited entity management.

(9) During the course of audit work, the audit teams/officers should be vigilant and seek explanations, if they come across possible fraud indicators. Some illustrative fraud indicators (red flag areas) are given in Appendix-B to the Annexe.

Audit evidence and documentation

(10) Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit finding/opinion should cause the audit teams/officers to extend procedures to confirm or dispel such suspicious. Instructions regarding the illustrative procedures to be adopted are given in the Annexe. If the irregularities had a material effect on the accounts, suitable reporting and qualification in the audit opinion may be warranted. Audit should also recommend improvement in the control procedures to management.

(11) IT fraud is an area of concern for Audit. Collecting computer evidence requires careful planning and execution. Audit teams/officers should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

(12) The audit teams /officers should check compliance with the provisions of Rules 29,33,34,37 and 38 of the General Financial Rules (GFRs) 2005 (Appendix-C to the Annexe).

(13) The audit teams /officers should clearly understand that the audit evidence obtained can be only persuasive and not conclusive. While reporting all cases of suspected or presumptive fraud or corruption, they should refrain from making any judgment regarding the existence of fraud or corruption. The evidence should also be capable of proving that the audit teams/ officers have discharged their functions with reasonable care and due diligence.

Reporting and follow-up

(14) Reports of individual cases of suspected fraud/corruption should be confidentially addressed, in the first instance, to the controlling authority concerned, with the approval of Group Officers. More serious cases should also be confidentially reported to the Secretary of the Administrative Departments (where they are not the controlling officers) concerned and the investigative authorities like Central/State Vigilance Commission, Lok Ayukta, etc. as applicable in the manner indicated in the Annexe either over the signature of the Accountant General or with his /her approval.

(15) Cases relating to suspected/presumptive fraud and corruption should be specially highlighted in the concerned Inspection Reports, Audit Notes, etc. and also in the Audit Reports. All such cases should be printed in bold type.

(16) While forwarding the Bond Copy of the Audit Reports to Headquarters, the Accountant General should indicate in the forwarding letter the number of cases of fraud and corruption included in the Report together with the money value of the concerned paras. In the submission note of the file relating to the bond copy, the number of cases of suspected/presumptive fraud and corruption in the Report should be highlighted together with the money value of concerned paras.

(17) The draft of the annual post-audit report letter to the Chief Minister should have a brief mention of issues relating to suspected fraud and corruption where such cases appear in the Audit Reports and the system put in place by the field AsG, etc. to monitor paras relating to fraud /corruption. In addition, all such cases should be taken up immediately after approval of the bond copy with appropriate authorities in the Union and State Governments, viz., Central / State Vigilance Commission, etc. as a follow up. If such cases have been reported earlier by the AG, reference may be drawn to them with the additional information that these cases have been included in C&AG's Audit Report to the Parliament /Legislature.

Miscellaneous

(18) The Accountant General may require the Audit teams/officers to provide a Memorandum/Certificate of Assurance which will include, inter alia, examination of issues relating to fraud and corruption.

(19) The Accountants General should develop sector specific guidelines/ checklists for audit of fraud and corruption in the audit of entities belonging to specific sectors (viz., health, education, works, etc.), for the guidance of the field staff deployed in such audits and furnish a copy of such guidelines/ checklists to DG (Audit).

(20) The field offices should submit half-yearly reports on cases of material fraud and corruption noticed by them to the Headquarters Office or through the rationalized management information system, when introduced.

Yours faithfully

Sd/-
(Ajanta Dayalan)
Director General (Audit)

No. 127/Audit (AP)/1-2004 Dated: 06.09.2006

Copy to all Officers in Headquarters Offices

Sd/-
(Ajanta Dayalan)
Director General (Audit)

GLOSSARY OF ABBREVIATIONS

CA	Chartered Accountant
CAAT	Computer Assisted Audit Techniques
CAP	Central Audit Party
CASS	Central Audit Support Section
CCO	Chief Controlling Officer
CRRI	Central Road Research Institute
CSIR	Council of Scientific and Industrial Research
CVC	Central Vigilance Commission
CVO	Central Vigilance Officer
DDO	Drawing and Disbursing Officer
ECPA	Efficiency-cum-Performance Audit
GAO	General Accounting Office now named Government Accountability Office
GWG	Global Working Group
HRD	Human Resource Development
IIM	Indian Institute of Management
MAB	Member, Audit Board
NCAER	National Council of Applied Economic Research
NHAI	National Highways Authority of India
PSU	Public Sector Undertaking
U.N.	United Nations
VDIS	Voluntary Disclosure of Income Scheme
VFM	Value for Money

5

Audit Reports (Civil)

Audit Reports (Civil)[1] of the Comptroller and Auditor General include the audit findings and observations on the accounts of Central Government Ministries, Departments and their attached and subordinate offices. In the case of State Governments including Union Territory Governments having Legislature similar findings and observations will find place in the Audit Reports (Civil) of each State/UT. Civil Audit constitutes the largest segment of C&AG's Audit Reports. Out of 91 Audit Reports generally prepared and approved every year by C&AG for submission to Parliament, State Legislature or Union Territory Legislature, on an average 41 relate to Civil Audit. There were exceptional years like 1992–93 when the number of Civil Audit Reports was very high viz. 58 (50 State Audit Reports and 8 Union Audit Reports). In terms of manpower deployed, civil audit accounts for about 75 per cent of the total number of audit office personnel.

C&AG's Audit Reports contain findings on government business transacted during the preceding financial year (and earlier years too). Instructions of C&AG stipulate that a matter reported in the Audit Report of a particular year should not be more than 5 years old. Generally, most of the transaction audit paras in the Audit Reports relate to the financial year covered by the Audit Report. While no specific date is prescribed in the Statutes for the submission of the reports to the President/ Governor, it is always the endeavour of the C&AG to present them soon after the finalization of the annual accounts of government i.e. in the ensuing Budget Session. Performance Audit Reports are, however, spaced out and generally submitted in all the sessions of the Parliament. C&AG's Report (Civil) on the accounts of Union Government is considered to be the primary report of C&AG on the Finance Accounts and Appropriation Accounts of the Government and no efforts are spared to get this

Report laid in the Budget Session. The trend in the dates of laying of the Report in the Parliament is given in the Annex—I to Section 'A'.

It will be correct to describe C&AG's Audit Reports as joint efforts of a vertically integrated team beginning at the base level with Auditors and Section Officers and culminating at the top level with the C&AG, who approves the final output (called Bond Copy) that goes into the formal printed Audit Report before he countersigns the same for submission to President for laying in Parliament/ State /UT Legislature after which these reports get transmitted to PAC/ COPU as the case may be. In such a highly interactive system, as can be expected, every level contributes; and the Headquarters, where a meticulous analysis of all draft paragraphs/ reviews is carried out, contributes significantly through very fruitful interactions between the Report Group, DAI/ ADAI and field Accountants General. The end product is a much improved version of the original draft audit reports submitted by the field offices. Also, the systems and procedures are constantly reviewed to cope with new challenges and changes.

This chapter contains 3 sections namely: Section 'A' dealing with Audit Reports (Union), Section 'B' dealing with Audit Reports (States) and Union Territories and Section 'C' dealing with C&AG and Public Accounts Committee/ Committee on Public Undertakings. A separate Chapter details the growth and developments in Performance Audit system in IA&AD.

SECTION 'A'—AUDIT REPORTS (UNION)

In terms of Article 151 of the Constitution of India, Comptroller & Auditor General of India submits annually Reports relating to the accounts of the Union to the President who shall causes them to be laid before each House of Parliament. In respect of the States, a similar provision exists in the Constitution for the C&AG of India to submit his reports on the accounts of the State to the Governor of the State who shall causes them to be laid before the Legislature of the State. In the case of the Union Territories, the Union Territories Act provides that the C&AG's Reports relating to the accounts of the Union Territories having a Legislature shall be submitted by him to the Administrator who shall cause them to be laid before the Legislature of the Union Territory.

C&AG's Audit Reports (Civil) can be classified broadly into three categories:

(i) Audit Reports that contain observations and comments arising from audit of annual Finance and Appropriation Accounts of the government;

(ii) Audit Reports containing results of transactions audit and compliance audit; and
(iii) Audit Reports containing results of performance audit.

As brought out elsewhere in this Chapter, from Audit Report 2004–05 onwards, C&AG's Audit Reports on transactions audit and performance audit are printed separately. His report on the audit of Finance and Appropriation Accounts is now presented as a separate volume (as C&AG's Audit Report on Accounts of the Union Government). Presentation of this separate volume started from the Audit Report for the year ending 1995–96. Prior to that, observations in Chapter-I contained points arising from analysis of Finance Accounts whereas those on Appropriation Accounts were included in Chapter-II.

Even prior to the year 2004–05 separate volumes of Audit Reports on Performance Audit (which was more often referred to as Performance Review or Appraisal) were brought out, though there was no formal categorization as such. At present, stand alone volumes are brought out in the Union Reports for Performance Audit while on the State Report side, mostly a single volume of Report of each category i.e. Audit Report (Civil), Audit Report (Commercial) and Audit Report (State Receipts) carry both transaction audit observations and Performance Audit reviews.

C&AG's Audit Reports on Union Government can be grouped under eight categories and the table below shows the changing

UNION GOVERNMENT: AUDIT REPORTS

	2005–06*	1999–2000	1994–95	1989–90
Civil, Scientific & P&T	10	5	5	4
Autonomous Bodies	2	1	1	2
Direct Taxes	2	2	1	1
Indirect Taxes	2	2	2	1
Defence Audit :				
Army & Ordnance Factories	3	1	1	3
Air Force & Navy	2	2	1	1
Railways	3	1	1	1
Commercial	7	8	14	13
National Capital Territory Delhi Administration	3	1	1	2
Total	34	23	27	28

* upto Monsoon Session of Parliament for the year 2007.

profile of each category over a period of 16 years spread out in an interval of every 4–5 years.

This section mainly deals with developments in C&AG's Reports on Expenditure Audit called Audit Report (Civil).This also contains developments common to all categories.Post and Telecommunications Audit and Science and Technology Audit are covered in separate chapters.

Audit Reports come into the public domain, after their tabling in the Parliament or the State Legislature. Some other reports like the inspection reports, factual statements and draft audit paragraphs do not have any public interface as they are exchanged between the audit office and the concerned Department(s). This distinction is often not understood. While inspection reports contain the findings in the audit of any entity or an activity or a programme, only those findings out of these, which are considered very important are taken out by the Directors General/Pr. Directors of Audit for the C&AG's Audit Report and separately processed for the Audit Reports. The intermediate stages in this process are issue of factual Statement to the government and subsequently, issue of draft paragraph. Upto the factual statement stage, such document is issued on the authority of the DAG/ Sr. DAG (Group Officer). When the reply to the factual statement is received, after an assessment of the facts and figures, if it is considered to be of merit for inclusion in the Audit Report, a decision is taken by the DG/PD concerned to float it as a draft paragraph (DP). At this stage, the DP is sent to the Secretary of the concerned Ministry/Department for verification of facts and comments, and simultaneously a copy is endorsed to the C&AG office for the approval of concerned Dy. Comptroller and Auditor General/ Addl. Dy. Comptroller and Auditor General (DAI/ADAI). These DPs are generally sent in convenient batches of 5 or more (in each batch). Unless a DP is rejected outright by the Headquarters—a rather rare thing—the first journey of DP is for eliciting Headquarters' comments, etc. which may need further working by the DGA/ PDA office. On receipt of these comments/ observations from Headquarters and if the reply of the Department is also available by that time, a revised DP is sent to Headquarters. It may also happen that based on the reply of the Department, the DP is suggested for dropping by the Headquarters. Generally all the DPs are formally discussed between the concerned DAI/ ADAI and the PD/DG involved. A final draft of the para is sent again to Headquarters for inclusion in the Audit Report. After the entire material is approved by the concerned DAI/ADAI, a draft Audit Report is prepared and sent to Headquarters for C&AG's approval. This draft Audit Report popularly called 'Bond Copy' is put up by DAI/ ADAI for C&AG's approval. As the C&AG, Narhari Rao in his statement made at the meeting of the Public Accounts Committee dated 22 May 1951 clarified,[2] any intermediate correspondence between the Audit officers or the Auditor General on the one hand, and the Administrative officers or even the government, on the other, can not be regarded as Audit Reports. Audit Reports are formal documents bearing the C&AG's certificate saying that this is the Report under Article 151(1) of the Constitution being presented to Parliament through the President. Nothing else is on Audit Report.

Sometimes, due to lack of clarity about these stages to the outside world, certain peculiar situations arise. For example, in the Madhya Pradesh High Court, Jabalpur, the then Leader of the Opposition filed a case in 1989–90 on the basis of a factual statement issued by the Accountant General, Madhya Pradesh alleging that a lottery scheme involved serious irregularities and violated rules and regulations with substantial financial loss to the exchequer. During the evidence before the Hon'ble Judge of the Commission of Enquiry appointed to hear this case, the factual Statement was treated as an exhibit and the author, who was the concerned AG who signed the Audit Report, was called to give evidence before the Commission. The Advocate General of the State Government briefed the author on the previous evening to the hearing and insisted that he must depose on the facts and figures included in the factual statement before the Hon'ble Commission. However, the Audit Report of C&AG on this subject incorporated material changes that took place subsequently and the loss to the exchequer reported in the C&AG's Audit Report was lesser than that reported in the factual statement. The Accountant General informed the Advocate General that the factual statement was an intermediate process of finalization of the Audit Report and the authentic version was the relevant Audit Report, which was signed by him as AG and countersigned by the C&AG. The Advocate General insisted that he was duty bound, as a State Government employee, to follow the legal advice given by him, but on being reminded by the author that he (AG) was actually a Central Government (C&AG's) employee, and would abide by the Audit Report, the Advocate General, after some reluctance, asked him not to appear before the Hon'ble Commission to give evidence.

On being told by the AG that he had received summons from the Commission to appear before it, the Advocate General agreed to request the Commission to exempt the AG from appearing as a witness. (He did appear later as an official witness to depose on the facts as per the Audit Report).

CONTENTS OF THE AUDIT REPORTS

If we take a sector wise analysis to ascertain the sectors that have dominated C&AG's Audit Reports in so far as programme reviews are concerned, it would be seen that the most prominent places are occupied by three sectors namely Health, Poverty Alleviation and Education. The programmes, activities, and schemes relating to the first were reviewed in 23 paragraphs of C&AG's Reports from 1990 to 2005. Poverty alleviation and Education sectors were covered in 15 and 13 Audit Reports respectively between the period 1990–2003 as Audit Reviews (subjects relating to the Ministry of Human Resource Development mostly pertained to Education). 10 Audit Reports included reviews on subjects pertaining to Ministry of Agriculture. Employment programmes were analysed by Audit in as many as 8 Reports during this period.

Audit Reports analyse the performance of the Government in implementing major programmes and schemes, many of which are designed towards socio-economic developments and general well-being of the masses and reflect concerns about issues that are topical and material. Successive C&AGs, therefore, have paid special attention to the selection of subjects or themes for Performance Audit of Government programmes, activities, schemes, etc. Keeping these factors in mind, a look at the Audit Reports presented to the Parliament/ State Legislatures from 1990 onwards will reflect the preferences of the incumbent C&AGs in the matter of reporting results of his audit of the important schemes of the Government for the socio-economic development of the country.

Audit of Technology Missions: C&AG Somiah's emphasis on Centrally Sponsored Programmes is reflected in the themes he selected for All India Reviews and other Performance Audit Reviews. Some of the first themes he got audited included two Technology Missions, viz. Technology Mission on Immunization (Paragraph 1—Report No.6 of 1993) and Technology Mission on Drinking Water (Paragraph 4—Report No.1 of 1991). Technology Missions were launched with great hope in 1986 'to lend a sense of urgency and commitment' towards achieving the goals within the specified time frame. The Technology Mission on Drinking Water was to assure supply of required quantity of potable water within a reasonable distance of about 1.6 km. and within a depth of 15 meters in 1,37,155 villages. The achievements against this were satisfactory at first look since 1,28,823 problem villages were covered but these figures included partially covered villages also which numbered 1,18,163 (these also included those villages that pertained to pre mission period). Mission was lacking in information about the quantity of potable water available per capita per day. Shortfalls in reaching targets on several other parameters were also in abundance like testing quality of water laboratories (33 set up out of target of 100), tackling excess fluoride (against the target of 1825 villages only 796 were covered) and likewise there were significant shortfalls in achievement of other targets. One of the big drawbacks brought out in audit was that the agencies for evaluating the progress of the individual projects annually and suggesting methodology and approach for rectification of deficiencies were not identified and deployed as envisaged in the project report. Resultantly, no evaluation of implementation of mini mission/ sub-mission projects was done. Even though monitoring of the programme at district and State level was attempted, it was grossly deficient.

On Immunization Programme, where the object was to cover 85 per cent infant population and 100 per cent pregnant women by 1989–90 and reduce neo-natal mortality rates and poliomyelitis incidence rates, 7 States reported achievement of targets for immunization of infants but regarding pregnant women only 5 States could reportedly achieve the targets by 1989–90. Position was no better in 1991–92 when only one more State was added for achievement of target for infants and another one for pregnant women. Audit also noted that performance reports were not reliable and achievements reported were higher in most of the States. There were points regarding vaccines not being administered to children at the prescribed age. There were delays in installation and non-functioning of deep freezers. Quite a high percentage of samples drawn for potency test were found unsatisfactory.

Environmental issues in Audit Report: Environmental concerns which had just started, influenced Audit also. C&AG took up several studies on environmental themes. His concern for environment issues finds its echo in his revisiting Ganga Action Plan[3] (the first review was in C&AG's Report of 1988–89) that drew the attention of the Parliament and the policy makers upon the very unsatisfactory progress made in the implementation of critical components of the project resulting in huge cost and time escalation. Audit also brought out the considerable variation in the data collected by Ganga Project Directorate which was the executing authority for Ganga Action Plan and results of the Central Pollution Control Board regarding water quality. In his Report for the year ended March 1992 (No. 1 of 1993), the C&AG took up the theme of Grants-in-Aid to Voluntary Agencies for Environmental Orientation[4] to School Education for his review. This is one of the first audit studies of a school programme aiming at environmental concerns. This centrally sponsored scheme conceived in 1987–88 provided financial assistance to voluntary agencies for taking up experimental and innovative programmes to promote environmental consciousness among students. Payment of grants-in-aid was made directly to the voluntary agencies by the Department of Education. The scheme provided grants to voluntary agencies on all India basis and yet Audit discovered that nearly 91 per cent of the total grants paid during 1988–89 to 1991–92 (Rs. 182.75 lakh) was released to just four agencies and of these, one received a grant of Rs. 117.96 lakh and was working only in two districts of Uttar Pradesh. Worse, the activities of this organization for which assistance was given were not connected with environmental orientation to school education. The Department also nominated two organizations to act as lead organizations creating another grant disbursing agency thereby shifting all its responsibilities in the matter. This was in contravention of government directions. No evaluation was conducted to ensure/ ascertain what was done with the funds.

Review on Central Rural Sanitation Programme (Paragraph 6.2—Report No.2 of 1994): This review was also in some ways concerned with environmental issues. Another audit review that shows C&AG's attention to the environment related issues was audit of Central Pollution Control Board (CPCB) which is the nodal agency to lay down standards for quality of water and air and along with State Boards is responsible for regulating the quality of pollutants discharged with reference to the above standards. Audit Report No.2 of 1993 brought out certain glaring deficiencies in CPCB performance. This review would rank remarkable because it was first of its kind on the Central Pollution Control Board—the principal standards setting and regulatory body for pollution control.

Review of National Museum: Audit Review on National Museum[5] reflects the wide range of themes/ subjects/ institutions on which performance reviews are brought out. This Review on country's premier museum engaged in collection, preservation and display of exhibits, documentation and securing custody of art objects, revealed interesting findings. Out of 4883 objects of art purchased during 1985–1992, only 52 were registered antiquities whereas 496 were unregistered antiquities and 4335 were non-antiquities. Similarly, out of 3550 objects, 115 art objects were not found genuine art objects. The Museum did not have any system of recording the art objects at the time of acquisition and as a result, historical importance of 4132 objects had not been recorded. Out of 244 items of sculpture purchased by the National Museum, only 49 were fit for the collection of the museum. The apathy of Advisory Board of Museum can be gauged from the fact that it did not hold any meeting during the entire year 1989–90 and Standing Committee met only once during 1987–1990.

Vertically Integrated Audit: Another landmark review in C&AG Somiah's time that appeared in the Audit Report for the year ending March 1992 related to an integrated audit of the working of the Department of Power. It was the first of its kind which reviewed in totality the functioning of the Department of Power of the Central Government. The review brought out very significant findings on the Power Sector Reforms as envisaged and as achieved during the 7th Plan period. It highlighted and brought to attention the shortfall in the power availability. Audit view was that investment efforts were focused on maximizing the installed capacity only while other important areas like transmission and distribution, renovation and modernization of plants and power conservation were not given due importance. Hydropower tapping was low in its view, whopping cost and time overruns in commissioning of some of the projects and excessive transmission and distribution losses were also noticed. Also, it viewed seriously the decline in plant load factor of Central Sector Thermal units from 65 per cent in 1986–87 to 58.1 per cent in 1990–91.

Such integrated reviews on the working of a Ministry/ Department of Union Government was rather an unusual feature although on State Reports side, such integrated reviews on a Department functioning became a regular feature in C&AG Shunglu's period, a few years later.

Fisheries Development etc.:A Review in the Audit Report for the year ended March 1993 (Paragraph 3.1 of Report No.1 of 1994) featured development of fisheries conducted across 19 States and 4 Union Territories. This year also saw a spate of reviews on Centrally Sponsored Schemes which included Family Welfare Programme, Operation Black Board, two programmes of Department of Rural Development viz. Integrated Rural Development Programme and

Central Rural Sanitation Programme. A review on Nehru Rojgar Yojna was also conducted. There was a mini review on Ahmedabad—Vadodara Express Way. Audit Report No.1 for the year ended 1993–94 contained important reviews like National Cancer Control Programme, Improvement of Science Education in schools, Government Medical Stores Deport, Kolkata, Building for permanent mission in New York and National Bhartiyam 1989. In the last mentioned review, the C&AG depicted several disturbing features like organization of the programme by a Committee which had no legal status and keeping the entire grant of about Rs.5 crore outside the Government account and irregularities in the construction of modular houses without inviting tenders.

Review on Public Debt: A landmark Review which appeared as a stand alone report of C&AG in 1994 (for the year ended March 1993) was on 'Public Debt'. This Review highlighted the difficult situation the Government faced due to mounting Public Debt, where 86 per cent of the internal borrowings was used towards debt service obligations. It analysed the reason for this as the gap between revenue and expenditure caused by a combination of factors like declining growth in tax revenues, sharp increase in tax arrears, poor returns from public enterprises and growing expenditure. This Audit Report received wide publicity in the press and Economic Times even carried an editorial on this Review[6].

Review of Disinvestment: One of the most talked about reviews in Audit Reports brought out during that time was Disinvestment of Government shareholding in selected Public Sector Enterprises during 1991–92[7]. This Audit Report was remarkable for a number of reasons. It was the first ever 'Disinvestment audit' done by the Department and that too immediately after the event of disinvestment; it depicted the disinvestment exercise of the government as an inept handling done in a hasty manner without adequate safeguards for Government's interest and finally concluded that it resulted in underrealization of value to the tune of Rs. 3,442 crore. The PAC also, while agreeing with the report, came down heavily on the Government handling of the first Disinvestment exercise[8].

Wide reach of Reviews selected: C&AG's Report for the year ending March 1994 (No.2 of 1995) depicts the variety in selection of themes. It contained reviews on Jawahar Rojgar Yojna, Shipping arrangements for Government cargos, Setting up and functioning of FM Radio Stations and Staff Selection Commission.

In the Report for the year ending March 1995 (No.1 of 1996) amongst the reviews projected in Audit Report were National Watershed Development Project for Rainfed Areas, Scheme for excise relief for weak Industrial units, Recovery of Government loans advanced to Shipping and Fishing Industries and another Report of the same year (No. 2 of 1996) carried Reviews on Vocationalisation of Secondary Education, Border Security Force and National Highways in Tamil Nadu.

FOCUS DURING C&AG SHUNGLU'S PERIOD

C&AG Shunglu's period (1996–2002) saw maximum number of Audit Reviews on Poverty Alleviation (12) and Employment Generation Programmes (4). Amongst the more prominent of these were Public Distribution System, Jawahar Rojgar Yojna, Urban Employment Generation Programme and National Drinking Water Mission. This was followed by themes on Health and Family Welfare (7), Agriculture (5) and Education (4). In his Report No. 3 of 1999, C&AG brought out an appraisal/review on National Malaria Eradication Programme. In his Report No. 3 of 2000, C&AG reviewed 4 schemes—all of these related to food security and nutritional support. These were Public Distribution System, Rural Employment Generation Programme, Integrated Child Development Services Scheme and Nutritional Support to Primary Education. The conclusions drawn in these four Audit Reports which were mutually not exclusive but had common thread of provision of food security, nutritional support and income transfer to weaker sections, were that these schemes had serious flaws in design, execution and monitoring. As the Brochure[9] specially brought out by the C&AG on these four reviews says 'most of these flaws could be traced to the inherent unworkability of central control and monitoring of the programme throughout the country by concerned Ministries of the Union Government and indifference of State Governments/ executing agencies due to lack of a sense of ownership of the programmes. The programme design did not provide for effective accountability procedures and execution mechanism did not afford opportunity for determining accountability and/ or for taking corrective measures. As a result, the objectives of the programmes remained largely unfulfilled'[10] (a detailed summary is contained in Appendix 'B').

The emphasis on environmental issues in audit continued with C&AG Shunglu also. He brought out a review (third time by Audit) on Ganga Action Plan Part-II—Audit Review showed what a colossal waste of public funds it was with no fruitful results (a detailed account of the review is given in chapter 11 on Audit of Scientific Departments). This was brought out as a stand alone report in the year 2000. The C&AG for the first time brought out a compliance audit report on 'Implementation of Environmental Acts relating to Water Pollution'. Another first of its kind was the Review on 'Administration of the Prevention of Food Adulteration Act' both of them in his Report No.3B of 2001.

Another remarkable review done during his period was on 'Members of Parliament Local Area Development Scheme'—first time this review appeared in the Report No.3 of 1998 and again in Report No.3 A of 2001 it was brought out as a stand alone report. Incidentally around this time, there was a debate in the Parliament about increasing the quantum of funds to the MPs for this scheme. Another interesting review was on 'Issuance of photo identity card to electors' which was captioned under Election Commission of India. Apart from other things this review created a piquant situation about its ownership because, when it came to furnishing reply to this draft review, Election Commission took the stand that as a Constitutional body they were not responsible for the implementation of this scheme and, therefore, the paragraph should be correctly replied to by the Ministry of Home Affairs. However, audit was able to impress upon the Election Commission that the review was in no way against the Election Commission but has merely pointed out deficiencies in its implementation by the executing agencies but the ownership would remain with Election Commission for the reason that it was on their direction that this scheme was implemented. Eventually, Election Commission did furnish replies to the review.

The highlight of the Performance Appraisal Report No. 3 of 2002 was Review of National Disease Control Programme covering two major diseases namely National Programme for Control of Blindness and National Tuberculosis Control Programme. All these programmes were audited across the States and, therefore, gave a comparative picture of their implementation across various States in the country. Some of the techniques used by Audit in these Audit Reviews gave much more accurate data than the official figures.

REVIEWS DURING C&AG KAUL'S PERIOD

C&AG Kaul (March 2002–till date) has made significant changes both in the audit reporting format and system and in the auditing practices in the Department. Soon after he took over, he set about the task of converging the Indian auditing systems, as best as possible, with internationally acclaimed best practices. He was to some extent helped in this by the Report of the NAO, UK who were engaged as consultant for the modernization and capacity building office of the Comptroller and Auditor General of India under an IDF Grant (we have discussed the NAO Report elsewhere). In the process, he nearly overhauled and revamped the Performance Audit System and brought out new Performance Auditing Guidelines that contains the best global practices in this field of audit. These were formulated keeping in mind international best practices including ASOSAI Research Project on the subject and Exposure Draft of INTOSAI implementation guidelines for Performance Audit. A detailed write-up on performance audit in Chapter-12 describes new performance audit system.

Along with overhauling Performance Audit system, C&AG divided the Audit into two distinct streams, namely Transaction Audit or Compliance Audit and Performance Audit. A number of other organizational changes were also made in this regard (these are explained elsewhere). As a result, Performance Audit has taken centre-stage today in Indian auditing system. Vastly improved techniques have ensured that the performance audit output is oriented more towards measuring the outcome of the programmes and schemes rather than the output as reflected in targets and achievements. Incidentally, this is also in line with the shift that has taken place in government budgeting system which has started producing outcome budgets from the year 2004–05. A review of the performance audit reports during this period, as far as Civil Audit Reports, are concerned indicates that the C&AG has paid attention to the most important programmes and schemes of government which have a very wide reach affecting masses and the subjects are selected after a very thorough analysis of the plan documents and the budgets. Resultantly, a shelf of programmes and schemes over a longer time frame was prepared corresponding to the objectives of Strategic Plan and Perspective Plan. Some of the more prominent of performance audit reports brought out during his period are:

Disinvestment Audit: Two scintillating Performance Reviews on Disinvestment of Government Shareholding in selected PSUs (Report No.17 of 2006) and a long paragraph on sale of Centaur Hotel were brought out (Paragraph 7.1—Report No.2 of 2005). Both of these, as was to be expected, generated wide media coverage and also evoked defensive remarks by the previous Minister as also his party colleagues (these audit paragraphs are discussed in chapter 15).

Other Performance Audit Reports: There are a number of Performance Audit Reviews of the period prior to introduction of new

Performance Auditing Guidelines. Of these, mention can be made of National Scheme of Liberation and Rehabilitation of Scavengers and their dependents. In Audit appraisal of the scheme reported in Report No.3 of 2003, Audit came to the conclusion that the scheme failed miserably to achieve its intended objectives even after a decade of implementation and an investment of more than Rs. 600 crore (a detailed account is contained in Appendix 'B').

A Performance Review on Swarn Jayanti Gram Swarojgar Yojna (SGSY) was brought out in Audit Report No.3 of 2003. As C&AG pointed out to Dy. Chairman Planning Commission in September 2005, while enclosing highlights of this review, this was the eighth Performance Audit since 1990 on various rural employment programmes; and all of them revealed that the major weaknesses lie in their implementation. Apparently, no lessons were learnt from the past programmes (and reviews) of this nature. The letter was in the context of the government launching yet another programme, namely, National Rural Employment Guarantee Act holding out 100 days employment to one person from each rural household in 200 districts of the country. As far as the SGSY was concerned, the audit review pointed out that despite sustained intervention by government, nearly 260 million people continued to live below poverty line. It also revealed that the Central releases were actually only 65 per cent of funds budgeted during 1999–02 and of the funds made available, only 92 per cent were reported to have been spent—with an unspent balance of Rs. 265 crore. The extent of diversion, mis-utilsiation and mis-reporting, etc. would be revealed by the fact that as much as Rs. 529 crore out of an expenditure of Rs. 988 crore test checked (54 per cent) represented such aberrations. Moreover, all key performance parameters indicated that the programme had failed to make the desired impact (a detailed account is contained in Appendix 'B').

Another performance review of great merit was the Accelerated Irrigation Benefit Programme included in Report No. 15 of 2004. C&AG highlighted in this review, among other things, that various State Governments had diverted Rs. 741.34 crore from the central funds given for this scheme. C&AG, in a letter to the Finance Minister[11] on his findings also pointed out that the laxity in control mechanism and the lack of adequate monitoring of expenditure were the main reasons for these diversions. Another important feature of Audit Report on this subject was that as much as Rs. 2,854.06 crore (35.03 per cent) out of the total expenditure of Rs. 8,146.80 crore test-checked was not actually spent on the programme; but retained in various deposit accounts or diverted to activities not connected with the programme or simply mis-utilized or mis-reported. This reflected a poor financial management system.

As a sequel to the big push given to Performance Audit by C&AG, Kaul the number of standalone Performance Audit Reports has gone up; an idea of this can be had from the list provided below:

Audit Report 2005

(i) Performance Audit of Internal Control Systems in India Security Press Nashik (14 of 2005)
(ii) Performance Audit of Department of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy (AYUSH) (16 of 2005)
(iii) Performance Audit of Property Management by Ministry of External Affairs (17 of 2005)

Audit Report 2006

(i) Internal Control in selected Central Ministries (12 of 2006)
(ii) Performance Audit of Pradhan Mantri Gram Sadak Yojna (13 of 2006)
(iii) Implementation of Consumer Protection Act and Rules (14 of 2006)
(iv) Sarva Siksha Abhiyan (15 of 2006)
(v) Management of Food Grains (16 of 2006)
(vi) Disinvestment of Government shareholding in selected Public Sector Undertakings during 1999–03 (17 of 2006)
(vii) Conservation and Protection of Tigers in Tiger Reserves (18 of 2006)
(viii) System of revenue generation by Doordarshan and All India Radio (19 of 2006)
(ix) Tsunami Relief and Rehabilitation (20 of 2006)

Audit Report 2007
C&AG has planned 9 (standalone) Performance Audit Reports and of these 7 were laid in Parliament during the Budget and Monsoon Session of 2007.

It also needs to be said that C&AG Kaul has introduced additional transparency in the audit methodologies. For example, Performance Auditing guidelines as well as Guidelines on Audit of Privatization and Audit of Regulatory Bodies were shared with the stakeholders so that they are aware of the standards and benchmarks through which such audits will be conducted.

TRANSACTION AUDIT OUTPUT

The number and monetary effect of transaction audit (now called Compliance Audit) paragraphs in Union Audit Reports are comparatively lesser than what appear in State Audit Reports because bulk of the funds from the Centre on schemes/ projects, programmes, etc. are transmitted to States by the respective Ministries/Departments as part of the centrally assisted schemes. Direct expenditure on such programmes and schemes by Central Ministries/ Departments and their field offices would, therefore, be small. It is against this background that transaction audit output in Central Audit Reports is to be viewed.

A scrutiny of the contents of Audit Reports over the years from 1990 onwards indicate that certain selected Ministries were generally the focus of audit observations in so far as transaction audit paragraphs was concerned. Among these, the Ministry of External Affairs appeared to have a prominent place, with a number of such paragraphs relating to it getting included every year. These paragraphs related to wastages of public funds and a casual approach of embassies and missions in protecting the interest of government funds. For instance, Audit Report No.1 of 1991 brought out typical instances of mismanagement and lapses in property management, wasteful expenditure by the External Publicity Division, and uneconomical purchase operations of the supply wings of both Indian Embassy, Washington and High Commission of India, London, both of whom came in for criticism for their inefficient handling of purchase operations. C&AG's Report No.1 of 1993 contained 11 paragraphs on transaction audit that included imprudent purchase of property resulting in an investment of about Rs.6.28 crore remaining unfruitful for about three years due to non-utilization of the property purchased without adequate care and consideration. Another case of bad handling of purchase of property caused significant amount being spent on repairs of the building and purchase and repair of furniture and all this when the Ministry had told the embassy not to go ahead with the purchase. There was a very good paragraph on the inefficient and outdated heating system at India House, London housing the offices of the Indian High Commission. There were several cases of non-adherence to the norms on payment of garden maintenance grant which resulted in extra expenditure of Rs.11.54 lakh. (These amounts may look small but they reflect the misuse of allowance by employees and in that context become material). In addition, cases reported included fraudulent medical reimbursement, overpayment of municipal taxes, negligence in attending to a legal case and construction of additional floor to the chancery building. In Report No.1 of 1994, 13 paragraphs were reported on the Ministry's irregularities and wasteful expenditure and financial mismanagement. One of the paragraphs highlighted a loss of Rs. 51 lakh due to failure to invest surplus funds in interest bearing deposit. 1998 Report had 8 paragraphs mostly pertaining to unauthorized expenditure on establishment totalling Rs.1.77 crore approximately including Rs. 55 lakh as clear overpayment and Rs. 45 lakh as an entirely avoidable expenditure. The Report of 1999 contained 9 paragraphs on transaction related matters. In the new millennium, things were no better. The Audit Report of 2001 had 11 paragraphs of various types including a paragraph on avoidable expenditure of Rs. 26.27 crore on hiring of buildings, avoidable payment of Rs. 11.23 crore on rent of leased buildings while occupying a plot received as a gift from host government for three decades and Rs. 10.83 crore as infructuous expenditure on the redundant telex system. Just two years back, in the report of 2005, things were no better—there were 13 paragraphs of various kinds involving a financial implication of Rs.19.20 crore. One of these paragraphs related to creation of the post of Ambassador-at-large without assigning any mandate. The office was wound up after incurring an expenditure of Rs.15.95 crore.

Another Ministry which was constantly at default due to irregularities, wastages, avoidable expenses, etc. was the Information and Broadcasting. Even after formation of Prasar Bharti, things, instead of improving, became worse as several high value paragraphs on Prasar Bharti would indicate. There were 14 paragraphs pertaining to this Ministry in the Audit Report No.2 of 1997.

Yet another Ministry which has a high tally of transaction audit paragraphs is the Ministry of Communications and Information Technology, mostly relating to the Department of Posts and Department of Telecommunications. C&AG's report for the year ended March 2002, had 9 transaction audit paragraphs relating to this Ministry involving money value of Rs.15 crore on account of delay in land utilization, irregular payment of commission (Rs.59.02 lakh), excess payment of service charges (Rs. 54.11 lakh), irregular payment of interest (Rs. 52.28 lakh, of which Rs. 24.07 lakh was recovered at the instance of audit), Rs. 49.95 lakh on unfruitful investments on land acquisition, etc. Omission in deducting tax at source from commission paid to authorized agents resulted in non-realization of revenue of Rs. 2.43 crore and Rs. 2.56 crore was lost by way of avoidable rent by District Telecom Training Centre. In the Report of 2006, this Ministry had 7 major transaction audit paragraphs including 5 of Department of Posts and 2 of Department of Telecommunications. The Postal Department continued to slip on due deduction of commission (Rs. 3.85 crore), overpayment on life insurance policies (Rs. 1.01 crore), grant of concessional tariff to ineligible publications (Rs. 31.58 lakh), irregular payment of interest, bonus and commission (Rs. 21 lakh), non-deduction of service charges on interest accounts (Rs. 15.74 lakh), non-recovery of interest on delayed payment of pension contribution (Rs. 55.32 lakh) and excess payment of relief (Rs. 31.80 lakh).

If there was one comparative weak area in Central Civil Audit Reports under transactions audit, it was works contracts. This may be due to both small volume of expenditure on works contracts and also on account of lack of ability to penetrate deep into works contract cases.

While the foregoing sums up in general the status of transaction audit paragraphs in Central Audit Reports of the Ministries which were mostly the focus of attention, some of the more interesting transaction audit paragraphs that depict not only executive failures but their utter disregard for rules and regulations as reflected in the evidence before the PAC are discussed at the end of the chapter. These cases reveal that even the secretary level officers failed to appreciate some times the grave misdemeanour on the part of their subordinate offices. In totality, the picture which comes out confirms the widely prevailing view that in relation to paragraphs in the audit report of the C&AG, the attempt of administration, both during evidence before the PAC and in their written submissions, is to defend the action of subordinates. This tendency, perhaps, is an outcome of the perceived fear of some kind of penal action against the concerned officials on the basis of audit reports in case such defence for the officials and for their action is not offered before the PAC. In summary, therefore, a relationship of mutual trust and respect between audit and administration is perhaps called for towards a better accountability regime.

CHANGE IN AUDIT REPORT FORMAT

The format of Audit Report, Union Government (Civil) in 1989–90 had 11 Chapters of which Chapter-I & II were on 'Accounts of the Union Government' and 'Appropriation Audit and Control over Expenditure' respectively. The rest of the chapters except Chapter-XI dealt with audit findings on the C&AG's audit of individual

Ministries and Departments. From the Audit Reports of Financial Year 1990–91 Chapter-II heading was changed to 'Appropriation Accounts' and a paragraph on 'Follow up on Audit Reports' was added in the Report for 1991–92 under each Ministry. From next year, a summarized position of Follow up of Audit Reports was included in Chapter 'General'.

Traditionally (at least upto 1994–95) Audit Reports on a particular stream included both Transactions Audit finding and Performance Audit finding. A major change in Audit Report format (in the Report of Financial Year 1995–96—No.1 of 1997) was the introduction of a separate volume on Accounts of the Union Government replacing old Chapters-I & II. All Transaction Audit paragraphs and local reviews/ mini reviews were included in Report No.2. From 1997, all India Reviews, which were horizontal reviews done across the States and Union Government, on important centrally sponsored schemes were brought out in a separate volume. Generally, the volume would contain three to four such reviews, which were conducted during preceding year of the report. These reviews would be presented in any session of the Parliament, as appropriate. Occasionally, standalone report on a programme/ scheme was also brought out as a separate volume. Examples of such reports are C&AG's Audit Report on Public Debt (Audit Report 1994), Report on MPLADs[12] (once as a separate volume in 2001 and earlier in 1998 as a review in the composite volume of Audit Report No.3 of 1998). As a matter of fact, standalone review reports were more common on Commercial Audit side when comprehensive appraisals conducted through Audit Board Mechanism were brought out as separate volumes.

Consequent upon the introduction of the revamped Performance Auditing System effective from the year 2004–05, Audit Reports on performance audit were brought out in separate volumes. This was in consonance with the changes made in the system of audit introduced by the C&AG V.N. Kaul who clearly demarcated audit function into two streams i.e. Transactions Audit and Performance Audit.

The Audit Reviews on schemes/ programmes, and what is now called Performance Audit Reports, open with an Overview, which is a kind of Executive Summary of the Report.

DEVELOPMENTS IN AUDIT OF FINANCE ACCOUNTS AND APPROPRIATION ACCOUNTS OF THE UNION GOVERNMENT

A Committee[13] was set up by C&AG, Somiah, in March 1990 to review and make recommendations on quality improvements in Chapters-I & II of Central Civil Audit Reports. The Committee gave several recommendations, most of which were equally applicable to State (Civil) Reports also.

A major recommendation was that analysis and presentation of Finance Accounts that form the basis of the Chapter-I can be re-oriented by providing an economic content to the chapter. This recommendation, however, after discussion in the AG's Conference of March 1991, was not favoured and the decision was that no such comment be made in the State Audit Reports. It was also agreed that expenditure trend study should be done by co-relating the same with five year plan period (trend analysis) with a mid-term appraisal at the end of the third year.

The Committee further recommended that:

(i) The then existing 'Statement of financial position' be renamed as 'Summarized financial position';

(ii) Figures of internal debt could be separately exhibited for treasury bills, treasury bills converted into securities and other internal debt;

(iii) Information in the Statement could be supplemented by an analysis of relative growth of assets (comprising capital investments and loans advanced) and the total liabilities of the Government;

(iv) Overall deficit may be analysed with reference to the amounts estimated at the stages of budget and revised estimates while reasons for variations can be analysed under the broad headings. A five year trend analysis may also be given;

(v) Analysis of revenue deficit be done by co-relating it to GDP and a five year trend analysis of the growth of revenue deficit may be given;

(vi) Revenue expenditure growth be analysed separately for plan and non plan expenditure;

(vii) On subsidies, the trend of expenditure could be analysed with reference to total revenue receipts and the total non-plan revenue expenditure. The amount of subsidies could also be given as a percentage of GDP;

(viii) Interest payments be analysed over a period of 5 years to bring out if there was any significant shift in the borrowing towards less softer loans;

(ix) Capital expenditure should be analysed with reference to the budget estimates figures and revised estimate and actual expenditure;

(x) A detailed analysis of the tax revenue growth was recommended with reference to previous year, as well as percentage of Gross Domestic Product as well as share of tax receipts in total receipts;

(xi) The state of growth of non tax revenue be analysed over a five year period;

(xii) Investments and returns could be broken up into separate segments e.g. dividends and profits in respect of RBI, nationalized banks, LIC, GIC, IDBI and public enterprises and other investments;

(xiii) An analysis of Public Debt was being done already. The Committee made some recommendations on strengthening the same.

The Committee also made recommendations regarding suitable inclusion of information and material on utilization of foreign aid, guarantees for external loans, loans and advances and assistance to foreign governments.

The Report of the Committee was discussed in the AG's conference in 1991 and based on the recommendations of AG's Conference, the new format of Chapter-I and II was introduced for the Audit Report (Civil) 1990–91. It was also decided in the Conference that Audit should also comment on the positive aspects of financial management 'such of those statistics which depict the financial management in a positive manner could be mentioned'.

SEPARATE VOLUME ON ACCOUNTS OF UNION GOVERNMENT

A decision was taken by C&AG Shunglu to bring out a separate volume of Audit Report on Finance and Appropriation Accounts (Civil), which will also have a brief overview of comments on Finance and Appropriation Accounts from Postal and Telecommunications and Railways as well. This significant change that occurred from the Audit Report for the year ended 31st March 1996 (No.1 of 1997) was that the entire volume was devoted to comments and observations arising from the audit scrutiny of Finance Account and Appropriation Accounts *per se*. C&AG's observations generated from

Transaction Audit and Performance Audit were shifted to Report No.2 and Report No.3 respectively. Part-I of the Report contained 9 Chapters that dealt with Finance Account and Part-II, also containing 9 Chapters, dealt with Appropriation Accounts. This meant that the Report contained exclusively C&AG's comments on the two main accounts and a systemic review of various important components of these accounts, namely, receipts, expenditure, revenue expenditure, capital expenditure, deficit and debt position of Union Government and other observations on accounts like reconciliation of accounts, suspense balance, adverse balance/ review of balances, etc. Similarly, in the analysis of Appropriation Accounts, C&AG, apart from commenting on excess expenditure and savings, examined exhaustively in separate chapters on injudicious re-appropriations, new service, utilization of supplementary grants/ appropriation and comments on financial management of few select Ministries. These comments were based on an analysis of the grants, expenditure management, quality of estimation of budget, supplementary grants, savings, and irregular appropriation of funds.

The next major development in the presentation of this Report was the introduction of a new format of Audit Report No.1 (Civil) from the Fiscal 1999–2000 that redefined audit analysis of Government finances and accounts. The analysis focused on critical changes in major fiscal aggregates in 1999–2000 'in the context of prevalent trends over the decade of the nineties, in a macroeconomic perspective, using some broad indicators concerning outputs, prices, savings and investment'. This was introduced by C&AG Shunglu from the year ending March 2000 and reflected in Audit Report No. 1 of 2001—Union Government (Civil) Accounts of the Union Government. In preparing this Report, C&AG took the assistance of the NIPFP Consultant, Dr. D.K. Srivastava, an Economist, who did an excellent job in developing a structured document; the then PD (Report Central)[14] ably assisted him. The Report not only analyzed the financial performance of the Central Govt. in macro economic terms on the basis of selected benchmarks but also contained a time series data on various parameters used in the analysis. 36 appendices attached to the Report contained a wealth of data and information on several key aspects of the National Economy, Finance and Accounts. In that sense, it was really a source book for various stakeholders including scholars of public finance, credit rating agencies, and public policy analysts apart from the government.

The merit of this revamped Vol. I of the Central (Civil) Report is that it gives an in—depth analytical account of the major trends in

Government finances in a manner that enables the reader to form an opinion about the financial well being of the economy. Additionally, the Report also presents trend analysis for major financial sub-themes, which are of great use in policy formulation analysis. The fact that the analysis is based on the Finance and Appropriation Accounts figures makes the Report an authentic document for research and policy formulation. For instance, the Report for 1999–2000 reviewed the quality of government accounts and carried an intelligent analysis of Appropriation Accounts. It also discussed overall performance of central taxes, where, for example, it had the following summary comments:

'The tax—GDP ratio improved marginally in 1999–2000, rising from 8.18 per cent in 1998–99 to 8.78 per cent. But this still was well below the 10.12 per cent level in 1990–91. The course that different Union taxes took during the nineties largely determined why the deficits defied correction. The central failure was persistent erosion of the Union Excise Duties relative to the GDP. While income and corporation taxes rose relative to the GDP, the Union excise and customs duties fell. The fall in the Customs duties may have explanations in external liberalization and the WTO considerations. For the customs duties, there were perhaps the WTO compulsions that brought the tax rates and revenues down. Reforms, on the other hand, that recast the Union Excise duties under the Value Added Tax principle into MODVAT and later CENVAT, proved to be revenue depleting relative to the GDP. The fall in the indirect taxes could not be overcome by a rise in revenues from the direct taxes, and a small increase in the non-tax revenues. Consequently, the overall revenue receipts of the Centre fell relative to the GDP. The tax base remained focused on a narrow portion of the GDP. The industrial sector, which constitutes the core of the tax base of important central taxes like the corporation tax and the Union excise duties accounted for only 21–22 per cent of output throughout the nineties. There is enough potential for widening the direct taxes revenue base. The service sector potential for tax revenue still remains largely untapped'.

Further, there was a general evaluation of the management of government finances in a separate chapter.

From the subsequent year, C&AG took on deputation basis, an Economist from Indian Economic Service (IES) from the Ministry of Industrial Policy and Development who was henceforth the main person responsible for finalizing Vol.-I of the C&AG's Report based on the material received from the office of the DGACR.

One of the issues that came to light recently concerned the differences between the figures of fiscal deficit computed by C&AG on the basis of data in the Finance Account 2004–05 and the figures given in the Document 'Budget at a Glance' 2006–07. The matter was taken up with the Ministry in June 2006 and subsequently with the Secretary, Ministry of Finance in May 2007. The letter of ADAI on the subject conveyed that figures of revenue and fiscal deficit as depicted in the 'Budget at a Glance' differed from those derived from Annual Finance Account placed before Parliament. The figures in the Annual Financial Statement, however, agreed with the deficit figures derived from audited Finance Account of the Union Government. The letter pointed out that such differences were also noticed in the previous years. The letter gave audit analysis of the differences in the two sets of figures and advocated that in view of the need for greater transparency in fiscal operations of the Central Government as emphasized by FRBM Act 2003, the rationale behind according different treatment to certain transactions (which are the cause of this disparity) and between the two sets of figures 'may be clarified by the Government and necessary disclosure made in the document 'Budget at a Glance' for better fiscal transparency'.

The letter also pointed out the anomalous situation that arose in various years in the figures of subsidy (actuals) reported in the expenditure budget, which had to be changed in the following year on the basis of correct figures. These situations had arisen because the Government did not adopt certified Finance Accounts figures in the budget of the relevant years even though such figures (of actual expenditure) were available with the CGA and concerned Ministries much before presentation of the budget. The letter desired that this anomaly be corrected and necessary instructions issued accordingly.

OTHER DEVELOPMENTS

During the period covered by this volume, several steps were taken to improve Audit Report's presentation and drafting. These are briefly narrated below:

Suggestions for Improving Audit Report Presentation-Style Guide: A decision was taken in Headquarters that there would be a uniform format for all Audit Reports from the Audit Reports 1997–98 onwards. The format prescribed in January 1999 was to be followed for all Reports for the Union Government except P&T and Autonomous Bodies Reports. It was decided with the approval of concerned Additional Dy. C&AG that State Audit Reports would also follow the same format from 1998-99.

The necessity of a uniform formatting for Audit Reports was felt on three grounds:

(i) The advantage of such a system at the time of printing of the Reports where Camera Ready Copy of the draft report was given to the printer, would ensure the quality, colour choice, background of the graphs and charts, etc.;

(ii) It would appear odd if C&AG's various Reports did not conform to some standard formatting in presentation and style; and

(iii) Finally, common formatting would ensure that minor mistakes that happened sometimes do not occur. Standardization of format also became necessary due to decision to put Audit Reports on the internet.

The format gave detailed directions about colour, font size to be used, chapter names and headings, caption and title. It was also suggested that a marginal gist should also be given. There were instructions about how to go for graphs and charts, table, overview, etc.

The Audit Reports are not reader friendly in language and presentation to a large extent. Headquarters, being conscious of these things, issued from time to time instructions on how to make the presentation and drafting more reader friendly and attractive. In 1997, for example, it was emphasized that the drafting should be 'accountability centered' rather than indirect narration. It was suggested that the reporting style should be based on the instructions contained in the Auditing Standards, which could prove as excellent guide for the purpose. It was emphasized that the Audit Reports should include some well thought out recommendations to make it a good constructive audit document. The letter strongly emphasized that all the reviews and important paragraphs should be backed by discussion with the Secretary of the Ministry concerned or an officer not below the rank of Joint Secretary.

The instructions also brought out the following:

(i) With a view to advancing the finalization of Audit Reports so that they could be presented in the Budget Session, Bond Copy of the Audit Report could be finally approved by C&AG by the end of January 1998 in respect of the reports of 1996–97.

(ii) The letter also gave stage-wise schedule for the preparation and finalization of Audit Reports (Union Government).

(iii) The field offices should forward to the Headquarters draft paragraphs/ reviews of good quality and not unduly bother about the number of such DPs or reviews.

It also emphasized that Audit Reviews must be thematic so that it could bring out deficiencies in design, execution, achievements and value for money realized from the programme or the scheme.

Subsequently, in the year 2003, a detailed booklet by the name 'Style Guide' was brought out which contained elaborate instructions on drafting and presentation of the Audit Reports. Style Guide has since been revised in the year 2005.

Audit Findings in Annual Reports of the Ministries/Departments: While inaugurating the 21st Conference of Accountants General in April 2001, the Prime Minister suggested that in future the Annual Reports of every Department and Ministry must carry summary of audit findings of the C&AG's Report for that Department or Ministry, even if it is for the previous year.

As a follow up of this direction, the Annual Report of the Ministry of Civil Aviation started carrying details of response to audit paragraphs and action taken notes. C&AG suggested to the Cabinet Secretary in May 2002 in this context that the proforma used by that Ministry could be adopted by other Ministries also if the Government so desired. C&AG also suggested that a summary of important audit observations on the Ministry's working, if contained in the Annual Reports would add to the value of the Annual Report—he offered to send a summary of audit findings relating to each Ministry/ Department for incorporation in their annual report. In the absence of a response, the new Cabinet Secretary was informed in March 2003 that the Prime Minister would inaugurate the subsequent session of Accountants General Conference on 28 July 2003 and that C&AG would like to inform him of the progress in the implementation of the suggestion. As a result, the Government agreed that a summary of audit findings be reported in the Annual Reports of the Ministry/ Department. This is followed from 2003–04.

Brochure on Important Audit Findings of Audit Reports: In November 1996, C&AG, decided to bring out a Brochure containing a gist of all the Audit Reports (Union Government) submitted by the C&AG. The Brochure was to be not more than 40 pages. The idea behind the issue of a Brochure was to give the reader a gist of all the important observations in C&AG's Reports to the Parliament (numbering about 20 each year). The language of the Brochure was to be user friendly and drafting was to be in journalistic style to catch the interest and attention of the user. However, the facts and the conclusions should, in no way be different than what the audit report said. The Brochure called 'WHAT DO THE REPORTS OF C&AG SAY', containing a bird's eye view of the Audit Reports of the Comptroller and Auditor General of India (Union Government) February–July 1997 was published. Since then, it is being published each year.

IMPORTANT TRANSACTION AUDIT PARAGRAPHS

Premature Procurement of Equipment and Delay in Construction: All India Radio(AIR), Bombay entrusted construction of additional studio for Doordarshan Kendra, Worli, Bombay in March 1989 to a firm at a cost of Rs. 443.64 lakh. The scheduled date of completion was November 1991. Since the firm could complete only 16.47 per cent work by November 1991, the contract was rescinded. The remaining work was entrusted to another contractor at a cost of Rs. 523.53 lakh in November 1992 with stipulated date of completion as June 1995. Only 37 percent of work had been completed as of February 1995. The progress was slow mainly on account of frequent hindrances due to delay in clearance of design, lack of co-ordination between electrical and civil wings of AIR and suspension of work with a view to examining the possibility of change in the design of the building. While an expenditure of Rs. 127.45 lakh was incurred against the first contract, the second contractor was paid Rs. 206.85 lakh. Doordarshan procured equipment worth Rs. 965.30 lakh prematurely during April 1990 to March 1994 for installation in additional studio for Doordarshan, Mumbai. While equipment valued at Rs. 585.44 lakh had to be diverted as loan to other Kendras, those worth Rs. 379.86 lakh remained unutilized. The warranty period of one year for equipment was already over. Thus, inability of Doordarshan to construct the building more than six years after the initial award of work, resulted in non-fulfillment of the objective of providing the additional studio facility besides accumulation of idle equipment.

In their 12th Report (13th Lok Sabha) the Public Accounts Committee brought out (December 2000) that when the matter was taken up by the Department through the Arbitrator to obtain the claim in favour of the Government, the contractor moved the Mumbai High Court in March, 1992. The Committee was distressed to find that the case was still pending before the High Court and took a serious note of the inaction and apathy displayed by the Ministry in this matter. The Committee desired that a status report on the recovery of extra cost be placed before them within a period of three months. Despite the recommendations of the Committee in their earlier report that appropriate action should be taken against the second contractor, the Superintending Engineer proceeded post haste and granted extension to the contractor upto February 1997 without levy of compensation for no plausible reasons. The Committee desired that the circumstances under which Superintending Engineer decided against levying compensation be looked into and the Committee apprised of conclusive action taken against the agency for delay in the completion of the construction work. The Committee noted with regret that the project had not been commissioned even after a lapse of nine years and the Ministry failed to intimate the Committee the precise date by which the project would be commissioned. While expressing deep dissatisfaction over the failure of the Ministry to expedite the completion of the project, the Committee desired that the Ministry address the matter seriously and take all necessary and effective measures to ensure that the project was commissioned at the earliest.

[Para 3.1 in Report No. 2 of 1996]

Lower Categorization leading to Loss of Rs. 352.30 Lakh: Doordarshan accepts proposals of TV programmes from outside producers/ directors under 'Commissioned Category' and 'Sponsored Category'. Commissioned programmes are funded by Doordarshan whereas the sponsored programmes are financed by the Sponsors/Producers.The programme 'The World This Week' was approved under sponsored category in November 1989 and started from 16 February 1990. The duration of the programme was 45 minutes for non-Parliament days and 30 minutes for Parliament days. The Programme was categorised as 'A'. Taking into consideration the viewership of the programme and the long waiting for spot ads, it was, however, decided in April 1990, to re-categorise the programme as 'A-Special' with effect from 1 June 1990. But the producer did not agree to it though Doordarshan had a right to change the categorization by giving 30 days notice. Doordarshan changed the spot-buy rate to those applicable to 'A-Special' with effect from 1 June 1990 while the categorization of the programmes/sponsorship fee continued as lower category 'A'. As per Doordarshan's rate card, the category of sponsorship fee, free commercial time (FCT) and spot buy-rate should be matching and uniform. By keeping the programme under lower category for telecast fee and FCT Doordarshan had charged lower rate of telecast fee and had allowed 30 seconds extra time as FCT in each episode of 30 minutes which was not available after re-categorisation from 'A' to 'A special'. Keeping the different categories of telecast fee, FCT and spot buy-rate, Doordarshan had suffered a loss of Rs. 127.20 lakh on account of sponsorship fee being the difference of fee between 'A' and 'A-special' categories and Rs. 225.10 lakh on account of 30 seconds extra FCT allowed per episode. This aggregated to a total loss of Rs. 352.30 lakh.

The Public Accounts Committee after deliberating on the Audit Para and taking evidence of the Ministry of Information and Broadcasting submitted their Report containing recommendations on the paragraph in April 1997 followed by Action taken thereon in 43rd Report of the PAC 2002–03 in March 2003. The Committee concluded that the producer of the programme was undoubtedly given preferential treatment and, in the process, Doordarshan suffered an estimated loss to the tune of Rs. 4.78 crore. Deploring the sordid state of affairs prevalent in the Ministry /Doordarshan, the Committee, interalia, recommended that the whole matter regarding the telecast of the programme in Doordarshan should be entrusted to an appropriate Investigative Agency for a thorough inquiry including loss of files pertaining to the programme. The matter was entrusted to the Central Bureau of Investigation (CBI) for investigation. The Committee were informed that during the investigation in preliminary enquiry by CBI, commission of a cognizable offence including criminal conspiracy and resultant loss to Doordarshan was revealed and on the basis of such revelations, a regular criminal case was registered on 9 January 1998 against the accused persons. Giving the latest position of the case under investigation, the Ministry intimated the Committee that the investigation into the case had been completed, and the opinion of the learned Attorney General of India was sought on certain legal issues by CBI. While expressing their concern over the elongated delay in the matter, the Committee desired that the Ministry of I&B should convey the anxiety of the Committee to the CBI as to the urgency of expeditious completion of investigation into the case.

In pursuance of their recommendation, investigation into other programmes relating to 'News Tonight', 'South Asia News Capsule' and 'Today' produced by NDTV and telecast in Doordarshan was also entrusted to the CBI. The Committee desired to be apprised of the action taken by the Government in the matter within three months of receipt of CBI Report.

[Para 3.5 in Report No. 2 of 1996]

Purchase of Residence for Consulate General of India at Frankfurt: Ministry of External Affairs (MEA) rules stipulate that the ceiling for residence of Ambassador and Minister level officers would 'be decided on merit' considering the need for economy in Government expenditure. The said instructions also recognize 'that there should be a fair relationship between the norms fixed in India and those applicable abroad'. Consulate General of India (CGI) at Frankfurt proposed to MEA in February 1989 for purchase of a property in Kelkheim at a price of DM 1.6 million (Rs. 113.92 lakh-at this stage CGI did not give details of plinth area etc.). MEA in December 1988, conveyed sanction for DM one million (Rs. 84 lakh) as the economic cost of the property to be purchased. However, after the CGI intimated the MEA in February 1989 that no reduction in the price was possible, the latter approved the purchase at a price of DM 1.6 million. Audit scrutiny of the details of the property revealed that besides a big garden, it contained four bed rooms, kitchen, store room, three bath rooms, dinning room, drawing room, laundry room, reception room, guest room, study room, hobby room and garage. In addition, it contained a heated indoor swimming pool with a sauna bath cabin and a separate shower room. The CGI incurred an expenditure of Rs. 6.45 lakh on maintenance of swimming pool in addition to expenditure on heating of the pool and for pumping water into and out of the pool which was not quantifiable. Audit concluded that purchase was not consistent with the need for economy in Government expenditure and far exceeded the representational needs of a grade III officer. It recommended that MEA should fix specific norms for residential accommodation of officers in the grade of Ambassadors and ministers and property at Frankfurt should be disposed off after procuring another property in accordance with the norms applicable.

A reading of the conclusions and recommendations of the PAC which discussed this para and took evidence of the MEA, would reveal the casual approach of the Ministry in deposing before the PAC on this issue. The Ministry in response to the specific query for furnishing Action Taken Note had stated that they agreed with the facts and figures included in audit paragraph. The Ministry also responded in the affirmative with regard to the conclusions drawn by Audit in the paragraph and it held out the assurance with respect to Audit recommendation to dispose of the property and to purchase another property by stating that recommendation has been noted and missions had been instructed to exercise restraint and to avoid expenditure on inessential and expensive appurtenances. To their dismay, the Committee found that during evidence, Foreign Secretary made a volte-face and disputed the facts as given in the audit paragraph. Subsequently in the revised note from the Ministry they eventually agreed with the facts, figures and conclusions of Audit but the PAC was very unhappy on this attitude of the Ministry and commented on their replies to the Parliament on a matter under scrutiny without exercising proper care. The Committee went on to say that such an attitude of callousness was very unfortunate and totally unacceptable. While the Committee stopped sort of taking any formal action for this incorrect information to Parliament, chose to caution and admonish the MEA against such attitude. It wanted them to show utmost care and prompt attention to Audit observations.

As regards the findings of the paragraph, the PAC agreed with these and it also endorsed audit recommendation that laying of norms for the residence of all diplomatic officials was both desirable and feasible and asked the Ministry to devise clear norms for the residence of all diplomatic officials posted abroad with some degree of built—in flexibility to allow for local variations, if so required.

In their Action Taken Report submitted to the Lok Sabha in December 2004, the Committee brought out that Ministry of External Affairs had not treated the matter regarding laying of norms for the procurement of residence of all diplomatic officials posted abroad with the seriousness that it deserved. The Committee directed the Ministry to take immediate action in the matter and lay down the norms indicating interalia the guidelines/parameters governing the procurement of residence of all diplomatic officials posted abroad and report compliance immediately after the presentation of their report to Parliament. As regards disposal of the property, the Ministry intimated that such an exercise would entail financial loss to the Government. In view of this, the Committee did not press for disposal of property but desired that the Ministry ensure that in future such proposals were strictly evaluated on receipt in the Ministry with a view to discouraging the purchase of properties with avoidable extensive appurtenances, to enforce financial discipline in government expenditure. The Ministry stated that there were 53 residential properties abroad with one or more facilities such as swimming pool, sauna bath, tennis court etc. and expenditure of about Rs. 90 lakh had been incurred during last three years on their repair and maintenance. The Committee while noting that expenditure on maintenance of some of these properties was quite large as compared to others recommended that government should examine the reasons therefore and take appropriate steps to ensure that expenditure on facilities mentioned above was kept to a reasonable limit.

[Para 4.3 in Report No. 2 of 1997]

Wasteful Expenditure on Rent: This audit paragraph appeared in Report of the C&AG of India for the year ended 31 March 1997 (No. 2 of 1998). Briefly, the paragraph stated that office of Joint Director General of Foreign Trade (JDGFT) Chennai was located in a rented building occupying 45237 square feet(sq. ft.) of accommodation (which was much more than area required as per norms) hired at Rs. 2.11 lakh per month. The Director General of Foreign Trade (DGFT) asked the JDGFT (in November 1990) to surrender the surplus area with immediate effect after reassessing their requirements of accommodation. The JDGFT in compliance to the above wrote to Assistant Estate Manager (AEM), Chennai in September 1993 i.e. after three years for assessment of accommodation requirement. He was asked to furnish the details in the prescribed proforma which JDGFT office supplied after a further two year period in December 1995. The AEM fixed the requirement at 10500 sq. ft. (in October 1996). The JDGFT did not surrender the excess accommodation (nearly 34737 sq. ft.) even after this reassessment and he surrendered only 11313 sq. ft. and that also one year after this reassessment (in October 1997). Audit worked out total wasteful expenditure on rent for 82 months on excess accommodation from January 1991 to October 1997 as Rs. 1.33 crore. Even after this surrender, the JDGFT was paying Rs. 1.09 lakh per month as rent on excess accommodation.

The PAC which discussed this paragraph gave recommendations in their 18th Report dated 22 December 2000. The Committee found glaring irregularities and lapses by the Ministry as well as the office of DGFT and the JDGFT Chennai in this case. The Committee discovered on the basis of testimony of the witnesses that despite clear norms for office accommodation, AEM had assessed the requirement of the accommodation of the office of JDGFT, Chennai as 42490 sq. ft. in 1987 whereas he was entitled to 10,500 sq. ft. as per norms even after providing for all miscellaneous requirements liberally. It was only after matter was pointed out by Audit, that AEM asked JDGFT Chennai to treat their earlier assessment as cancelled and instead, the new assessment of accommodation was pegged at Rs. 10500 sq. ft. in 1997—after a gap of ten years.

The Committee wondered, why DGFT, Delhi and JDGFT, Chennai did not calculate the correct area required on the basis of the norms laid down by Ministry of Urban Development for office accommodation applicable to all the Ministries. The PAC, therefore, came to the conclusion that the DGFT and the JDGFT, Chennai were jointly responsible for hiring an area of about four times more than the required accommodation.

The PAC were perturbed to note that DGFT not only failed to enforce compliance of its own orders (of 1990) but also continued to accord sanction for hiring the accommodation upto 1997. The PAC after holding DGFT and JDGFT, Chennai responsible for hiring excess accommodation recommended constitution of a committee to ascertain and fix the entitlement of the office of JDGFT, Chennai. The PAC was also concerned that the Ministry did not have any concern for economy of space since they were yet to review the actual requirement of office accommodation on all India basis, especially in the metropolitan cities where rental were very heavy. Committee hoped that Ministry of Commerce would adopt an all India approach to avoid infructuous expenditure on payment of rent.

The surprising and some what shocking revelation from the PAC Report was that when asked about the plea of JDGFT, Chennai during evidence of not having received letters of Pay and Accounts Officer dated July 1990 and of AEM dated April 1991 and reminder dated July 1991, the Secretary (Commerce) deposed that 'the Government office system is like that. There is nothing that one could do' and that 'today the system is computerized'. The Committee observed such an attitude was unfortunate and the Committee would not agree with the perception of the Secretary (Commerce) that without computers it was not possible to safely arrange and retrieve vital government papers. It went on to say 'this is nothing but sheer abdication of responsibility'. The PAC were also not happy with Secretary's comment that the DGFT had no role in review of the requirements of the accommodation for any office and that only when some audit para is raised, the DGFT examines the matter after calling for necessary details from the concerned zonal/regional office. The PAC was peeved that not only the DGFT did not take any action on the basis of draft audit para, both he and the Ministry of Commerce did not even reply to the draft audit paragraph even though they were aware of the instructions contained in O.M. of 3 June, 1960 issued at the instance of Public Accounts Committee.

[Para 3.1 in Report No. 2 of 1998]

Undermining of Parliamentary Financial Control: As per the provisions of first quota policy starting from 1979, Apparel Export Promotion Council (AEPC), a Section 25 company under the Ministry of Textiles had been assigned the work of allocating export entitlements and necessary certificates for export of readymade garments and knitwears. It was envisaged in the policy that in the event of non fulfillment of quota obligations, earnest money deposit and bank guarantees remitted by the exporters were liable to be forfeited. An audit scrutiny revealed the decision of the Ministry of Textiles to deposit the forfeited amounts (as penalty for failure to fulfill the export quota of textiles and garments) into public account rather than the Consolidate Fund of India.

Prior to 1989, AEPC was keeping the forfeited amount. The Secretary gave approval in 1989 for crediting the forfeited amount of earnest money deposit/bank guarantees in a deposit account. A Committee constituted by the Secretary released Rs. 35.08 crore out of forfeited amount of 66.44 crore. As per article 266 of the Constitution, the revenue of the government ought to be credited to the Consolidated Fund of India. The audit comment was that the Ministry bypassed the authority of Parliament by spending Rs. 35.08 crore without their approval. Audit further observed that the Ministry did not consult C&AG/Controller General of Accounts for changing the accounting procedures /opening the PD account. Audit commented that the Ministry credited the amount to public account despite having prior knowledge of irregularity of such action. Audit also said that unauthorized release of grants directly from public account denied C&AG's audit over such expenditure. Audit observed that additional funding of Rs. 5.50 crore to National Institute of Fashion Technology (NIFT) had the effect of denial of total picture to the Parliament.

The Public Accounts Committee (2001–02) in their 24th Report, 13th Lok Sabha examined this paragraph and observed that the Committee were of the considered opinion that 'whatever comes to the government by exercising the sovereign authority of the State, be it from penalty or forfeiture comes within the meaning of the revenue'. They further observed that the 'Ministry of Finance may issue appropriate direction to all the Ministries /Department of the government with a view to ensuring that the revenues earned by exercising sovereign authority of the State is not appropriated by any Department or authority in violation of the accounting procedure laid down by the government which has the effect of escaping Parliamentary control and scrutiny'.The Committee were unhappy that the Ministry of Finance did not show sufficient care and caution in dealing with an issue relating to the crediting of the revenue to the Consolidated Fund of India and also to proper interpretation of General Financial Rules. The Committee recommended that the 'Ministry of Textiles ascertain the actual requirement of funds to fulfill the garment export obligation of the country and take up the matter with the Ministry of Finance to ensure availability of adequate funds so that garment exports do not suffer on account of merger of forfeited funds in the Consolidated Fund of India'.

The importance of this para lies in establishing the principle of parliamentary scrutiny of the expenditure and that nothing can be spent from Consolidated Fund of India without Parliamentary approval. Materiality wise it was not a big para, but it reestablished a very important principle by bringing the aberration to this principle caused by Ministry of Textiles to the notice of PAC, who reiterated the instructions of Parliament's right very clearly.

[Para 17.1 in Report No. 2 of 2000]

Non-Recovery of Guarantee Fee from Air India and Indian Airlines: Article 292 of the Constitution empowers the Union Government to give guarantees in respect of loans raised within such limits as may be fixed from time to time by an Act of Parliament. The Government charges guarantee fee on such guarantees at the rates prescribed from time to time which forms part of non-tax revenue of the Government. In June 1993, Ministry of Finance, Department of Economic Affairs, issued instructions that all Government guarantees in respect of external borrowings would be subject to a guarantee fee of 1.2 per cent per annum on the outstanding amount of principal plus interest thereon. Audit commented that Ministry did not recover guarantee fee amounting to Rs. 511 crore for the period from January 1989 to March 2004 from Air India Ltd. and Indian Airlines Ltd.

During evidence, the Public Accounts Committee were informed that PSUs did not accept payment of guarantee fee at 1.2 per cent in all cases outstanding on or after 1989 irrespective of stipulations made in the sanctions at the time of extension of guarantees. The PSUs also expressed inability to pay fees where stipulations for payment of guarantee fee was made at the time of extension of guarantees. It was also stated that one of the loans was refinanced by the Ministry of Finance with the condition that guarantee fee would not be payable in respect of earlier loan being refinanced. In the circumstances, the fees payable became less than that pointed out by Audit. The PAC observed (August 2006) that whatever steps had been initiated were taken by the Ministry of Civil Aviation only after the Public Accounts Committee took up the subject for detailed examination in May 2005. The Committee was informed that Air India had since paid an amount of guarantee fee amounting to Rs. 24.91 crore and the India Airlines had paid Rs. 34.38 crore in installments. The Committee were of the view that the levying of guarantee fee at the flat rate of 1.2 percent per annum on the outstanding amounts in respect of all loans borrowed by the Indian Airlines and the Air India irrespective of stipulations made in the original sanctions issued by the Ministry of Finance at the time of extension of guarantees was not proper. Since guarantee fee at the normal rates had already been paid by the both PSUs and in view of the difficult financial conditions of these PSUs on account of fierce competition from the private airlines, the Committee felt that it would not perhaps be appropriate on the part of Ministry of Finance to insist on payment of guarantee fee at penal rates.

[Para 2.1 in Report No. 2 of 2005]

ANNEX-I

TREND IN SUBMISSION OF REPORT NO.1

Sl. No.	Number and nomenclature of report	Date of signature of C&AG	Date of laying in Parliament
1.	1 of 1990 Union Government (Civil)	20 March 1990	15 May 1990
2.	1 of 1991 Union Government (Civil)	11 July 1991	6 August 1991
3.	1 of 1992 Union Government (Civil)	10 April 1992	5 May 1992
4.	1 of 1993 Union Government (Civil)	8 April 1993	27 April 1993
5.	1 of 1994 Union Government (Civil)	11 March 1994	10 May 1994
6.	1 of 1995 Union Government (Civil)	29 March 1995	3 May 1995
7.	1 of 1996 Union Government (Civil)	29 February 1996	17 July 1996
8.	1 of 1997 Union Government (Civil) Accounts of the Union Government	4 April 1994	8 May 1997
9.	1 of 1998 Union Government (Civil) Accounts of the Union Government	8 May 1998	5 June 1998
10.	1 of 1999 Union Government (Civil) Accounts of the Union Government	12 April 1999	29 October 1999
11.	1 of 2000 Union Government (Civil) Accounts of the Union Government	18 April 2000	15 May 2000
12.	1 of 2001 Union Government (Civil) Accounts of the Union Government	28 June 2001	10 August 2001
13.	1 of 2002 Union Government (Civil)	25 February 2002	15 March 2002
14.	1 of 2003 Union Government (Civil) Accounts of the Union Government	21 March 2003	22 April 2003
15.	1 of 2004 Union Government (Civil) Accounts of the Union Government	4 June 2004	13 July 2004
16.	1 of 2005 Union Government (Civil) Accounts of the Union Government	13 April 2005	6 May 2005
17.	1 of 2006 Union Government (Civil) Accounts of the Union Government	10 March 2006	21 March 2006
18.	1 of 2007 Union Government (Civil) Accounts of the Union Government	21 March 2007	14 May 2007
19.	13 of 2007 Union Government (Civil) Accounts of the Union Government for the year 2006–07	30 November 2007	7 Dec. 2007

SECTION 'B'—AUDIT REPORTS (STATES AND UTs)

INTRODUCTION

At Headquarters, State Reports work is divided between two wings. Report States headed by an Addl. Dy. C&AG dealing with the Audit Reports of 18 major States (including the UT of Government of Puducherry)—while another wing, also headed by an Addl. Dy. C&AG deals with Reports of remaining 11 States (also called Special Category States) including Commercial Audit Reports of 16 States and Commercial chapter of Composite Audit Report of 13 States.

There are 29 States in the country (excluding Delhi which has a special status as Union Territory with Legislature[15]) and each State has a separate AG. Puducherry (earlier Pondicherry) is a UT with Legislature and AG, Tamil Nadu is responsible for auditing its accounts. Post 1990, six new State AG offices were set up. Three of them viz. Jharkhand, Chattisgarh and Uttarakhand were the result of the formation of three new States on the reorganization of the composite States of Bihar, Madhya Pradesh and Uttar Pradesh respectively. In the North Eastern region, three new AG offices came up during this period as a result of reorganization of existing composite office of Assam, Meghalaya, Arunachal Pradesh and Mizoram at Shillong.

AUDIT REPORTS

Accountants General of bigger States prepare three separate Audit Reports viz. Civil—dealing with the expenditure audit of civil departments of State Government, commercial—dealing with the audit of State Government Companies and Corporations and of Revenue Receipts — dealing with the audit of State Tax and Non-Tax receipts.

In addition, six State Accountants General now prepare separate Audit Report on Local Bodies for placement in Legislature.

From the year 2002–03, State Audit is conducted in two broad streams viz. Transactions Audit and Performance Audit (like in the Union Government Audit) but Audit Reports are generally prepared in one volume containing the audit results of both Transactions Audit and Performance Audit. There are occasional exceptions, when a stand alone Performance Audit Report is prepared by a State AG.

During the year 1990, 1995, 2000 and 2006, the number of State Audit Reports placed in State Legislatures were as per details below:

NUMBER OF REPORTS SUBMITTED

Report category	1990	1995	2000	2006
Civil	32	*43**	28	26
Receipts	8	*17**	16	17
Commercial	17	*16**	16	14
Local Bodies	-	-	-	03

*Approved by C&AG. Information on laying in Legislature not available.

APPROACH TO AND CONTENTS OF AUDIT REPORT

In early 1990s, the approach to better Audit Reports was spelt out in a circular D.O. dated 16 October 1990[16] with an attached note that basically constitutes a broad guideline for consolidating an effective common approach. The letter made it clear that it neither superseded any useful idea conveyed earlier from Headquarters nor restricted the freedom of field Accountants General to adopt any other helpful effective devices in specific cases.

The note titled 'Quality of State (Civil) Audit Report' began by quoting C&AG's comments that quality of the material processed for State (Civil) Audit Reports needed to be considerably improved. In a significant observation, rather surprising to read now, it said that 'we have a strong tradition of conducting broad based and intensive reviews and investigative audits on the Central side but it is true that there are deficiencies on the State side (which also weakens some of the All India Reviews processed centrally).'

The note very briefly covered the following aspects:

On strategy for reviews, it recommended adequate lead time and further advocated that review should be conducted preferably in two phases. The first phase material which could be on the basis of a test check or otherwise must be reformulated on the strength of an analysis of the data to be used for further exercise (probably it meant 2nd phase). It observed that mid-point was a convenient stage for correcting errors in the review when queries of the nature raised normally by Headquarters 'will suggest themselves to the field office if a critical look at the material collected is taken there'. The note also desired that at the mid way stage itself comments of concerned authority at all relevant levels to the issues raised by Audit are obtained. This would give Audit sufficient time to pursue these references and get Government's comments on audit findings. The note, rather eloquently, summed up the advantage of this approach in the following words:

'In the final stage the audit observations should be so self-supporting (and drafted in such graphic terms) that we should be able either to get the Government's total acceptance of the comments, or else let their silence itself constitute eloquent proof'. After suggesting this approach, the note also suggested that in some cases on the basis of ideas emerging from the first phase material, audit could work out a specific questionnaire addressed to all similar units, thus, making the audit coverage quite comprehensive.

For ensuring excellence in quality, it said there was need to reduce the tendency to proliferate the reviews. It recommended four or five State reviews for their Audit Report featuring a cross section of Civil Departments, Public Works Departments and Local Autonomous Bodies. In addition, in Audit Report 1990–91, a review of financial management of the State was to be undertaken.

On selection of topics, it advised that it should be based on projection of required aspects and selection of topics should be based on relevant data collected from a variety of internal and external sources.

For Draft Paras also, it advocated a similar approach and lead time as in the case of reviews. ADAI (MVR)[17] in February 1991 reiterated the points made in the above note viz. reducing the number of reviews, increasing the lead time of reviews and providing adequate time gap between first submission of Draft Paras to Accountant General and their onward transmission to Headquarters Office.

After C&AG Shunglu joined in 1996, the approach to Audit Report paras underwent some significant changes. One was that the paras were to be accountability centered where Audit should not be shy of naming the officials concerned for their lapses, negligence, malpractices, etc. that resulted in the loss of Government money or waste of resources or any other serious irregularity etc. The naming was generally to be by designation of the concerned officer but, in cases of clear fault of any officer convincingly established by Audit, the name of the particular officer then could also be mentioned subject to clearance by ADAI. Instructions contained in C&AG's MSO (Audit) also stipulate that names of departments, organizations and parties concerned with the irregularities, designation of the officials and place of occurrence of the case should be mentioned unless in any case this may not be considered desirable by the Government. These instructions also caution that in audit comments general expressions conveying praise or blame with reference to the standard of financial administration achieved by Government should be avoided.

Drafting style also changed with emphasis on writing the reports in 'third person active voice'. As regards the contents, the special feature in Transaction Audit of Shunglu era was the new approach of theme based audit of transactions—this is discussed in a separate section below.

In C&AG Kaul's period a significant change has been the separation of Audit Reports into two distinct categories namely Transactions Audit Reports and Performance Audit Reports. While in the case of Union Reports, there is a distinct and separate Report entirely devoted to Performance Audit which would be either a stand alone volume on one subject or may have a number of themes on which Performance Audit was conducted, in the case of State Civil Audit Reports, there are separate chapters for 'Performance Audit' and 'Audit of Transactions' in a single volume. Occasionally, stand alone State audit reports on performance audit are also prepared.

There is increased emphasis on selecting the departments for transaction audit on the basis of risk analysis. The role of statistical sampling has also assumed importance and finally an experiment is currently on to test how effective will be a controlling officer based audit approach covering the entire department instead of the present DDO based approach.

DEVELOPMENTS IN CHAPTER-I AND II OF THE STATE CIVIL AUDIT REPORT

Chapter-I of the Audit Report (Civil) of State Government (which is now titled as Finances of the State Government) is devoted to an analysis of the data and information contained in the Finance Accounts of the State Government concerned. This analysis focuses mainly on the trends in the major fiscal aggregates of receipts and expenditure over a time and its linkage with the economic parameters, the quality of expenditure and various aspects of financial management of the State Government. In a way, it can be called C&AG's commentary on macro level financial performance of the State Government. As such, this is a key chapter in the State Audit Report. Chapter-II titled 'Allocative Priorities and Appropriation', on the other hand, deals with appropriation audit conducted by C&AG to ascertain whether expenditure incurred under the various grants is within the authorization given under the Appropriation Act of the State. It also, interalia, ascertains whether expenditure incurred is in conformity with the law, relevant rules, regulations and instructions. Audit also does an analysis of the savings and excess in various grants. Together, therefore, these two chapters present C&AG's assessments of the financial performance of the State Governments and its adherence to the authorized appropriations.

These two chapters, have a distinct identity and importance in C&AG's Audit Report (Civil). There have been substantive changes in the presentation of these chapters over the period with which this history is concerned. These developments are worth recalling.

Based on the recommendations of the Review Committee appointed by C&AG Somiah and the discussions in the AG's conference (refer to Section 'A' for details) Chapters-I and II of the State Audit Report were restructured substantially. These changes in State Civil Audit Reports were operationalized from the Audit Report of 1993–94.

NEW SECTION ON INDICATORS OF FINANCIAL PERFORMANCE OF STATE GOVERNMENTS

C&AG Shunglu introduced a pioneering reform in Chapters-I and II of the State Audit Report dealing with the finances of the State Government. He added in the Audit Report (starting from the Report for the year ending 31 March 1998) a section to this Chapter titled "Indicators of Financial Performance of the State Government" wholly devoted to an analysis of financial performance of the State Government with reference to certain ratio analysis of key fiscal concepts, thereby indicating broadly the status of financial health of the State Government concerned.

Addition of this Section to Chapter-I was preceded by series of discussions and debates over the desirability of introducing such indicators in the State Audit Report. C&AG Shunglu who was the principal author of this change had made it clear that before this was introduced in the Audit Report, it needed extensive discussion with experts and stakeholders, namely State Government representatives.

The process of consultation started in June 1997 when C&AG convened a one day seminar in Headquarters office to discuss framing of suitable indices for checking financial performance or health of the State Governments. The participants included, apart from the C&AG and his senior officers, Deputy Governor of Reserve Bank Dr. Y.V. Reddy (at present Governor of the Reserve Bank), Dr.

Madhav Godbole, Managing Director of CRISIL a credit rating agency etc. The consensus in the seminar was that it was an appropriate time for the C&AG to carry out such an analysis in respect of financial performance of the State Governments. A question was also raised in this context whether it would be appropriate if the C&AG gave a ranking to the various State Governments in terms of their financial health based on the specified indicators. The C&AG was firmly against this because it would unnecessarily have political overtones; eventually, this was also the consensus of this seminar.

This seminar was followed by a bigger conclave held in NAAA, Shimla in October 1998. The participants included, besides the C&AG and his senior officers, J.L. Bajaj, Consultant, NCAER, E.A.S. Sarma, the then Secretary, Expenditure, Government of India, V.V. Desai, an eminent Economist, R.K. Pattnaik from the Reserve Bank of India and representatives of CRISIL (a credit rating agency) and several State Government Finance Secretaries.

The seminar, amongst other things, recommended that the proposed indicators of financial performance of the State Governments should be prepared by an independent agency on the basis of concrete accounts figures on an annual cycle and these indicators should be few in number, simple and should indicate the underlying assumptions. The proposed health card should be on a trend analysis basis. The preparation of a health card would include certain simple indicators classified under four categories viz sustainability, flexibility, vulnerability and assets and liabilities. The seminar proceedings defined all these concepts and the indicators of financial performance/ health of State Governments were also suggested in the seminar. However, the C&AG was very cautious towards using the expression health card etc. and stated that he would use the criteria discussed in the seminar in the Audit Report of year ending 1997–98 'without using the word that we are trying to evaluate the performance of the State Government.'

The Headquarters circular on the subject dated 31 October 1998 informed the Accountants General of the decision to include in Chapter-I of the Audit Report (Civil) of the State Governments, a separate Section called "Indicators of Financial Performance of the State Governments" for the Audit Report for the year ended 31 March 1998. A detailed note was attached to the letter which explained the parameters and indices that were to be used in determining the financial performance of the State Government. It was indicated in the letter that the write-up for this new Section would have material mostly, as earlier, from the Finance Accounts. There were, however, certain additional information to be collected for finalizing the write-up, these included:

- Balance from current revenue;
- Gross State Domestic Product;
- Figures for capital borrowings (including off-budget borrowings);

This Section on financial performance of State Governments essentially measured the financial performance of the State by three parameters called Sustainability, Vulnerability and Flexibility in the context of overall economic and financial environment. These terms were defined as below:

- Sustainability: The degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden on the economy.
- Flexibility: The degree to which a Government can increase its financial resources to respond to rising commitments, by either expanding its revenue or increasing its debt burden.
- Vulnerability: The degree to which a Government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

These three parameters were linked to a number of financial performance indicators expressed mostly in a ratio analysis context. From the subsequent Audit Reports, the analysis in terms of these parameters was not specifically used.

From the Audit Report for the year ending March 1999, the title of the chapter was changed to 'An overview of the Finances of the State Government' instead of 'Accounts of the State Government'. This title too has since changed to 'Finances of the State Government' w.e.f. year ending March 2003. Clarificatory instructions on the Section 'Indicators of Financial Performance of the State Governments' were issued in October 1999. The important change made was while interpreting primary deficits, Audit should not take the stand that primary deficit *per se wa*s desirable and high primary deficits led to sustainability. It was also clarified that in the definition of sustainability 'debt burden on the economy' be substituted by 'debt burden on the Government'.

In May 2001, Headquarters issued further instructions relevant to the finalization of Chapters-I and II of the Civil Audit Report with specific reference to Audit Report for the year ended 31 March

2001. Briefly, these said that in case of abnormal reduction in revenue deficit/ fiscal deficit, reasons for such reduction should be carefully examined to see if any unacceptable accounting adjustments were carried out for projecting better financial position. In case of reduction in plan expenditure with reference to the annual plan size originally approved, reasons for reduced expenditure were to be given. Similarly, reasons for low recovery of loans and advances as given by State Governments were to be analyzed and commented upon. Audit should also comment upon the utilization by the State Government of the funds raised by State PSUs by way of loans/ bonds to meet their ways and means requirements.

C&AG Kaul in August 2005, observed regarding Chapter-I of the Civil Audit Report that defining revenue buoyancy only with reference to the overall receipts of State did not bring out a clear picture about 'the buoyancy of the State's own taxes which is more relevant for fiscal analysis than overall buoyancy'. He, therefore, desired that from the Reports for fiscal 2004–05, the table on revenue receipts should also indicate revenue buoyancy with respect to States own taxes besides overall buoyancy. These changes have already taken place.

In its circular issued in September 2006, the Headquarters instructed State Accountants General to prepare Chapter-I of the Audit Report (Civil) for the year 2005–06 in a revised format. The circular enclosed the revised format as also explanatory notes (the guidelines for audit analysis of the fiscal operations of the Government). The revised format was necessitated by certain institutional and fiscal reforms introduced during 2005–06 for enabling fiscal correction in States. These included:

❖ Twelfth Finance Commission (TFC) Recommendations,
❖ States' Fiscal Responsibility (FR) Acts,
❖ Implementation of VAT—Landmark in States tax reforms,
❖ GOI/ RBI measures to facilitate reform process in States,
❖ State Specific Reforms/ Measures.

The revised format taking into account these developments focused on the following:

❖ Analysis of Trends and Pattern of Finances (based on facts/ evidences emerging from Finance Accounts and other documents of State Governments.)
❖ Assessment of Trends and Pattern of State finances (keeping in view the norms/ ceilings/ commitments or pronouncements

prescribed/ made in TFC Report, FR Acts and other documents laid before Legislature as required under the Act)
- ❖ Inter-linkages amongst Fiscal Parameters and Fiscal Variables.

However, no structural changes were proposed in the revised format and emphasis was on improving the quality of analysis of trends and pattern of state finances. The new format was to be adopted for bond copies that were scheduled for submission to C&AG after October 2006.

Chapter-I of C&AG's report has attracted attention of the Chief Ministers of the States and the senior functionaries of the Finance Department of the State Government. The merit of this Chapter lies in the dispassionate and in-depth objective analysis with reference to standard benchmarks of the financial soundness of the State and its capability to absorb financial shocks. The chapter also carries a trend analysis over a ten-year period or more in respect of various indices and ratios adopted for determining the financial soundness of the State Government.

DELINKING AUDIT REPORT (CIVIL) FROM FINANCE ACCOUNTS AND APPROPRIATION ACCOUNTS PRESENTATION

Up to the year 1997–98 annual accounts of the State Government i.e., Finance Accounts and Appropriation Accounts prepared by the AG (A&E) of the State concerned after audit by the AG (Audit), were submitted to the C&AG for his certification and onward submission to the Governor of the State/ Administrator of the UT as the case may be along with his report thereon for being laid before Legislature. In February 1999, C&AG took a decision that after his certification of Finance Account and Appropriation Accounts, these can be submitted by him to the Governor of the State, etc. without linking it with his Audit Report thereon. The relevant certificate, therefore, was also accordingly slightly revised.

Prior to the de-linking of submission of Annual Accounts from the submission of Audit Report (Civil) in 1999, the problem of timely finalization of Chapters-I and II used to surface practically every year; in the process it delayed the submission of the two Annual Accounts also. As we will notice in Chapter on Accounts, in the initial years of 1990s, due to the delay in the finalization of Finance Accounts and Appropriation Accounts, the finalization of Audit Report was also delayed due to delay in finalizing Chapters-I and II. But after the accounts became timely, around 1994, the culprit for delay in the submission of Audit Report was the time taken in finalization of Chapters-I and II and in a reverse scenario of the earlier times, this used to delay submission of the two annual accounts also. Hence the decision of 1999 to delink the submission of Finance Accounts and Appropriation Accounts from the simultaneous submission of Audit Report (Civil) thereon. The Headquarters on their part issued several instructions from early 1990s to the field offices about bridging the gap between the finalization of annual accounts and preparation of Chapters-I and II. In this context, apart from others, Headquarters letter of April 1995 deserves a mention which asked the field offices to prepare draft Chapters-I and II alongside checking of accounts by AG on the basis of un-audited accounts which could be suitably revised, if necessary, as soon as audit of accounts was over.

THEME BASED TRANSACTION AUDIT

C&AG V.K. Shunglu (March 1996–March 2002) was very much concerned about some areas where audit focus had been low or had been ignored. He, therefore, laid special emphasis on these areas and decided that some of these should be a kind of standing themes to be repeated for audit reports every year. The themes which were in the forefront in his thought and were to be given priority were:

- ❖ Integrated Audit of a Department;
- ❖ Manpower management in one of the State Government Departments;
- ❖ Audit of expenditure on foreign travel by Ministers and senior bureaucrats;
- ❖ Audit of personal ledger accounts;
- ❖ Audit of hiring of vehicles by State Government Departments—one Department was to be picked up every year for this theme; and
- ❖ Audit of Calamity Relief Fund.

Some of the themes mentioned above on which repeat audits were done in successive years would need a brief account.

Integrated Audit of Departments: The very first Accountants General's Conference after C&AG Shunglu assumed office held in November 1996 took up this subject and made the following recommendation:

'A few Departments should be selected for annual audit coverage and subjected to an integrated or vertical audit encompassing budgetary process, decision making, effectiveness of various internal controls, manpower, contracts, inventory, audit of selected DDOs under the Department, etc. After incorporating the Government's reply, the audit report should be finalized and issued separately. Audit reports of selected schemes, programmes, projects, etc. as and when finalized, should also be issued separately.'

This approach was considered one of the better ways of assessing the overall performance of a particular Department that would include its field offices and other subordinate formations to give a total picture of the functioning of the Department and the results achieved by it from its activities, expenditure and investments. The technique of Integrated Auditing was explained at length in a two day workshop on the subject convened by C&AG office in April 1997 and attended by Pr. Accountants General and Accountants General (Audit). In the letter of 13 May 1997, the Headquarters also sent to the AG offices a write up of the methodology and scope of Integrated Audit for their guidance.[18] While this audit was done by a number of State Accountants General including repeat audits, it would be fair to say that conceptual clarity was lacking in many of these audit outputs. In order to clear the confusion, a regional workshop was held every year to take stock of the audit output on the subject and further refinements needed to improve the same which were to be debated and spelt out including circulation of written supplementary guidelines. A review of the output in the 'Integrated Audit of Department' which was being conducted for about three years was discussed in the annual workshop on Civil Audit convened in February 2000. The Headquarters opinion was that even after three years of its introduction, the concept of Integrated Audit had not taken roots and the reviews that were being received in Headquarters were in the shape of disaggregated paragraphs without much analysis of the systems, procedures and the controls. Resultantly, the utility of this exercise remained questionable. It was also emphasized that Integrated Audit should be dealt with at the level of Group Officers and the Accountants General right from the stage of planning to the completion of the audit and the emphasis should be on evaluation of systems and controls. The ADAI (RS) also pointed out that the thrust of the Integrated Audit should centre around evaluation of the performance of the Department with reference to its mandate and at the same time the review should be able to establish linkages between the different tiers of the Department audited that is secretariat, directorate and field units. This should be clearly established and evaluated. Integrated Audit of a specific Department of State Government became a standing audit theme in the State Audit Reports every year after its induction in Audit Report 1996–97 and it continued till the Audit Report for the year ending March 2002—in fact in some States, Integrated Audit of a Department was continued till the year 2004–05.

Audit of Foreign Travel Expenditure: This seemingly innocuous subject was introduced at the behest of C&AG Shunglu and, as subsequent audit findings proved, it was an excellent choice in Transaction Audit. The foreign travel expenditure audit was conducted by the Department across the States more or less on a standing basis for about three years from 1997–98 and the audit output was very revealing. Senior bureaucrats holding highest positions in the Government and Ministers were found to have committed gross irregularities which were going unchecked due to weak internal control systems in State Governments. The emphasis in audit was to plug the system weaknesses. In August 1999, Headquarters issued important instructions on this audit. Some of these are mentioned below:

(i) It was decided that cent per cent audit of vouchers of foreign travel expenditure would be conducted in Central Audit as well as in field audit every year.

(ii) The letter emphasized that audit observations, and the facts and figures included in the review must be supported by irrefutable evidence/ key documents. The letter emphasized the sensitiveness of this audit, hence necessity of taking all precautions regarding facts and figures. In fact, to obviate any such eventuality a very unusual system was inducted—the Accountants General were asked to send a copy of their audit findings to the person(s) performing the journey (by name to all officers concerned and Private Secretaries to the Ministers concerned) with the request to give their response within a stipulated time and Group Officer was made personally responsible for the correctness of the findings being reported.

(iii) The State Government was to be requested for appointing a nodal Department for processing the cases of foreign travel so that all the records were available at one place.

(iv) A computerized data base was to be created in Audit Offices on the basis of information contained in paid vouchers and debit notes received in A&E Offices from Indian Embassies abroad regarding facilities provided to visiting officer e.g. accommodation, transport, daily allowance etc. This data base was to be used for audit planning also.

Accountants General were also advised to take up with Chief Secretaries cases of undue delay in the preferring of TA bills or submission of adjustment bills.

In May 2000, the Headquarters asked AG offices regarding the compliance of the above instructions. A detailed check list for audit of foreign travel bills was also prescribed.

Audit of Manpower Management: This was yet another hard driven theme for in-depth audit taken up during C&AG Shunglu's period. Carrying out a manpower audit of a selected Department across the States became a standing practice every year. Attempts were also made to source information from an independent database built up from a computerized enumeration of manpower undertaken by the Accountant General's office from the establishment vouchers, though such enumeration was only a limited success in some States. In one State (Karnataka) moreover, relevant files were refused to Audit on the subject on the plea that this audit did not have any financial content. Even though the matter was taken up by Dy. C&AG with the Chief Secretary, it transpired that he was under orders not to part with the relevant files, apparently, to forestall any move of the Audit to unearth possible irregularities in the posting of Station House Officers, which, if commented upon, would be embarrassing for the State Government. The audit authorities also did not pursue the question of non-production of files further because of time constraints in finalization of the review.

Other Issues: The results of audit of personal ledger accounts and civil deposits were projected in Chapter-II of the Audit Report which used to deal with Appropriation Audit and control over expenditure. Some other interesting reviews that were included in the Audit Reports after mid-1990 related to procurement and utilization of vehicles in Government Departments (this was also done across all the States). The 1996–97 report brought out reviews on irregularities in land requisition and transfer of lands.

Floor value of draft paragraphs of transaction audit for inclusion in the audit report which was Rs. 10 lakh earlier was raised to Rs. 25 lakh in respect of large States and from Rs. 7.5 lakh to Rs. 15 lakh for smaller States with effect from 2000–01 Audit Report.

A discernible trend in Transaction Audit Reports as revealed by a survey done recently by Headquarters is a steady decline in the number of audit paras as compared to the earlier times. The decline is reflected from 1996 onwards but is not a continuous declining curve and in between years have a high also. There is thus no pattern as such. Nobody is more concerned about these developments than the C&AG Kaul who issued directions in the matter on more than one occasion. Recently in the file of State Audit wing, he recorded 'Report (States) presents a very depressing picture with a steady decline of transaction/compliance audit from 1996 onwards. I cannot understand the reason for this disastrous situation. Targets for each State must be reworked with reference to targets for 1996 and a note put up to me of the action proposed to be taken to arrest this decline.'

PUBLIC WORKS AUDIT

C&AG has a strong tradition of Public Works auditing which is one of the oldest audits existing ever since C&AG's organization came into being.

Public Works audit comprises audit of several Departments that execute public works viz. PWD, PHED, Water Resources Department, Urban Development Department, etc. This audit has also evolved over the years just as auditing as a profession has evolved. With Public-Private partnerships of various kinds in operation, public works audit has ventured into several new audits like audit of Build Operate and Transfer (BOT), Build Operate Lease and Transfer (BOLT) contracts, etc.

Currently, audit of contracts and contract management is an all pervasive audit because the mandate of the C&AG is vast. His source of information and scrutiny of document is solely that which is available in the files and documents of concerned Government Department/Ministry which he is auditing.

There was a time when Public Works (PW) audit was a very strong area of SAI-India. A separate chapter in Audit Report was devoted to results of PW audit, but there were exceptions and a couple of AsG were bringing out a separate Audit Report like AG, Madhya Pradesh (MP) who started a separate volume of Audit Report in 1988. By a decision taken by Headquarters in 2003, this separate volume was discontinued as Public Works Report became a part of Civil Report of MP. This audit demands a degree of technical skill. Public Works audit demands basic understanding of construction engineering and a knowledge of the relevant specifications which are laid down for particular item of work. Over the last several years, audit output on works audit has somewhat declined. This could be due to, (amongst others) the reason that big works projects in government sector on the scale they used to be earlier have dwindled; additionally in some States, corporations have been created for execution of such projects.

Organization of Public Works: The basic executing agency of Public Works Department is the PW Division headed by an Executive Engineer. He has a Financial Advisor called Divisional Accountant. The cadre control of Divisional Accountants in many States is with the State Accountants General concerned. As of 31 May 2007, in 13[19] States, the cadre of Divisional Accountants vested with the Accountants General. Subsequently due to reorganization of AG offices in Bihar, MP , UP and Assam, the divisional accountants cadre in five more States viz. Jharkhand, Chhattisgarh, Uttaranchal, Arunachal Pradesh, Manipur, Tripura were controlled by respective AG offices. Divisional Accounts officers have four tier cadre structure as given below.

Grade	Pay Scale	Percentage of cadre strength
Ordinary Grade Divisional Accountant	Rs. 5500-175-9000	35
Divisional Accounts Officer Grade-II (Gr. 'B'-NG)	Rs. 6500-200-10500	25
Divisional Accounts Officer Grade-I (Gr. 'B'- Gazetted)	Rs. 7450-225-11500	25
Sr. Divisional Accounts Officer	Rs. 7500-250-12000 (w.e.f 01-10-2006)	15

Earlier, the chapter in State Audit Report containing audit findings on Works Audit also featured audit reviews on major projects/schemes. From the year 2004–05, the format of the State Audit Report (Civil) was changed and the Transactions Audit paras pertaining to all Departments of the Government were all clubbed in one chapter of the Report.

SELECTION OF TOPICS AND FOCUS AREAS OF STATE AUDIT REPORT (CIVIL)

Topics for All India Reviews were selected by the Headquarters office and intimated to each State AG. These reviews were published separately in the State Audit Reports and relevant material was sent to the AGCR now called DGACR for incorporating in the All India Reviews on the same topics for inclusion in the Central Report.

The themes/subjects that were covered in Audit Reports (Civil) of State Governments during the period of C&AG Somiah reflect the areas of emphasis in audit reporting. Thus, we have subjects chosen from a cross-section of Departments and sectors mostly the plan schemes aiming at the poverty alleviation, increased agriculture yield, employment generation, health care and management, disease control, infrastructure, etc. Many of these featured as All India Reviews in Union Reports too.

C&AG Shunglu continued with the emphasis that had already been given to the environmental issues and, during his tenure, apart from revisiting Ganga Action Plan on which a review was included in the Audit Report of Union Government (Scientific Departments) for the year ended 31 March 2000[20] as also in the Audit Reports of concerned States namely Uttar Pradesh, Bihar, West Bengal, Haryana and Delhi. He also carried out a review on Implementation of Environmental Acts relating to Water Pollution[21]—mostly from a compliance angle. In another Report, the C&AG reviewed perhaps for the first time, Administration of the Prevention of Food Adulteration Act—again from a compliance angle and brought the results in his Audit Report of 2000 in Union as well as in the State Audit Reports for the year ended 31 March 1999.

In September 1998, an internal review was conducted about the practice in the selection of topics for reviews for State Audit Report and it came out that the topics selected by the field offices themselves constituted about 25 per cent of the total. The then Addl. Dy. C&AG suggested that these topics should predominantly be based on the field office suggestions. It was necessary that selection of topics for reviews in the Audit Report of States (except those for All India Reviews and few synoptic topics suggested by the State Reports Wing) should be done by the AG based on a systematic approach. Instructions were also sent on how to build up the best portfolio of schemes, extracted from budget documents, Annual Plans and Five Year Plans etc. From the Headquarters, criteria including materiality, coverage and impact on the life of beneficiary population were suggested for selecting the topics for the reviews.

The above criteria were only illustrative, AG generally was free to consider other factors which were material.

The focus areas for Performance Audit as well as for transaction audit in present C&AG's period are picked up through a rigorous method of selection. The broad areas are already available in Perspective Plan. As detailed in the Chapter on Performance Audit, all the flagship plan programmes are included in the selected themes.

The flagship programmes are not limited to the Government of India categorization of such schemes but extends to about 50 Centrally sponsored and Central schemes. A three year programme has been chalked out for their audit. Based on the risk perception and expenditure analysis, etc. the Headquarters has also identified those Departments which should be assigned a priority in transaction audit.

Generally, a State Audit Report (Civil) would have three kinds of Audit Reviews (until 2003–04). Firstly, the Report would contain three to four All India Reviews which have been selected by Headquarters office; secondly, every year one or two topics for Audit Review would be suggested by the Report (States) Wing of the Headquarters, often to be carried out in all Audit Reports across States and the third would be what the local Accountant General planned to include in the Report. Such topics would range from one to as many as five or six. A look at the Performance Audit Reports of six major States denotes that bigger States like Maharashtra, Tamil Nadu, U.P. and West Bengal had, on an average about 7 Performance Reviews in each year's report and in all these States, the output during the years 1996–97 to 1999–2000 was very high. The average for these three years would be 9 Performance Reviews each year for Maharashtra, 8 for Tamil Nadu and 10 for U.P. and West Bengal.

A review of the position in some States, by way of example, during the present C&AG's time brings out the following picture:

The 2003–04 Audit Report (Civil), in addition to a performance review of the internal control system of a State Government Department, also contained a variety of themes cutting across the Departments. Thus, Andhra Pradesh had eight schemes reviewed in 2003–04, including an IT Audit; but in 2004–05 the number of reviews was cut down to five. Bihar had five schemes each in 2003–04 and 2004–05. Goa had two and three schemes reviewed for 2003–04 and 2004–05 respectively. Haryana had five reviews in 2003–04 on various schemes and three in 2004–05. Jharkhand had six reviews in 2003–04 and three in 2004–05 all of which were all India reviews. Karnataka had a list of six reviews for 2003–04—three each on civil and works and five in 2004–05—three on civil and two on works. Kerala had seven reviews in 2003–04 including one IT audit review and four in 2004–05. Madhya Pradesh had two reviews in 2003–04 on civil and three on works, in 2004–05 it had four reviews on civil and one on works. Maharashtra had four reviews from Mumbai office and four reviews from Nagpur office including an IT review in 2003–04, in 2004–05 Maharashtra had four reviews including an IT review and Nagpur had also four reviews including an IT review. In the case of

Punjab five reviews were printed including two all India reviews in 2003–04 and in 2004–05 three reviews including one all India review. Rajasthan had five reviews including one all India review in 2003–04 and three reviews including an all India review in 2004–05. In Tamil Nadu seven reviews were in 2003–04 including one all India review and five reviews in 2004–05 including one all India review. Uttar Pradesh had also five reviews including two all India reviews in 2003–04 and five reviews in 2004–05 including an all India review. West Bengal had four reviews in 2003–04 including one all India review and six reviews in 2004–05 including one all India review and one IT review. West Bengal (LBA) had two reviews in 2003–04 including one all India review and one in 2004–05.

These reviews were a mix of all India review themes, local State specific schemes and IT reviews (the review on Internal Control which was common to all not included in above list). Most of them covered all India review themes namely Pradhan Mantri Gram Sadak Yojana, Indian System of Medicines and Homeopathy and Implementation of Acts and Rules relating to Consumer Protection. Some interesting uncommon local reviews were a review of Ganjam District in Orissa and audit of Baitul District in Madhya Pradesh, a review of National Highways and on internal control system of Police Department by AG Punjab. Integrated Audit of a Department continued to be done in States like Rajasthan for both 2003–04 and 2004–05. Modernization of police force and other subjects relating to police Department were also a popular subject of study; so also Integrated Child Development Services Scheme.

What should be the ideal number of Performance Reviews to be included in the Audit Report of a State to make it robust and interesting? Views on this question have varied from period to period depending on the opinions held by the concerned Dy. C&AG/ Addl. Dy. C&AG who generally shape the content and the format of the Report. It is also dependent on whether the Report is to be presented in one volume in the Budget Session or there is a choice to present the Performance Reviews over staggered sessions of Legislature. Since omnibus reviews are presented in a single volume, generally in or around a Budget Session, this would act as a limitation for a large number of topics to be covered. However, Performance Audit Reports can now be presented throughout the year. A State AG has the choice to prepare standalone Reports which could be presented in other than Budget Sessions, though this has rarely happened on the State side, unlike in the case of Union Audit Reports. A stand alone report on

'Floods in Maharashtra' was approved in 2006 and presented in April 2007. In 2007, five stand alone Reports (two from Maharashtra one each from Jharkhand, Uttar Pradesh and Orissa) will be submitted.

A big development in State Reports is the increasing output of IT Audit Reviews. From just two IT Audit Reviews in 2001–02, this number has shot up to 13 in case of general category States.

PROMOTING GOOD PRACTICES IN REPORTING

V.N. Kaul, the present C&AG brought with him a lot of fresh ideas and was mostly guided by his keenness to integrate Indian Auditing Systems as best as possible with internationally accepted best practices. Some of the major decisions concerning audit reports which the C&AG, Kaul took were the following:

Soon after his joining, he decided to overhaul the Performance Audit systems and procedures and towards that end, brought out a fresh set of Performance Auditing Guidelines that substantially changed some of the features. The C&AG also decided that all the audit reports would be produced in two distinct streams, namely, Performance Audit and Compliance Audit or Transaction Audit. As a result, the format of audit report has undergone important changes as discussed supra. This pattern is followed for all audit reports i.e. Civil, Defence, Railways, etc.

Further, the format for State Civil Reports has been modified to contain five standard chapters including one chapter on Performance Reviews (Chapter-III). Chapters-I and II, as before, deal with issues relating to the finances of the State Government and Allocative Priorities and Appropriation respectively. In Chapter-IV, all transaction audit paras are presented Department-wise in various categories based on nature of audit observations, e.g. fraud, misappropriation and losses infructuous/wasteful expenditure, excess payment, avoidable extra expenditure, undue benefit to contractors, idle investment, diversion of funds, while Chapter-V is dedicated to audit on the efficiency of internal control mechanism in a Department of the Government, as mentioned below.

In September 2003, C&AG Kaul directed that a review of internal control system of one Department will be a mandatory part for every State Audit Report and that a template for this audit be prepared by a team (the template is likely to be released soon). Letters of September 1 and 3, 2003 of Headquarters gave extensive instructions on how to conduct this audit in terms of Manual of Standing Orders, 2002 as part of systems audit which provides general principles for such an evaluation. Headquarters emphasized that the audit scrutiny should focus on 'effectiveness of the system in enforcing adherence to various control measures envisaged in the Rules and Regulations, Codes, Manuals, etc.' Since then, generally Chapter-V of the audit report is devoted to a review of internal control in one of the State Government Departments.

For measuring the effectiveness of audit report, C&AG has prescribed performance matrix through which the evaluation of audit report's contribution in terms of money value is carried out.

In November 2004, C&AG carried out an analysis of the quality of Audit Reports both under performance audit and regularity audit and highlighted the weaknesses noticed in the performance audit reviews during the previous two years. C&AG also gave some suggestions to improve the quality of reviews. He pointed out that reviews were more of an aggregation of DPs and collection of minor violations instead of depicting an overall view on an issue. Reviews focused more on regularity and at best on economy, but there was only a fleeting reference to efficiency and effectiveness of programmes/ schemes. Documentation review was adopted for gathering evidence instead of physical inspection of the site and beneficiary survey, etc. There were either no recommendations or only weak recommendations. The recommendations should have been discussed in the exit conference. Audit findings were not entirely germane to the review topic. Mostly statistics was included without leading to major audit findings.

The need for clear guidelines for audit findings and money value matrix was emphasized. Responsibility for various items of work was to be delineated and check list needed to be prepared based on Performance Auditing guidelines.

C&AG'S INSTRUCTIONS RELATING TO STATE AUDIT REPORTS

In April 2006, Headquarters issued a circular from Report States side to all State Accountants General conveying certain important instructions of C&AG regarding processing the material for the Audit Report.

(i) Transactions over 5 years old should not be included in the Audit Report (Transactions). Exceptional cases would include cases where question of principles were involved.

(ii) Audit Report should not make any reference to any document which is of a secret/ confidential nature, and reference to notings and Notes for the Cabinet or Cabinet Committees should be avoided.

(iii) It should be ensured that the material did not contain things which were already in the notice of the executive on its own or through internal audit, etc.

(iv) Paras of misappropriation and fraud should be printed in bold font. It was also required that these paras should be systematically monitored and a reference to these paras should be made in the annual letter which C&AG writes to the Chief Ministers after signing the Audit Report.

(v) It was desired that fiscal situation of the State should be analysed carefully on the basis of analysis of accounts in Chapter-I of the Audit Report.

APPRISING PLANNING COMMISSION ABOUT PERFORMANCE OF STATES ON PLAN SPENDING

A very important development in the area of Audit Report in 1990s was the comprehensive analysis done of the States performance vis-à-vis their five year plan allocations. In a study of the VIII Five Year Plan data done across fourteen major States of the country in 1997–98, C&AG Shunglu came to the conclusion that approved and revised State plans were far too ambitious, the overall capacity of the States to spend the development grants was not upto the mark and, worse, atleast some of the States were not only unable to spend the original plan allocation but were also going in for much more costly market borrowings to raise the resources which in any case were never used and were kept in RBI account fetching no interest or nominal interest. The C&AG took the unusual step of personally reporting these findings to the Deputy Chairman of the Planning Commission in September 1998. C&AG also pointed out considerable diversion of funds from Centrally Sponsored Schemes. States' contribution to the Centrally Sponsored Schemes had been negligible. Some years later, a similar study was carried out by the present C&AG V.N. Kaul, concerning Ninth Plan (1997–2002) which indicated that fiscal and planning anomalies noticed earlier had become more pronounced during the Ninth Plan. In his letter dated 21 October 2002 to Deputy Chairman Planning Commission, C&AG pointed out that nearly 60 per cent of the total plan expenditure continued to be for the purpose of maintaining the existing level of services and as such very little was spent by the States for extension of social and economic services beyond existing levels. He stated that with continuing fiscal deterioration in the States' finances and the persistence of a negative Balance from their Current Revenues (BCR), it had become necessary that Planning Commission accorded higher weightage to the States' contribution to financing of their plans while deciding their plan size.

RESPONSE OF STATE GOVERNMENTS TO AUDIT REPORT

The question of executive responsiveness to Audit reports has always been a potent issue in Government—Audit relationship. Despite several instructions issued by the Government stressing speedy and timely response to Audit paragraphs in the Audit Report and also to Inspection Report (IR) paragraphs, the ground reality was that the executive response was abysmally poor. The C&AG appointed a High Powered Committee in 1992 headed by S.L. Shakdher, formerly Chief Election Commissioner and Secretary General of Lok Sabha, to go into this entire issue and give recommendations. The Shakdher Committee visited many States and met senior officers of these States as well as PAC members and, after interaction with a large number of senior officers of the Audit Department submitted its report in March 1993 with about 50 recommendations. The recommendations broadly fell into four categories viz., those on which action rested with the Government; those on which action rested with the Legislature (PAC); those on which action rested exclusively with Audit Department and finally, there were a number of recommendations whose implementation depended upon a system agreed to by Government and Audit.The Headquarters identified, out of these, five major recommendations which were forwarded to State Governments and State PACs for their acceptance and implementation. C&AG also established a procedure for monitoring the acceptance and implementation of these recommendations by the Government/PAC concerned. The five recommendations were the following:

(i) Adoption of the Central Procedure for dealing with Audit Reports by the Government; this prescribes suo-moto submission, within the period of three months of Explanatory Notes on audit paras/ reviews featured in the Audit Reports, and the Action Taken or action proposed to be taken. Taking oral evidence would be in selected cases only;

(ii) A time limit of six months for Government's Action Taken Notes on the recommendations of the PAC/ COPU which will be vetted by the AG;

(iii) Review of limits prescribed by the PAC for regularizing excess or savings vis-à-vis budget provisions, for comments in the Appropriation Accounts;

(iv) Printing of Audit Reports within a period of two months of their approval by C&AG;

(v) Establishment of an appropriate mechanism in the Government to monitor government response to Audit and to PAC/ COPU.

C&AG has been consistently monitoring the implementation of the recommendations through the Accountants General concerned who in turn, were pursuing the matter with State Governments and Chairman of the PAC concerned. Most of the recommendations were accepted by State Governments except for a few.[22] In regard to the adoption of the central procedure for discussion of Audit Reports, all the State PACs have accepted the recommendations except Kerala, Jammu & Kashmir, Orissa, Sikkim, Uttar Pradesh and Bihar. Among the State Governments only Bihar and Nagaland did not respond to this recommendation. Similarly, in regard to prescribing a time limit of six months for the Government to furnish ATN, all States except Bihar have agreed to do so. Regarding the recommendation for revision of monetary limit, all the Public Accounts Committees except nine have agreed; and regarding the timely printing of audit reports, all the State Governments are in agreement, though the exact modality to implement the recommendations was yet to be firmed up by many States.

Despite such impressive picture as regards acceptance of the Shakdher Committee's recommendations by concerned parties viz. State Governments and the PAC, the position with regard to discussion of reports and action taken in response to recommendations of PAC, had deteriorated.[23] This, of course, does not take away the merit of the recommendations of the Committee but only points to a need for more vigorous follow-up of accepted recommendations by State Governments.

The statement depicting the status of the State-wise position of acceptance of the Committee's recommendations by the Government/PAC is at Annex to this section.

INTERFACE BETWEEN THE ACCOUNTANT GENERAL AND THE STATE ADMINISTRATION FOR DISCUSSION OF AUDIT FINDINGS BEFORE INCLUSION IN THE AUDIT REPORTS

The draft paragraphs and draft reviews (Performance Audits) are forwarded demi-officially to the Secretary concerned with the request to intimate the views of the Government within a stipulated period of six weeks. As Government response to the draft reviews and paragraphs was not being received in time and in many cases, not received at all, the present C&AG, in May 2006, suggested to the Chief Ministers of all States in a DO letter to devise an institutional arrangement wherein the Chief Secretary and the Administrative Secretaries would meet the AG to discuss the issues raised in the Draft Audit Reports so that the views/ comments of the Government could be effectively included in the Reports. Most of the State Governments welcomed the proposal and instructed the Chief Secretaries/ Administrative Secretaries to take necessary action in this regard. DG (Audit) from Headquarters also sent a communication to Principal Accountant General/ Accountant General in March 2005 asking for operationalizing the instructions of the C&AG.

Responses received from the field offices point to some improvement in the responsiveness of the Governments to the draft audit reviews and the audit paras. The degree of improvement varies from State to State. Also, the discussions with the executive have resulted in the output being free from any controversy as regards facts; in fact, in most cases, these discussions have yielded more 'acceptable' audit comments/ conclusions on Reviews/ Paras. The progress is not even in all States in the matter of responsiveness. Some States have set up formal mechanism on the lines suggested by C&AG while some others have played a 'lip service' only with no material difference in responsiveness. By and large, however, it would be fair to conclude that improvements have taken place and most Accountants General have termed the new system of discussion resulting in 'increased audit effectiveness'.

AUDIT REPORT BROCHURE

In February 1997, Headquarters office issued instructions to the State Accountants General to prepare a Brochure of the Audit Reports

(Civil, Commercial and Revenue Receipts) that would contain the summary of findings in the Audit Reports in a user-friendly language. The Brochure was to be widely circulated among MLAs, MLCs, Ministers and Senior Executive Functionaries of the State (HOD level). As regards handing over of the copy of the brochure to Governor/ Speaker of the Legislature and Chairmen of PAC/ COPU, it was stated in the instructions issued on 3 February 1998 that 'it would be nice if the Brochure could be handed over personally by AG'. It was also to be mailed to the media and academic and research institutions. The Brochure was to be circulated '*after the Audit Reports have been laid in the legislature*'.

Accordingly, all State Accountants General are bringing out such brochures.

TRANSLATION AND PRINTING OF STATE CIVIL AUDIT REPORTS IN REGIONAL LANGUAGES

The Audit Report is prepared in English. For the Hindi speaking States, Hindi version of the Report is also sent to the Governor along with the English version.

The C&AG decided in 2000–01 that the Audit Reports (Civil) on the accounts of the State Government must have a regional language version, which would be placed in the State Legislature to facilitate wider dissemination and for easy comprehension of the audit view point. Instructions to this effect were issued to all the Accountants General in August 2000. The practice was introduced in select States initially. The regional languages version of the Audit Report was not required to be signed by the AG or countersigned by the C&AG. Only a certificate that 'it is a truthful translation of an English version' was to be given. However, from the audit reports for the year ended 31 March 2001 and onwards, it was decided that regional language versions of the Reports will be signed by the AG and countersigned by the C&AG. While the signature of the AG and countersignature of the C&AG will be in English, a proviso in the regional language version was to be added below the existing preface as 'in case of doubt in the translated version, the English version should be treated as authentic'. Presently the CA&AG's Audit Reports Commercial and Revenue also are submitted in regional languages.

The practice of placing the regional version of C&AG's Audit Report (Civil) was already being followed in Gujarat and Maharashtra for many years. While in the case of audit reports of these two States and for other States who were to submit regional language version from the year 2000, the translation of the audit report into regional language was initially done by the State Government concerned; but this practice was changed from the year 2001 when it was decided to have the reports translated in-house, except in case of Jammu & Kashmir where an Urdu translation is done by the State Government and submitted directly to the Vidhan Sabha. The English version and Hindi version/the regional language version are to be sent together by the C&AG to the Governor.

The decision to bring out State Civil Audit Reports in regional languages has helped wider media coverage of the audit findings in the local language press and wider dissemination thereof.

PRINTING OF AUDIT REPORTS

Printing of State Audit Reports has often posed problems. Printing of the Audit Reports is the responsibility of the State Government. The Shakdher Committee recommended printing of the Report within two months. Though the recommendation was accepted by most of the States, there had been considerable delay in printing of the Audit Reports. In November 1998, the Headquarters emphasized to the field offices that they should not take more than 10 days after the receipt of the approved 'bond copy' to hand it over to the printing press and the printed copies should be ready for countersignature of C&AG within 30 days of that. As against this, it was found in a review done in August 1999 that there was substantial delay in printing of audit reports in most of the States—in some cases the gap between the date of dispatch of bond copy from Headquarters and date of receipt of printed copy was between 60 and 90 days. The Headquarters issued a number of instructions to minimize the delay that included formatting of the Audit Report for printing purposes, timely translation of Audit Report material in Headquarters or into regional languages, effective liaison by the Group Officers with the press authorities and personal monitoring by the AG.

The position of printing of Audit Reports as reflected in the note of Secretary to C&AG dated 29 August 2005 gave a very dismal picture and the note conveyed C&AG's feeling about urgent need to review the existing printing arrangements for Audit Reports on the States side. A letter issued in October 2005 by the Headquarters office pointed out C&AG's concern over the existing arrangements for printing of State Audit Reports. It particularly emphasized about the necessity of expeditious translation of Audit Reports into regional languages. The data presented in the note indicated that out of the 62 reports from State Report side of various wings i.e. Civil, Commercial, SRA etc for the year 2003–04, in the case of 45 reports, the time between the approval of bond copy by C&AG and signature on the printed report was in excess of three months. C&AG mentioned that such delays in printing of Audit Reports impacted the effectiveness of the audit process.

In order to adhere to the time schedule for submission of Reports to the State Legislature, the C&AG authorized the field offices in July 2005 and October 2005, the option of undertaking printing from private press. In case the time required for printing the Audit Reports through Government press would entail delay, proposals for printing them through private press were to be sent to the Headquarters for sanction.

ANNEX TO SECTION 'B'

Summarized position of five identified areas of recommendation of HPC by PACs/Governments
STATUS-December 1999

Adoption of Central procedure /*suo moto* action by government/ selective approach in discussion	Prescribing a time limit of 6 months for Government's ATN on PAC/ COPU recommendations/ ATN to be vetted by AG.	Revision of monetary limit for the purpose of comments in the Appropriation Accounts.	Printing of Audit Reports in two months	Establishment of appropriate mechanism in Government to monitor Government's response to Audit and to PAC/COPU
1	2	3	4	5
To be accepted by Government and PAC	To be accepted by Government and PAC	To be accepted by PAC	To be accepted by Government	To be accepted by Government.
(i) Accepted by both Government and PAC 19 States. (Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Haryana, HP, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Pondicherry, Punjab, Rajasthan, Tamil Nadu, Tripura, West Bengal)	(i) Accepted by both Government and PAC 19 States (Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Haryana, HP, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Pondicherry, Punjab, Rajasthan, Tamil Nadu, Tripura, West Bengal)	(i) Revised in 17 States (Andhra Pradesh, Goa, Gujarat, Haryana, HP, Kerala, MP, Maharashtra, Manipur, Nagaland, Pondicherry, Punjab, Rajasthan, Tamil Nadu, Tripura, West Bengal, Mizoram)	(i) Accepted by Government in 22 States(Andhra Pradesh, Arunachal Pradesh, Bihar, Goa, Gujarat, Haryana, HP, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Pondicherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, West Bengal)	(i) Accepted by Government in 25 States(Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Haryana, HP, J&K, Karnataka, Kerala, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland , Orissa, Pondicherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, U.P, Tripura, West Bengal)
(ii)Accepted by Government only 5 States(Kerela, J&K,Orissa, Sikkim, UP)	(ii) Accepted by Government only 5 States(Kerala, J&K, Orissa, Sikkim and U.P.)	(ii) not yet revised in 8 States(Assam, Arunachal Pradesh, Bihar, J&K, Karnataka, Meghalaya, Orissa, U.P)	(ii) not yet accepted by Government of 4 States(Assam, J&K, Kerala, Uttar Pradesh)	(ii) not accepted by Government in 1 State Bihar

1	2	3	4	5
(iii) Accepted by PAC only 1 State(Nagaland-Partially)	(iii) Accepted by PAC only 2 StatesBihar and Nagaland(Partly)			
(iv) Not yet accepted by both Government / PAC-1 State (Bihar)				

SECTION 'C'

COMPTROLLER AND AUDITOR GENERAL AND THE PUBLIC ACCOUNTS COMMITTEE AND COMMITTEE ON PUBLIC UNDERTAKINGS

Audit Reports that are placed in the legislature stand suo-moto transmitted to the Public Accounts Committee (PAC) of the House. C&AG's Reports on Commercial Audit dealing with the state enterprises are transmitted to Committee on Public Undertakings (COPU). These two Committees have the mandate of scrutinizing and examining these reports, take evidence of Government officers and make recommendations to the Government. Commenting on the *raison d' etre* for such an examination of C&AG's Reports by Committee of the House, A.K. Chanda, the second C&AG of independent India, in his book '*Indian Administration*' says 'the provision was made for the examination of the Report by a Committee of the House, because Parliament could hardly spare the time for the necessary scrutiny in detail'. It was also a technical examination which could best be undertaken in the Committee. A debate in the House may also destroy non-party character of the examination and distort it from proper perspective[24].

The first PAC was appointed in 1861 in Great Britain. Most of the commonwealth countries which follow Parliamentary form of Government have modelled their PAC on the same pattern as in the UK. In India, the PAC was constituted in 1921 following the Montague-Chelmsford Reforms of 1919. Prior to Independence, the character of the PAC was different from what it is now. At that time it was a partly elected and partly nominated body with Finance Minister as its Chairman. Today, the Committee is a body of elected representative of both houses, who are nominated by the Speaker/ Dy. Chairman, Rajya Sabha and even though in the initial years, the Finance Minister continued to be the Chairman, after the Constitution, this practice was abolished and only a non-official MP is appointed by the Speaker as Chairman. By convention, the Chairman of Central PAC are members of the opposition party, with rare exceptions (e.g Nagaland).

RELATION BETWEEN C&AG AND PAC

The C&AG (or his senior most officer) attends the meetings of these Committees by invitation where the C&AG's task is to brief the Committee on the relevant paragraphs of the report which the Committee wants to discuss and take evidence from the Ministry's officers. To appreciate the issue of relationship between C&AG and PAC, it is necessary to dwell on the respective roles and functions of these two institutions and their inter-relationship.

C&AG has been created as an independent constitutional authority under the Constitution. He is, therefore, neither an officer of Parliament, unlike his US and UK counterparts nor is he an executive authority. His relationship, therefore, with PAC is that of a 'guide, philosopher and friend' as has often been referred to by the eminent authorities on constitutional and administrative law. He is described as an 'important adjunct of the Committee'[25] by the noted scholars M.L. Kaul and S.L. Shakhder in their famous Commentary on 'Practice and Procedure of Parliament'. He, therefore, assists the Committee as the author of those Reports and in that process, has been given the right by the Committee to brief them on the Report. C&AG can also seek clarifications on factual matters from the official witnesses. In practice, the PAC relies considerably on the C&AG or his officers who assist the Committee in many ways:

- ❖ Firstly, in the very beginning of the term of the Committee, when it meets to select the important paragraphs for indepth examination and evidence, the Committee is assisted by a representative of C&AG besides, of course, the PAC Secretariat. In fact, a written note is submitted to the PAC indicating C&AG's suggestions of the paragraphs, which the Committee may consider for discussion.
- ❖ Secondly, on the selected paras, the C&AG furnishes to the Committee a Memorandum of Important Points (MIP) on each para selected for evidence.
- ❖ Thirdly, during evidence, as already pointed out, the C&AG or his representative (generally DAI or ADAI concerned) is always present by the side of the Chairman to assist him in whatever manner the Chairman and the Members desire. Before the formal meeting, generally a briefing is given by the Audit to the Chairman and Members about the audit para to be discussed and evidence taken. C&AG may also occasionally seek clarifications from the official witnesses or make submissions to elucidate any point.
- ❖ Finally, C&AG is also involved in the vetting of the draft report of the PAC and at a later stage, in the vetting of the Action Taken Reports of the Departments.

The foregoing brings out the close relationship between the C&AG and the PAC. Though M.L. Kaul and Shakdher have remarked that C&AG is an 'adjunct' to the Committee, this does not mean that he is in someway a subordinate authority to the PAC and will not act independently in his dealings with the PAC. The relationship between the C&AG and the PAC in India have been very cordial, close and one of mutual respect. But on a few occasions 'irritants' did develop on one count or the other. One area where such irritants did develop was about C&AG's right to intervene in the evidence of official witnesses before PAC. Conventionally C&AG (or Accountant General in State) has freedom to intervene for seeking more clarity or bringing out facts of the case as per audit scrutiny of records. This is done rarely, though. There have been some occasions in the past when members of the PAC asked the C&AG to show them original papers of relevant notings, etc. for perusal; such demands, as A.K. Chanda, has remarked in his book were always resisted by the C&AG as 'an encroachment on his functions'. Over the period now this principle has been formally established. In fact, in 2002, the Government of India informed C&AG office that Government is entitled to claim privilege from production of Cabinet Notes and other connected records before Parliamentary Committee in the public interest and requested him that these documents 'may not be produced before the PAC/ COPU by Audit'. C&AG issued a clarificatory letter to heads of all the field offices and to officers at Headquarters, in June 2002 for the guidance of audit offices that:

(a) in cases where a Ministry or Department of the Government of India proposes to withhold any document relating to any matter included in a draft para proposed to be included in the Audit Report from any of the Parliamentary Committees, the Ministry/ Department concerned will bring this fact to the notice of the ADAI/ DAI demi-officially at the time of furnishing comments to the draft para.

(b) The requests of the Ministry/ Department will be considered by the concerned ADAI/ DAI at Headquarters while finalizing the Audit Reports and while dealing with the follow up action during the deliberations of the matter by PAC/ COPU. In case, the Parliamentary Committees request submission by Audit of copies of these supporting documents in respect of which privilege is proposed to be claimed, Audit will inform the Committee concerned of the Government's intention to claim privilege from production of the said documents and that

Government may, therefore, be approached for the production of the documents in question without the intervention of Audit.

There have also been some rare occasions when, the PAC required AG to furnish information to them on the internal working system of the C&AG's organization which they wanted to discuss. It is pertinent to quote the case of Bihar PAC in this context. On July 21, 2000, Bihar Vidhan Parishad, in spite of the opposition's resistance, resolved to constitute a Joint Committee of members of both the houses viz. Vidhan Sabha and Vidhan Parishad to probe the role and responsibilities of the Accountant General in the Animal Husbandry Scam on which a Report had already been presented by the C&AG to Bihar Assembly. When this news appeared in the newspapers, the then C&AG summoned the Accountant General of Bihar to New Delhi to discuss the matter. The C&AG after discussing the matter with the Accountant General, Bihar and with his senior officers in the Headquarters decided to write to the Law Secretary to seek his opinion in the matter.

The opinion of the Attorney General was sought by C&AG on the issues framed by him, for the reason that the matter involved inter-se relationship between a Constitutional authority and the State Assembly and had, in a way, wider implications. The issue in a nutshell was whether the State Legislature could look into supposed negligence in due discharge of his functions under the Constitution and an Act of Parliament. The second issue was that in case summons were issued by the House Committee to the AG directing him to appear before the Committee, whether the Accountant General would be bound to comply with the summons.

The third issue was if summoned, what was the administrative/ legal remedy available to the Accountant General?

The C&AG also pointed out that Rules of Procedure and Conduct of Business in the Bihar Vidhan Sabha prohibit discussion on the Reports of the C&AG until the report of the Committee on Public Accounts on such reports had been presented to the Assembly. The factual position was that no such Report of the PAC on the Audit Report (on Animal Husbandry Department) had been presented. In the circumstances, whether it was correct for another Committee of the House to discuss the matter which is included in the Report of C&AG and was yet to be discussed by the PAC.

The Law Ministry gave its prima-facie views which in summary were: PAC alone was legally competent to examine the matter of excess expenditure; Joint Committee cannot issue summons to

C&AG or its subordinates because C&AG is an independent Constitutional authority and is not directly answerable to the House or his officers, therefore, C&AG or his officers are not bound to comply with the summons and appear before the Joint Committee. Question No.3 was treated as premature and with reference to query 4, the legal opinion was that no discussion on the Report of the C&AG shall take place in the Assembly, until the Report of the Committee of Public Accounts on such reports have been presented to the Assembly.

Evidently, in the light of legal opinion by the constitutional experts, the Bihar Legislature never proceeded with the matter further and the proposed probe was never undertaken. However, on 23 September 2000, the Accountant General got a notice from the PAC for a meeting on 3 October 2000. The notice was also marked to the C&AG of India and also to the Pr. Accountant General, Ranchi. When this letter came, the AG contacted Headquarters who examined the notice and found that the Committee was to discuss issues which were of the nature of internal working of the C&AG's organization. Clearly, this was not tenable and, therefore, a suitable draft reply in Headquarters was drafted and sent to the AG for sending to the PAC Secretariat.

The meeting of Accountant General, however, did take place with the Chairman PAC where the PAC Chairman asked the AG some general questions as to how they conduct the audit of various units, etc. The AG explained briefly the system of audit checks which are employed and at the end of the meeting nothing came out of it eventually. Yet, it was unfortunate that C&AG and his organization were subjected to such treatment.

Another question often asked is: Can the C&AG intervene during the evidence of officers before PAC? The intervention of the C&AG is done rarely but if it does become necessary for the C&AG to speak in the meeting for the purpose of eliciting a clarificatory point or to supplement the facts as recorded in the audit paragraphs, it is always open to him to do so, of course with the permission of Chair. It is best to quote AK Chanda again on this which he has written from his personal experience with the PAC in late 1950s.

'When the Committee is in Session to examine witnesses, the Auditor-General intervenes to clarify points and to elicit information material to the Committee's work. He intervenes, if any witness tries to cloud the issue by raising irrelevant points or to sidetrack the main line of the inquiry. He also intervenes if the examination tends to go off at a tangent or if any member puts an unfair question imputing bad faith to a witness.'

In fact, Chanda was of the view that 'witness protection' is also a role of C&AG. Both in UK and in India, the C&AG is often called 'the acting hand' of the Committee and 'its guide, philosopher and friend'.

There have been cases, though very rare, when the PAC i.e. a Member of the PAC has shown some reservation about the C&AG's right to ask questions from the witnesses on the plea that it is the prerogative of the Members of the Committee to ask questions from the witnesses. This issue surfaced on 9 January 2007 when during oral evidence of the representative of the Department of Ministry of External Affairs on Report No. 17 of 2005—Union Government (Civil) for the year ended March 31, 2004 relating to Property Management, the C&AG with the permission of the Chairman, PAC asked the witness to clarify certain points he had made. When a member of the Committee, however, took exception to this on the plea already stated above, the Chairman immediately referred to the relevant Rules of Procedure as also the commentary on Practice and Procedure of Parliament by M.N. Kaul and S.L. Shakdher and upheld the right of C&AG to intervene and ask questions from the witnesses.

Literature regarding the functioning of PAC in the previous periods dating back to the time of A.K. Chanda reveals that he was asking questions from the witnesses frequently to clear the position much more. While recalling intimate and stimulating association with Public Accounts Committee A.K. Chanda, in his article on 'Public Accounts Committee—an admirable institution'[26] stated "The convention established by my predecessors of intervening in the examination of witnesses to clarify points and to elicit information material to the Committee's work was faithfully observed during my term of office. I intervened if any witness tried to cloud the issues by raising irrelevant points or to sidetrack the main line of inquiry. I also intervened when the examination tended to go off at a tangent, or if any member put an unfair question imputing bad faith to an official witness. Though, one or two members jibbed at this, the Committee as a whole welcomed this intervention. It would not do any good, if the Committee ceased to regard the Auditor-General as elsewhere as 'the acting hand of the Committee' and its 'friend, guide and philosopher' and objected to such interventions also".

On this issue, every C&AG has his own views. V.K. Shunglu, for example, is not a votary for C&AG's intervention in PAC meetings during the evidence of witnesses. He has the option to put his questions through his chit to the Chairman who can do the questioning, and, of course it is his (C&AG) prerogative during briefing of the PAC, to suggest any question he would like the PAC to ask the witnesses.

C&AG Kaul has a very clear view of his role in the PAC which is to assist the PAC in the best manner possible. C&AG Kaul, always had the support of PAC although occasionally, (as pointed out above) he had brushes with individual members. But the PAC as a whole has been very considerate to C&AG and of course to his Reports. Individual members have also been very complementary and have welcomed, apart from the Audit Reports, the initiatives taken by C&AG for example the new Performance Audit system set up by him.

It is to be remembered that C&AG's intervention is made only with the sole purpose of facilitating a better understanding of the facts of the case by the members of the Committee. It happens sometimes that the answers given by the witnesses are so elusive that there is no clarity about the position or the status, and may lead to different conclusions. In such an event, the experience and the personality of C&AG comes in handy to the help of the members of the Committee.

THE EFFECTIVENESS OF AUDIT AS REFLECTED THROUGH PAC REPORTS

Audit Reports of the C&AG are eventually the property of Parliament or the State Legislatures where PAC or COPU, as the case may be, deliberate on them, take evidence from the concerned Departmental witness and submit their reports with recommendations to the Government for their action. These committees play a pivotal role in the effectiveness of Audit Report findings. The PAC recommendations are not mandatory; but as far as possible the Governments do not reject their recommendations easily. The analysis as detailed in Annex I will bring out that normally in 60 per cent cases the PAC recommendations are accepted in the first instance itself by the Central Government. It has been generally observed in almost all the States that Action Taken Notes on the reports of the PAC presented to the State Legislature are not regularly submitted by the State Government Departments to the Assembly Secretariat.

Nevertheless, one can safely say that the PAC has a great influence on the executive and, therefore, it enhances the effectiveness of audit enormously through its recommendations. However, at another level, we find a different kind of picture. Here the problem is mostly internal to the PAC/ COPU and the problem is more endemic to State PACs. In a number of States, the PAC discussions are behind schedule for years. A brief survey of arrears of discussion of Audit Reports in PAC/ COPU as detailed in Annex-II (Civil), III (Receipt) and IV (Commercial) reveal that this delay in discussions range from two to twenty two years (maximum is in the State of UP in case of Civil Audit Report—three to twenty two years, in the case of UP Receipt Audit Report, and one to twenty one years in case of Meghalaya as of September 2006). The discussions are more or less current only in a few States such as MP, Puducherry, etc. The Shakdher Committee which went into the issue of response of State Governments to the Audit Report of the C&AG gave its recommendations way back in March 1993 which were mostly accepted by most of the State Governments and the concerned Public Accounts Committees. In the seminar[27] held in July 2005 on Legislature and Audit interface, it was revealed that 12 years after Shakdher Committee Report 'the position with regard to discussion of reports and action taken in response to recommendations had deteriorated, though the recommendations remain valid till date'. It only endorses the view that the recommendations of the Committee are required to be pursued and implemented vigorously. As far as Central PAC is concerned, the position is better for a different reason. The Central PAC has a system of selecting a small sample of paras for discussion from the current Audit Report for taking evidence and a large number of other paras which are not discussed qualify for submitting action taken notes thereon. If the PAC is unable to carry out detailed examination of the selected paras, these are treated as 'not selected' paras in subsequent year and are dealt with in the usual fashion i.e., submission of ATNs only by the concerned Ministry/ Department[28] In this manner practically all the audit paragraphs of the C&AG Reports (Central Reports) get a response and PAC is, therefore, in a position to give their report and recommendations more or less in time. In case of Union Reports, however, Ministries/ Departments are required to submit ATNs duly vetted by Audit in respect of all paragraphs included in Audit Reports within 4 months of presentation of Reports to Parliament. In the case of COPU, however, the status of discussions of paras of

C&AG Reports is rather poor. The position detailed below in the table will indicate the state of affairs:

STATUS OF COPU DISCUSSION OF AUDIT REPORTS

Year of Report	No. of Paras	Paras Selected for Discussion	Actually Discussed
1995–96	14 reports	6 reports	3 reports
1996–97	8 reports	8 reports	3 reports
1997–98	162	9	4
1998–99	281	7	4
1999–00	221	6	—
2000–01	646	6	1
2001–02	646	9	1
2002–03	626	13	2
2003–04	654	12	2
2004–05	587	—	2

The real solution to the ever increasing pendency lies in PACs taking up every year the paragraphs of the current Report, for detailed examination while asking Government to submit ATNs on the other paragraphs not discussed. The discussion will then be current and PAC recommendations have more relevance for contemporary action.

SEMINAR ON 'LEGISLATURE AND AUDIT INTERFACE FOR ENFORCING AND STRENGTHENING ACCOUNTABILITY MECHANISM'

A seminar (the first of its kind convened by C&AG) on 'Legislature and Audit Interface for Enforcing and Strengthening Accountability Mechanism' was held in *i*CISA in July 2005. In this Seminar, besides Honourable Speaker of the Lok Sabha Shri Somnath Chatterjee who inaugurated the seminar, Chairman, Central Public Accounts Committee and Chairman, Committee on Public Undertaking participated along with Chairpersons of Legislative Assemblies. It was the first time that a gathering of this kind where Chairpersons of Legislative Assemblies and Audit shared a common platform.

The objective of the Seminar, as set out by C&AG V. N Kaul, was to initiate a dialogue to address issues of accountability in the context of rapid changes facing public audit. He focused on three major challenges faced by the Parliamentary Committees and the Executives, namely:

- ❖ Pendency of audit paras and finding an effective solution to the disposal of audit objections.
- ❖ The need to evolve a framework for enforcing accountability and defining the role of public audit in the era of new public management and public-private partnership etc.
- ❖ The need for respecting the institutional nature of Reports.

The following twelve key consensus points emerged in the Seminar:

1. The overload of both the PAC and the COPU was the result of increase in the C&AG's Audit reports/reviews since 1950. The Speaker asked the participants to consider the constitution of a separate Committee for reviewing the Receipt Audit Reports of the C&AG for their quick and timely disposal.
2. Proper maintenance of accounts of PRIs and ULBs should be ensured and their audit handed over to the C&AG. Legislative Committees should be constituted in the States to deal with the report of the C&AG on PRIs/ULBs.
3. Attempts to keep the regulatory bodies out of C&AG jurisdiction and increasing inclination to dilute or even exclude the C&AG's auditory jurisdiction over audit of public sector undertakings were unwelcome moves and needed to be addressed.
4. Companies Act be amended to bring in companies, where government holding is less than 51% but where Government investments are substantial under the purview of C&AG's audit.
5. The need for strong internal audit in government was recognized.
6. There should be timely debate on C&AG's Reports on Appropriation Accounts for enforcing accountability.
7. Chairmen of PACs and COPUs should be empowered to take action without waiting for the replies of the executives in case of delay in response by the executives.
8. Suitable amendments should be brought about in the rules of procedure of legislatures to tackle the problem of overload due to non-tabling of Audit Reports.
9. Present procedure for examination of the Audit Reports by the PAC should be reviewed to fix responsibility on the executives.

10. All audit paras should be settled within 3 years to ensure accountability. A proper institutional mechanism should be brought about to ensure this.
11. It was also suggested that a guide should be developed with the help of C&AG as an induction material for newly appointed members of PAC/COPU.
12. The seminar also recommended that more seminars of this nature should be held preferably in different States or regions and the Chairman PAC/ COPU to take initiative in this.

Copy of the Consensus Report was forwarded to the Chairmen of the State PACs and COPUs. Copy of the Report was also sent to all field PAsG/ AsG (Audit) and with the request to take initiative to hold meeting with the Chairmen PAC/ COPU and to send the feedback on the consensus report.

In pursuance of recommendations for holding such seminars on regional basis seminars were held in Arunachal Pradesh, Gujarat, Bihar, West Bengal, Rajasthan and Tripura.

ANNEX I TO SECTION 'C'

Sl. No.	PAC Report	No. of Recommen-dations	No. of recommen-dations accepted by Govt.	No. of recommenda-tions which the Committee do not desire to pursue in view of reply	No. of recommen-dations reiterated
1.	1st Report Fourteenth – Lok Sabha	17	10	6	1
2.	42nd Report – Thirteenth Lok Sabha	9	6	—	3
3.	43rd Report – Thirteenth Lok Sabha	20	12	1	7
4.	44th Report – Thirteenth Lok Sabha	8	5	—	3
5.	47th Report – Thirteenth Lok Sabha	13	10	2	1
6.	60th Report – Thirteenth Lok Sabha	17	16	1	—
7.	94th Report – Tenth Lok Sabha	26	11	3	11
8.	26th Report – Fourteenth Lok Sabha	44	27	12	5

ANNEX-II TO SECTION 'C'

Pendency in discussion of Audit Reports by the PACs of the States (Civil Reports) as on 30 September 2006

Sl. No.	Name of the State	Year from which pending	Position of total paras including reviews pending for discussion
1.	Andhra Pradesh	1996–97	183
2.	Arunachal Pradesh	1987–88 (except 1989–90,1990–91, 1991–92,1993–94 & 1996–97)	65
3.	Assam	1983–84 (except 1996–97)	580
4.	Bihar	1984–85	421
5.	Chhattisgarh	1998–99 (except 1998–99 & 2000–01)	39
6.	Goa	2000–01	57
7.	Gujarat	1993–94	425
8.	Haryana	2000–01	171
9.	Himachal Pradesh	2001–02	88
10.	Jammu & Kashmir	1990–91	430
11.	Jharkhand	2000–01	73
12.	Karnataka	1992–93	281
13.	Kerala	1995–96 (except 1996–97)	125
14.	Madhya Pradesh(Civil)	2003–04	15
15.	Madhya Pradesh(Works)	2002–03	39
16.	Maharashtra	1998–99 (except 1999–2000)	275
17.	Manipur	2000–01	52
18.	Meghalaya	1984–85	335
19.	Mizoram	1996–97 (except 1997–98)	93
20.	Nagaland	1996–97 (except 2000–01)	156
21.	Orissa	1990–91 (except 1992–93)	547
22.	Pondicherry	2002–03	44
23.	Punjab	1992–93 (except 1994–95)	137
24.	Rajasthan	2000–01	43
25.	Sikkim	2001–02	41
26.	Tamil Nadu	1997–98	250
27.	Tripura	1988–89 (except 1991–92 & 1997–98)	193
28.	Uttar Pradesh	1983–84 (except 1997–98)	1001
29.	Uttaranchal	2000–01	108
30.	West Bengal	1992–93	302

ANNEX-III TO SECTION 'C'

Pendency in discussion of Audit Reports by the PACs of the States
(Receipt Audit Reports) as on 30 September 2006

Sl. No.	Name of the State	Year from which pending	Position of total paras including reviews pending for discussion
1.	Assam	1988–89 onwards	33
2.	Andhra Pradesh	1996–97 onwards	370
3.	Bihar	1990–91 onwards	693
4.	Chhattisgarh	1998–99 onwards	69
5.	Delhi	2004–05 onwards	61
6.	Gujarat	1994–95 onwards	532
7.	Haryana	2000–01 onwards	145
8.	Himachal Pradesh	1999–00 onwards	197
9.	Jharkhand	1990–91 onwards	685
10.	Karnataka	2002–03 onwards	101
11.	Kerala	1994–95 onwards	151
12.	Madhya Pradesh.	2002–03 onwards	18
13.	Maharashtra	1999–00 onwards	169
14.	Orissa	1989–90 onwards	370
15.	Punjab	1989–90 onwards	76
16.	Rajasthan	2001–02 onwards	80
17.	Tamil Nadu	1997–98 onwards	123
18.	Uttar Pradesh	1984–85 onwards	616
19.	West Bengal	1992–93 onwards	73

ANNEX-IV TO SECTION 'C'

Pendency in discussion of Audit Reports by the PACs of the States (Commercial Reports) as on 30 September 2006

Sl. No.	Name of the State	Year from which pending	Position of total paras including reviews pending for discussion
1.	Andhra Pradesh	1992–93	120
2.	Assam	1989–90	120
3.	Bihar	1981–82	289
4.	Gujarat	2002–03	70
5.	Haryana	2002–03	47
6.	Karnataka	2000–01	46
7.	Kerala	1999–2000	68
8.	Madhya Pradesh	2002–03	35
9.	Maharashtra	2001–02	70
10.	Orissa	1993–94	160
11.	Punjab	1997–98	94
12.	Rajasthan	1998–99	177
13.	Tamil Nadu	1995–96	198
14.	Uttar Pradesh	1991–92	363
15.	West Bengal	2000–01	37
16.	Arunachal Pradesh	1987–88	33
17.	Chhattisgarsh	2001–02	18
18.	Delhi	2004–05	12
19.	Goa	1998–99	11
20.	Himachal Pradesh	1999–2000	72
21.	Jammu & Kashmir	1990–91	35
22.	Jharkhand	1993–94	24
23.	Manipur	1995–96	28
24.	Meghalaya	1980–81	88
25.	Mizoram	1989–90	33
26.	Nagaland	2004–05	2
27.	Pondicherry	2003–04	1
28.	Sikkim	2004–05	3
29.	Tripura	1997–98	2
30.	Uttaranchal	1999–2000	27
	Grand Total		2383

NOTES: CHAPTER-5

[1] This Chapter deals with C&AG's Audit Reports (Civil); however, wherever the context demands, reference to developments common to Audit Reports of other streams are also included.

[2] Statement made by the Comptroller and Auditor General of India at the Meeting of the Public Accounts Committee held on the 22 May, 1951 re: the procedure followed for the preparation and submission of Audit Reports to Parliament.

[3] C&AG Report for the year ended March 1994, Union Government (Scientific Departments)

[4] Paragraph 7.5 of Audit Report for the year ended March 1992, Union Government (Civil) 1 of 1993

[5] C&AG's Report Union Government-Civil No. 1 of 1993 Paragraph 7.1

[6] The main architect of this Report was AK Mitra, the then ADAI, as per the incumbent DGACR B.M. Oza.

[7] Report of the C&AG for the year ended March 1992-No. 14 of 1993

[8] Detailed accounts of Audit Review is in Chapter-15

[9] Food Security & Nutritional Supports Brochure of December 2000

[10] Food Security & Nutritional Support (December 2000). A short paper brought out by C&AG of India containing major findings of the four performance audits reported in Audit Report No. 3 of 2000.

[11] D.O. No. 56-C&AG/2004/RS dated 30 June, 2004 to Shri P. Chidambaram, Finance Minister.

[12] Member of Parliament Local Area Development Scheme

[13] The Committee was headed by Shri Dharam Vir.

[14] Niranjan Pant

[15] The Audit Report on the Accounts of Delhi is processed in the Report Central Wing under ADAI (Report Central)

[16] D.O. letter dated 16 October, 1990 from M.V. Ramakrishnan, ADAI (Report States) to all State Accountants General.

[17] M.V. Ramakrishnan

[18] The detailed methodology running into several pages was drafted by Shri P.K. Mukhopadhayay then AG (Audit)-II, Bihar.

[19] Bihar & Jharkhand, Gujarat, Haryana, Himachal Pradesh, MP & Chhattisgarh, Maharashtra, Manipur, Arunachal Pradesh & Tripura, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh & Uttarakhand, West Bengal

[20] Report of the C&AG of India for the year ended March 1999 – Ganga Action Plan, Union Government (Scientific Departments) No.5A of 2000.

[21] Report of the Comptroller and Auditor General of India for the year ended March 2000 Union Government (Civil) Performance Appraisals No. 3B of 2001

[22] Status of acceptance of the five major recommendations from the three new States (Chhattisgarh, Jharkhand and Uttarakhand) is still awaited from the respective Government/PAC.

[23] This represents the position in 2005, as brought out by P.K. Mukhopadhyay in his Paper on "Pending Audit Reports and Shakdher Committee Report" presented in the Seminar on "Legislature and Audit Interface" held in July 2005.

[24] A.K. Chanda, Indian Administration, Page 170–171.

[25] Shri Shakdher was Secretary General, Lok Sabha and subsequently Chief Election Commissioner. He is also the author of famous treatise on "Parliamentary Procedure and Systems"

[26] A.K. Chanda's article "Public Accounts Committee-An Admirable Institution" in Golden Jubilee Souvenir 1921–1971 Public Accounts Committee (Parliament of India)

[27] Seminar "Legislature and Audit Interface for Enforcing and Strengthening Accountability Mechanism" held at iCISA on 22 July, 2005 presentation by P.K. Mukhopadhyay, DG, NAAA, Shimla on "Pending Audit Reports & Shakdher Committee Report" .

[28]Government of India Ministry of Finance Department of Expenditure, Monitoring Cell O.M No. 1/105/95-MC(Pt) dated 6 September 1995 addressed to Financial Advisors/ all the ministries /Departments/ PAC.

LIST OF KEY EVENTS—SECTION'A'

November 1996/ April 1997	It was decided to bring out a Brochure containing gist of all Central Audit Reports.
December 1996	Decision to bring out a separate volume of Audit Report on Appropriation and Finance Account (Civil).
31 March 1997	Instructions regarding drafting, mortality, reporting style, drafting of overviews, etc. issued.
25 January 1999	Uniform format of Audit Report prescribed.
25 June 2001	C&AG allocated duties of Principal Director and Adviser (Reports—Central and States).
2003	Style guide issued. This was revised in 2005.
29 August 2003	Cabinet Secretary informed C&AG about inclusion of findings in C&AG's Reports in the Annual Reports of Ministries/ Departments.
May 2007	ADAI (RC) took up the differences between the figures of fiscal deficit computed from the data in Finance Account and as per Budget at a Glance with Secretary to Government of India Ministry of Finance Department of Expenditure.
19 May 2006	Threshold money value of DPs for Transaction Audit reports fixed at Rs. 20 lakh (Rs. 10 lakh for Delhi Report).

DOCUMENTS

1

Statement made by the Comptroller and Auditor General of India at the Meeting of the Public Accounts Committee held on the 22nd May, 1951 re: the procedure followed for the preparation and submission of Audit Reports to Parliament.

I have noticed in the Hindustan Times (Dak Edition) of the 13th May, 1951 that there was a debate in Parliament on Saturday, the 12th May, on the question of my visit abroad, my audit reports and whether those reports were available, and so on and so forth. There was further a specific question whether the Comptroller and Auditor General after presenting the Audit Report to Government had subsequently edited it, that is, deleted certain portions or qualified his Statements in some respects or added something to it for presentation to Parliament.

****

I am going very briefly to explain how the audit work is done. The accounts come to the Accounts Officers. They are all examined and checked up. So many questions are sent out, some of which may be for eliciting information. We ask the Executive for their explanation. The explanation comes. Then, if we are not satisfied the Audit Officer sends it to the higher Officer asking him what he has to say. He may, perhaps, explain or say that the person concerned has been warned and so on. Perhaps, the Audit Officer may be satisfied after the receipt of the explanation, that there was nothing really wrong. That is how most of the things happen. There are some bigger things which are discovered in the course of audit. Correspondence may even go on with the Government and most of the correspondence is of the nature of asking for an explanation from the Government or for eliciting information or facts. Such correspondence is not a report. There are various stages and processes for Audit to satisfy itself that a transaction was regular or irregular. The Audit Officer may find that it is a bad enough matter, or it may be an ordinary irregularity which should not be repeated, regarding which we would like to report to the Parliament. There may also be cases in which, at the instance of Audit, improvements in financial or accounts rules and procedure have been devised, or the authorities have refused to accept the advice of Audit. The Audit Report ultimately includes, at the discretion of the Audit authorities, an account of irregularities and other important or interesting matters. The more serious cases where the delinquents have not been adequately punished, are also reported. We report even where people have been sent to jail, and all sorts of things, which in our opinion ought to be reported to Parliament.

As to the process of preparing the Audit Reports, all the materials are collected by the Audit Officer concerned. The Draft Paras contain allegations of things that have happened or have been discovered in the course of the Audit. It is only right and fair to the Audit Department as well as to the administration that the facts Stated therein should be verified. These Drafts are not Audit Reports under Article 151 of the Constitution at this stage. These drafts are sent to the Departments for their comments on the facts Stated therein. If they say that they do not accept, the facts, arguments ensue between the Audit, on the one hand, and the administration on the other. If they say that the facts stated are not correct, we ask them what the correct facts are. Then, they say that the facts are such and such. Evidence has to be produced by the administration in support of their Statements being correct. If adequate evidence is produced to justify a correction in the Draft Paras, they have to be amended because the Audit Report must be a faithful Statement of facts. It is prepared without fear or favour without any affection or ill-will. *****Therefore, we give every opportunity to the authorities concerned to contradict our Statement of facts and produce the requisite evidence in support of their case. After having done all this, the report is finalised. Until this stage is completed, the Paras are only drafts or provisional Statements without any authority.

For all that is included in the Report, including opinions, the ultimate responsibility is that of the Auditor General, who countersigns the report but he holds his Accountant General responsible to himself. The Report could be challenged by the witnesses who may be called up by the Public Accounts Committee. The witnesses can say that the facts are not correct which rarely happens. Arguments ensue between the Committee and the witness. The Committee is helped by the Auditor General. None of the preliminary correspondence or any correspondence taking place between the Auditing authority and the Government can be treated as the Report. Even a commercial Auditor who goes to a firm, does all this preliminary work; that is not his report. The Auditor may have been wrong in his suspicions, and if adequate evidence is produced and if he is satisfied, there is nothing more to be said about it. The point that I want to make is that you cannot regard the intermediate correspondence between the Audit Officers or the Auditor General, on the one hand, and the Administrative Officers or even the Government, on the other, as Audit Reports. Audit Reports are formal documents such as you have seen. They are formal documents bearing the certificate saying that this is the Report under Article 151(1) of the Constitution which I present to the Parliament through the President. Nothing else is a Report. I can assure you nobody can tell me what I should or should not put in this Report. They may say that this or that Statement of fact is not correct in which case it will be my responsibility if, in spite of their saying that it is not correct, I include it in my report. It is absolutely a matter for my discretion what to include. Of course, I have to rely on my Audit Officers to advise me as to what should be included here. Once any matter has been included in the Report and the latter presented to the President under Article 151 of the Constitution, there is no question of amending it and submitting a different report to Parliament from what I have put down in my Report under that Article. The discussion in Parliament has been very unfortunate and has been unfair both to the Government and to me. *****To sum up, any correspondence that takes place between the Government on the one hand and myself or my Officers on the other, in the course of audit, with a view to eliciting further information or requiring the Government to take any particular action are not reports within the scope of Article 151. It is only when a final verdict has been reached on any particular matter and it is considered by me necessary to incorporate it in the Report submitted to Parliament that it is included. Correspondence cannot be treated as reports. Likewise, Draft Reports which are sent to the various authorities for vetting the facts are also obviously not reports under the Constitution. They become reports only after they are finalised in the light of the fully ascertained facts and are finally approved by me for submission to the President and the Parliament. It is most unfair to suggest that either the Government suppresses any of my reports, which they cannot and which I will not permit them to do if I am asked to suppress any such report, there will be trouble; I shall report that to you if I am true to the Constitution. Once a formal report has been made under Article 151(1), it has to be submitted to Parliament and if any amendment is made by me subsequently, that amendment will also have to be treated in the same formal manner. Normally, no such occasion has arisen except in the case of routine amendments of any inaccuracies in figures. Some figures might have been printed wrongly.

I noticed from the Press Reports that Shri Ananthasayanam Ayyangar had enquired whether there was any rule whereby certain portions of the Auditor General's Report could be marked confidential and withheld from the Parliament. My Report to the President under Article 151(1) of the Constitution is not confidential and no portion of it can be withheld from Parliament. And it is also a priced publication. It is a printed document. After it is laid on the Table of the House it can be purchased by the general public. Shri Kunzru was also wrong in assuming that after presenting the Audit Report to Government, I might subsequently add or delete some portion or qualify the Statement. Again, I emphasize that draft paragraphs sent by my officers for verification or comments are not reports. You may prepare a rough draft but until you sign it, it is only a draft, it is not the final document. It is a tentative Statement under the consideration of audit. The Finance Minister has Stated that unless he saw the Auditor General's Report to the Public Accounts Committee, he would not be in a position to say whether there was any difference between that and the Audit Report that the Comptroller and Auditor General submitted to President. There is some misconception here, because the Audit Report submitted to the President under Article 151(1) is precisely the same as that which is laid before the House and which is thereafter taken for consideration by the Public Accounts Committee. There is no separate Audit Report to the Public Accounts Committee from the one presented to Parliament.

(Authority: Annexure II of Appendix L to Public Accounts Committee's First Report 1951–52)

2

No. 884-897/Rep (C) /18-92
Dated: 23 December 1996

Sub: Allotment of number to Audit Reports of Comptroller and Auditor General of India for the year ended 31 March 1996—Union Government

It has been decided to bring out a separate volume of Audit Report on Appropriation and Finance Account (Civil) with a brief overview of others such as Defence, Posts and Telecommunications and Railways. It has also been decided to bring out Audit Report on Indirect Taxes in two volumes; one for Customs and another for Central Excise.

In the light of the above, serial numbers for Audit Report(s) of 1997—Union Government will be as indicated overleaf.

Sd/-
(A.K. Thakur)
Pr. Director (RC)

CENTRAL AUDIT REPORTS—1997

Union Government (Appropriation and Finance Account)	1 of 1997
Union Government (Civil) Volume 1	2 of 1997
Union Government (Civil) Volume 2	3 of 1997
Union Government (Other Autonomous Bodies)	4 of 1997
Union Government (ScientificDepartments)	5 of 1997
Union Government (Posts & Telecommunications)	6 of 1997
Union Government—Defence (Army and Ordnance Factories)	7 of 1997
Union Government—Defence (Air Force and Navy)	8 of 1997
Union Government (Railways)	9 of 1997
Union Government—Indirect Taxes (Customs)	10 of 1997
Union Government—Indirect Taxes (Central Excise)	11 of 1997
Union Government (Direct Taxes)	12 of 1997

3

Copy of Pr. Director (RC) letter No. 243/Rep(C)/19-97 dated 04 April 1997

Sub.: Brochure on important audit findings of Central Audit Reports

Sir,

One of recommendations of the conference of Accountants General held in November 1996, as approved byC&AG, was to bring out a brochure containing the gist of all Central Audit Reports in about 40 pages. Now that C&AG has approved the Audit Reports, we have to take action to prepare the brochure urgently.

Size of the brochure

The brochure is to be brought out in A-4 size. The text of the brochure shall be in font 'Times New Roman', size: 12, with headings/ title in font size 13 (bold) and line spacing 1.2. You are requested to send the Draft material relating to Audit Report No.9 (Railways) within four pages by the target date fixed for sending the draft material along with 3½ floppy.

Contents

The material should consist of:

(i) Brief introduction to the Report and coverage—number of appraisals with names of schemes/ projects and transaction audit paragraphs.
(ii) Size of the canvass covered in the Audit Report (ministries/ Departments, budget/ expenditure revenue, etc.)
(iii) Salient features of audit findings of the performance reviews/ appraisals.
(iv) Highlights of relatively more important Paragraphs.
(v) Response of the Government to Draft Paragraphs and Draft Reviews sent to them.
(vi) Money value of audit observations included in the Reports under:
    (a) Embezzlement/ mis-appropriation, loss, waste, misuse, diversion of funds, infructuous expenditure etc.
    (b) Poor/ insufficient/ value for money.
    (c) Idle investment
    (d) Short assessment/ levy/ collection
    (e) others

Targets dates

Receipt of Draft material	10 April 1997
Processing of the material	15 April 1997
Approval of C&AG	21 April 1997
Printing	30 April 1997

Graphs/ Charts etc.
You are requested to use coloured graphs/ charts within the text to improve the presentation even where such graphs, etc. have not been used in the original report.

Yours faithfully,
Sd/-
(A.K. Thakur)
Pr. Director (RC)

4

Copy of Pr. Director (RC) D.O. No. Rep(C)/38-97 dated 31 March 1997

A.K. Thakur
Pr. Director (RC)
While extending my sincere thanks for your cooperation in finalization of Audit Report for 1995–96, I solicit your indulgence in planning the entire drill of preparation; processing and finalization of the Audit Report for 1996–97. The planning has to aim at achieving the following goals:

(i) C&AG has desired that we should advance the finalization of the Audit Reports with a view to presenting all of them during the budget session of February–March. This would mean that the last bond copy should be finally approved by C&AG by the end of January 1998 (for the Reports of 1996–97).

(ii) Since Reports (Central) Section of this office has to process eight volumes of the Report, unless the finalization of different sections of the Reports and pre-bond/ bond copies of the Reports are staggered, it will be impossible to achieve the targets without compromising the quality in terms of accuracy/ correctness, logic, focus and precision. Besides, bunching also causes avoidable personal stress on all of us who are responsible for finalization of the Audit Reports. Therefore, bunching of any form has to be avoided. To accomplish the objective of presenting the Audit Reports in February as per the orders of the C&AG, the dates set for each stage as under have to be followed without exception.

1st Journey (Draft Paragraphs)	30 June 1997 in batches of 5 every week commencing from **now**
1st Journey (Draft Reviews without KDs) for discussion with ADAI/ PD	31 July 1997
All India Reviews (Centrally Sponsored Schemes)	31 August 1997

	Defence		P&T	S.D	Civil			NCT
	A&OF	AF&N			Vol.1	Vol.2	Vol.3	Delhi
Pre-bond	30 Nov 97	30 Nov 97	15 Dec 97	15 Dec 97	15 Jan 98	15 Dec 97	31 Dec 97	15 Nov 97
Bond	15 Dec 97	15 Dec 97	05 Jan 98	31 Dec 97	31 Jan 98	31 Dec 97	15 Jan 98	05 Dec 97

(iii) Due to late receipt and bunching of materials for the Audit Report for 1995-96, many issues viz. replies to observations of ADAI, revision of the Draft Paragraphs/ Reviews were not settled even at the stage of pre-bond copies and in some cases even until the stage of bond copies. The tight schedule for the ensuring Report will necessitate that any issues which are not settled until the scheduled date of pre-bond copies, will not be included in the Audit Report. We would expect the second journey DPs within three weeks of dispatch of ADAI's observations on the first journey. It would be our endeavour to complete the processing of Draft Paragraphs and approve them finally by September 1997, so that adequate time is available for examination of Reviews.

Drafting

2. During the last two years, complete revision/ re-writing of Draft Paragraphs/ Reviews was necessitated in many cases from some offices. The system and organizational set-up in the headquarters office is not designed for this. As such, it puts tremendous strain on us, besides delay in finalization of the Audit Reports. With your cooperation, we should be able to avoid such situation for the next and subsequent Audit Reports.

Mortality of DPs

3. We receive large number of Draft Paragraphs and some times Draft Reviews, which are not found fit enough to be included in the Audit Report either due to incomplete/ insufficient scrutiny/ evidence or on account of considerations of materiality and relevance (timeliness). I am sure, you would kindly agree that while mortality of the Draft Paragraphs cannot be avoided altogether, it is desirable to keep it to the minimum, since materials which do not find place in the Audit Report due to any shortcomings in them, generate all round redundant work of typing, processing, photocopying and correspondence. We should be content with lower number of rather good Draft Paragraphs/ Reviews. I will request your kind cooperation to see that weak Draft Paragraphs/ Reviews are stopped at your end itself. As a rule, any DP having money value of less than Rs.10 lakh (Rs.3 lakh for NCT of Delhi) other than cases of misappropriation and embezzlement and transactions which pertain to a period prior to 1993–94 will not be considered for inclusion in the Audit Report(s) of 1998.

For the sake of record I indicate below the number of DPs/ Reviews sent by your office and actual number of Draft Paragraphs / Reviews which appeared in the Audit Report.

Drafts Received in Hqrs. Office		Number which finally appeared in the Audit Report	
Draft Paragraphs	Draft Reviews	Draft Paragraphs	Drafts Reviews

Reporting style

4. C&AG has desired that our observations need to be more focused and should bring out the specific failure of the individual officer/ functionary leading to loss, fraud, embezzlement, waste, impropriety, inefficiency,

poor value for money etc. unambiguously. In the light of this, the following points will have to be kept in view:

(i) The drafting should be "accountability centered" rather than indirect. Instead of CPWD, the Department etc., we should use "executive Engineer, CPWD, AAA Division", "Chief Engineer, CPWD, NZ, Delhi", Director General, Doordarshan", etc. While generally names of officers are not indicated, in cases of clear fault of any officer convincingly established by Audit, particularly when the misconduct results in benefit to himself the name of the particular officer(s) may also be mentioned which will be cleared by ADAI at his discretion depending upon the seriousness of the observation and sufficiency of evidence. In the KDs, the names of the officers included in the Draft Paragraphs/ Reviews should invariably be indicated so that there is an option to indicate their names at any stage.

(ii) Accountability/ Responsibility—centered reporting would also mean that, as a rule, we use ***'third person, active voice'*** in all Draft Paragraphs/ Reviews viz. 'Executive Engineer, CPWD, AA Division did not exercise the following controls' or 'Director General, Doordarshan unauthorisedly granted excess FCT' etc. This, no doubt, enjoins upon Audit a much more thorough examination of documents and in-depth analysis.

(iii) To be fair to the executive, this style of reporting would also warrant that we make special effort to issue such accountability—centered audit observation by name to the person concerned or his successor (where the particular persons who took the decision or failed to take any action resulting in, the audit observation, is transferred out) soliciting his/ his successors specific response/ reply to the audit observations.

5. While it is not possible to define the exact reporting style, the standards contained in our Auditing Standards provide an excellent guidance, with the addition of accountability—centered style with top boxed gist and left hand side gist for each para. The Audit Report No.6 of 1997 may be taken as model for style and format including the date format. Needless to mention, any improvement over this is always welcome. Should you have any suggestions kindly share them with us, so that these are forwarded to other offices also.

Boxed top gist and left hand margin gist

6. Your endorsement of the idea to include the gist of the paragraphs at the top in a box and left hand side marginal gist of each sub-paragraph in longer DPs and Reviews is indeed encouraging. Last year, we could include left marginal gist only in the Post and Telecom Report. From this year, you may kindly include them uniformly right from the first draft stage. In addition to increasing readability, it also provides an in-built quality assurance, since it will not be possible to write a good gist

unless the Paragraph or the sub-paragraph contains material of substance. The paragraph gist at the top should be drafted as complete sentence and should not be more than four lines in size. The margin gist should also, as far as possible, be complete sentences and yet should be as brief as possible (within four five lines of the margin).

Constructive Reporting

7. Last year, it was decided that we should include well thought out recommendation in the Draft Paragraph/ Reviews. Not many DPs, however, contained recommendation. In many cases, Audit observations without recommendation lack conviction and does not conform to the Standard of constructive audit. The recommendation where desirable no doubt, should be forwarded to the head of the office/ unit or the controlling office and his acceptance/ comments should be obtained. Normally, there should be no occasion for the Departmental officers not to agree to a constructive suggestion. Yet, where in rare cases, the Departmental officers are unable to accept the recommendation of Audit and we still feel that the recommendation can/ should be acceptable to the Department, the Department's view should be included before stressing why we are of the opinion that the suggestion needs consideration, notwithstanding the reservations expressed by the executive. No doubt, the observation containing the recommendation and the specific reply of the executive/ management must be included as evidence (KD).

Format of reporting

8. The format of Audit Report will be as under:

Word Processing software	Word 6 or Winword 6
Font	Times New Roman (uniformly for all sections)

Font Size

Text of the Report	12
Top gist* (boxed)	13 (bold)
Side gist (let of each para)	10 (bold)

**No side gist in every small paragraphs will be necessary, since the boxed top gist of the Draft Paragraph itself should be adequate*

Highlights	12 (bold)
Title of the Paragraphs	14
Overview	12
Title of the paras in the overview	13
Index	12
Prefatory remarks	12

Spacing

Line spacing (text – throughout, except the margin gist)	1.3
Line spacing (margin gist)	1.2
Separation/ space between the title of a DP and boxed gist and between boxed gist and the text	1 space
Separation/ space at the end of each paragraph before the title of the next paragraph	2/ 3
Line spacing above and below each sub-paragraph in views etc. where the sub-paragraph is given a sub-paragraph title	1

Presently we are not including graphs/ charts in the Draft Paragraph/ Reviews. It will be a good practice to include graphs/ charts in the format for first and second journeys' Draft Paragraph/ Reviews in as many cases as possible to improve their visual presentation.

9. However, this format will be used in the pre-bond, bond and printed copies only. For individual Draft Paragraphs/ Reviews for their first and second journeys, while the font size and characteristics will remain the same as indicated in the preceding paragraph, these must be sent in double space and 1/3rd margin (excluding the right hand 0.5 inch margin) in which the left hand margin will be left clear and the KDs will be marked within the body of the text . In the past, there were many cases, where the Draft Paragraphs/Reviews were not sent in clear half margin, making it difficult for us to write ADAI's observations /modifications. In order to ensure that all of us follow the format for the draft uniformly, any draft which is sent in any different format will have to be sent back to the respective offices.

Information in ATN Format

10. With a view to avoiding redundant /superficial ATNs on the Paragraphs and Reviews, compelling the ministries to identify the deficiencies and shortcomings and furnish specific remedial action(s), last year we were able to convince the PAC to prescribe a new format of the Action Taken Note. Since mostly the officers who finalize the Paragraphs and Reviews are transferred out or a different set of officers vet the ATNs, it was prescribed by ADAI that every Draft Paragraphs and Draft Review should carry a separate sheet containing all Audit findings in the format prescribed by Public Accounts Committee (circulated vide this office UO No. 856–861 dated 05 October 1995). This, on one hand would ensure that identification of the deficiencies/shortcomings included in the Paragraphs is not left to the interpretation of the ministries but we point out the Audit observations knowingly or unknowingly not included by them in their ATNs, on the other, would provide an in-built quality assurance mechanism in processing of DPs/Reviews . Unfortunately, in most cases, either this instruction to enclose the Audit findings in the new ATN format with the DPs was ignored by many officers or were

not clearly understood in as much as against "failure of the system or individual " a simple "yes" was indicated rather than specifically indicating the failures/ shortcomings. It is reiterated that DPs/ Reviews must accompany a separate sheet(s) identifying the failures/ shortcomings (serially numbered as 1,2,3 etc., where applicable) distinctly under each sub section outlined in the format.

First Draft of Reviews

11. As usual the first Draft of the Reviews would be discussed by the ADAI/ PD with the DGA/PDA (other than Reviews sent by PDA(C) Bombay and Calcutta and PDA (OF)}. KDs for the first Draft of reviews to be discussed with ADAI/PD (RC) need not be enclosed. The purpose of discussion of the first Draft is to ensure that Draft Reviews are forwarded to the ministries in the shape in which these are likely to be approved by the ADAI and we ask for their response to the focused audit observations found sustainable and substantive by the ADAI. If, however, in cases where the discussion is delayed for some reason, you may please issue them to the ministries for their replies so that mandatory six weeks time for reply is available to them.

Reviews to be drafted in a thematic style

12. ADAI has observed that in many cases while we write long Drafts of the Reviews, some of them contain sporadic audit observations which do not lead to an overall assessment of the scheme/project as a whole. Similarly, the audit observations on different components/ items of the schemes /project also do not lead to a conclusion about administration/ implementation of that particular component. It is reiterated that the Reviews must be thematic and modular to enable a reader form an opinion about design, execution, achievement of stated objectives and value for money realized from the scheme/project. The size of the overall population, the sample selected in audit and relationship of the sample to the total population to extend the conclusions derived from the sample to the entire scheme/ project with reasonable degree of confidence should be clearly indicated /defined. All Reviews should have an annexure containing the details of the sample selected for testing. Similarly, the highlights should not be a mere reproduction of sporadic observations included in the text of the review, but should provide an overall conclusion/impression based on the sample check indicated in the Review. If a comprehensive review does not contain an evidence—backed impression/judgment on the design, implementation, extent of achievement of Stated objectives and value for money, it may not be considered fit to be included in the Audit Report. Separate volume for each Review. 13.In the Audit Report (Civil) of 1997, comments on accounts have been included in No. 1, all transaction audit paragraphs and local reviews/ mini reviews have been included in No. 2 and five Reviews on Centrally Sponsored Schemes have been included in no. 3,

with the idea of ultimately presenting the Reviews on major subjects in separate volume as 3A, 3B, 3C etc. This would mean that the Reviews will have to be really comprehensive and thorough to deserve presentation as stand alone. As and when we are able to achieve this, the annuity of their presentation in the budget session itself may also be abandoned in favour of a well defined target of their presentation during any session of the Parliament throughout the year.

Top Sheet

14. Draft Paragraphs/Reviews sent to this office should carry a top sheet in the following format:

1. Subject /Title of the DP
2. Money Value
3. Name of the Ministry
4. Name of the Department
5. Report in which proposed to be included

5A. Date on which forwarded to the Secretary of the Ministry

6. total no of KDs enclosed with the DP
7. Check list of enclosures (each to be indicated with a tick mark)
   (i) KDs
   (ii) Calculation sheet(s)
   (iii) Audit conclusions in ATN format
   (iv) chronology of events
   (v) Draft overview
8. Additional LDs (serially numbered after the last KD sent with the first journey)
9. Date (s) of reminders for reply of the Ministry
10. Date of receipt of reply from the Ministry.

Forwarding to the Ministry and their reply

15. Except in cases where the first Draft of the Review is not sent to the Ministry and in special circumstances obtaining in respect of Departments of Atomic Energy and Space, all DPs and Draft Reviews may be sent to this office through endorsement of the forwarding letter to the Ministry. It will be possible to incorporate replies received only up to 15 days before the target date for pre-bond copies. Except in cases where the reply throws up an error of judgment, fact or understanding in drawing up audit conclusions, all replies received after this date will have to be ignored to enable us to follow the time schedule. Since we are putting special emphasis on ensuring that the ministries send replies to all Draft Paragraphs/Reviews and the status of their response is indicated in the Prefatory Remarks itself, it would be incumbent upon us to monitor issue of Drafts to the ministries and receipt of replies carefully. Offices, which are contributing the DPs and Reviews printed by some other office may pleas send a status (summary as well as para-wise detail) of the reply

to the approved DPs/Reviews as on the crucial date/month decided with reference to the target date of the pre—bond copy of the coordinating office through fax to enable that office to include the position in the Prefatory Remarks.

Draft overview

16. Writing of the overview after the finalization of the Report consumes lot of time and contributes to delay. It will, therefore, be desirable to get the Draft Overview approved during the second journey of the Paragraphs /Reviews. While there can be no straight-jacket for drafting of overviews, it should be direct, brief yet self contained and above all should be interesting to a reader. Besides, it should not be a repetition of the top boxed gist of the DPs. Technical jargons, decimals and too much of figures make the overview complex and clumsy. The overview contained in the Audit Reports No. 6 of 1997 (P&T) and No. 2 of 1997 (Civil) may serve as example. Improvements upon this is always welcome. Those offices which contribute the material for the Audit Reports printed by some other office (DGACR for Civil Reports and DGADS for Army and Ordnance Factory Report) may send the floppy of the approved Draft overview also along with the approved DP/Review in addition to the hard copy to obviate the need for entering them all over again.

Discussion with Ministry

17. In cases of all Reviews and important Draft Paragraphs we should specifically request a discussion with the Secretary of the Ministry or with an officer not below the rank of a Joint Secretary and in fact insist on one. In all cases where the officers of the Ministry discuss with us within the time as we can afford to wait, a record of discussion may be drawn and a copy forwarded officially to the Secretary or the officer attending the meeting with a copy to the Secretary of the Ministry. DPs and more particularly Draft Reviews which are discussed formally with the Ministry will be given preference in approval by the ADAI.

Forwarding of the final copy of the Audit Report to the Ministries

18. Instances have come to notice where the copies of the Audit Reports were not forwarded immediately to the Ministries after these were laid on the table of the House. In some cases we have received requests for copies of Audit Report after the newspapers carried the stories from Audit Reports upon their being laid on the table of the House. While the ministries had not received copies. It would be a good practice to be in readiness to send copies to the Secretaries of all concerned ministries/ Departments and their FAs, on the same day when the Audit Reports are placed on the table of the House.

5

Copy of Principal Director (RC) UO. No./11-Rep (C)/Money Value /8-2005 dated 19 May 2006 addressed to Field offices dealing with Central Reports and AG (Audit), Delhi

Sub: Money threshold of the DPs for inclusion in the Audit Reports of 2007 and onwards

The threshold money value of the DPs for inclusion in the Transaction Audit Reports of 2007 (2006–07) and onwards has been fixed as Rs. 20 lakh (Rs. 10 lakh for Delhi Report) other than cases of fraud and misappropriation detected by Audit where DPs with lower money value will also be considered.

Sd/-
(P. Sesh Kumar)
Pr. Director (RC)

6

Copy of B. K. Chattopadhyay ADAI (RC) D.O. No. 343/61-Rep(c) /Vol. II/ 2006 dated 3 May 2007 addressed to Dr. Sanjiv Misra, Secretary to the Government of India, Ministry of Finance, Department of Expenditure, North Block, New Delhi

Dear Dr. Misra,

While analyzing the trends on key fiscal parameters, we have observed that figures of revenue and fiscal deficits as depicted in the Budget at a glance differ from those derived from the Annual Financial Statements (AFS) placed before Parliament. For instance, as per receipt and expenditure figures (actual) appearing in Annual Financial Statements, the revenue and fiscal deficits for the year 2005–06 worked out to be Rs. 109,697 crore and Rs. 164,927 crore respectively. The deficit figures derived from the audited Finance Account of the Union Government agree with the Annual Financial Statements. However, Budget at a Glance report the deficits at Rs. 92,299 crore and Rs. 146,435 crore respectively. Such differences were also noticed in previous years and the matter was taken up demi-officially with the Joint Secretary (Budget) on 8 June 2006 (copy enclosed). The Government response on the matter is awaited.

Our analysis shows that the difference between the figures of deficits as reported in Budget at a Glance and those derived based on AFS arise mainly due to inclusion/exclusion of some transactions on revenue and expenditure side such as securities issued to Oil companies, RBI, IMF, IDBI etc. and redemption of securities issued to NSSF. A reconciliation Statement for the last five years prepared by us is suggested and enclosed for your information. As FRBM Act 2003 emphasizes need for greater transparency in fiscal operations of the Central Government, I shall be grateful if the rationale behind according different treatment to these transactions in Budget at a Glance and the Annual Financial Statement and Finance Account of the Union is clarified by the Government and necessary disclosures made in the Budget at a Glance to ensure better fiscal transparency as required in the Act.

We have also observed that the figure of Subsidy (actuals) reported in the Expenditure Budget Vol. I (Annexure 3.1) for a particular has been changed in the subsequent year. For example, in the Budget of 2006–07, the actual expenditure on Food subsidy for the year 2004–05 was reported as Rs. 23,280 crore which has been subsequently revised to Rs. 25,798 crore in the Budget of 2007–08. Similar variations in actuals of Food and Petroleum subsidies are noticed for the year 2003–04 in the Expenditure Budget. The figures of expenditure once declared actual should not normally be changed in subsequent years. This anomalous situation arises due to non adoption of certified Finance Account figures in the Budget of the relevant years though such figures of actual expenditure are available with the CGA and concerned ministries much before the presentation of the Budget. You may kindly investigate and issue necessary instructions as deemed fit for consistent reporting of subsidy figures in the Budget documents of the Government.

With Regards

Yours sincerely
Sd/-
(B.K. Chattopadhyay)
ADAI (RC)

LIST OF KEY EVENTS-SECTION 'B'

4 August 1988	Functional Wings in Headquarters and all AG (Audit) etc were informed by Director (Reports) that a copy each of Finance and Appropriation Accounts should be sent along with Audit Report for transmission to Secretary to Governor of State since Accounts are to be submitted alongwith Reports.
16 October 1990	A paper approved by C&AG on the qualitative aspects of State Civil Audit Reports was circulated to field offices.
13 May 1997	Report State Wing issued a write up on the methodology and scope of Integrated Audit.
September 1998	Instructions on planning and selection of topics of State Audit Report (Civil) issued.
4 September 1999	C&AG wrote a DO to Deputy Chairman Planning Commission bringing out results of review of State Plan Expenditure of 14 major States.
31 October 1998	It was decided to include a section on "Indicators of the Financial performance of the State Governments" in Audit Report (Civil). Parameters and indices to be used in financial performance were identified.
February 1999	Headquarters issued a circular delinking the presentation of Finance Account/Appropriation Accounts from Civil Audit Report from 1997–98 and modifying the existing certificate in printed Accounts.
30 August 1999	Report State Wing issued instructions regarding audit of expenditure on foreign travel being conducted since 1997–98.
9 August 2000	It was decided to prepare a regional language version of State Audit Reports to facilitate wider dissemination and easy comprehension.
21 October 2002	C&AG's D.O. to Deputy Chairman Planning Commission conveying results of an analysis of resource flows from Government of India to States and their plan expenditure during the IX Five Years Plan suggesting, interalia that Planning Commission accords higher weightage to States' contribution to financing of their plan while deciding their plan size.
1 September 2003	Headquarters issued instructions regarding review of internal control mechanism and internal Audit

	arrangement of Government Departments for inclusion in Audit Report (Civil).
May 2004	C&AG suggested to Chief Ministers of States that an institutional arrangement should be put in place wherein Chief Secretary and concerned administrative Secretaries discuss the major issues raised in the Audit Reports with Pr. AsG/AsG before inclusion in Audit Reports.
4 October 2005	To ensure timely printing of Audit Reports, it was decided that arrangement for getting the printing done from private press if felt necessary, may be made in advance.
7 April 2006	Instructions of the C&AG on some issues involving questions of principle related to Audit Reports.
19 September 2006	Revised format/template of Chapter I and 'Explanatory Notes' were prescribed.

7

No. 61-C&AG/1998 dated : 04.09.1998 from CAG V.K. Shunglu to Jaswant Singh, Deputy Chairman Planning Commission

Dear Deputy Chairman,

Enclosed with this letter is a Statement of Resource Flows from GOI to the States and State Plan Expenditure plus Expenditure on CS&CSS for 14 major States during the VIIIth Plan period. It is possible to draw the following conclusions from Audit reports on State Finances and this Statement.

(i) Approved State Plans and Revised States Plans were far too ambitious. In the event, the actual expenditures were well below the revised plans.

(ii) State contribution to resources for financing the State Plans in most cases was modest/negligible. The plans were largely financed by Central Assistance, Market borrowings plus resources transferred for Central Sector Schemes and Centrally Sponsored Schemes.

(iii) Some States financed more than 100% expenditure from Government of India funds and diverted substantial amounts to Non- Plan Expenditure. One State built a cash balance (held as Treasury bills) of Rs. 1100 crores at the end of the Plan period, producing the rather piquant situation of Government of India borrowing funds from RBI, giving it to the State, which in turn provided funds to RBI to invest Government of India Treasury bills.

(iv) There has been considerable diversion of funds from Centrally Sponsored Schemes and Central Sector Schemes. States' contribution to Centrally Sponsored Schemes has been negligible.

(v) The size of the Plan was beyond the States' capacity to implement. Our reports contain enough material on systematic transfer of funds from the Consolidated Fund to the Public Account because expenditure rates were much slower than transfer of resources.

(vi) These transfers have occurred in the main with regard to Social Sector. There is enough evidence in the State Reports of transfer of funds to Public Account, Savings and, in many cases, diversion of funds to other sectors. In other words, outlays on Social Sector were beyond the implementation capacity of the State Governments.

(vii) Given the difficult situation of Union finances, the large fiscal deficit and the considerable inflationary pressures it is moot whether the present policy of generous transfers to the States should continue.

(viii) Public Investment no longer has the ability to remain the engine of growth. Pay Commission obligation is virtually the last straw.

(ix) As the country moves towards the next Plan and the Commission undertakes exercises to prepare the Plan some of these issues would require consideration before adopting the age old approach of the bigger the better.

A copy of this letter is being sent to Finance Minister.

Rs. IN CRORE

Name of State	GOI Assistance for			State Plan		Actual Expenditure on		
	State Plan	CSS+CS	Total	Approved	Revised	State Plan	CSS+CS	Total
Andhra Pradesh	8,431	3,074	11,505	11,789	10,757			14,240
Bihar	6,765	2,522	9,089	11,569	5,377	4,683	2,310	6,993
Gujarat	3,505	2,172	5,677	12,240	12,004			9,938
Haryana	1,665	761	2,426	5,460	5,257			4,385
Karnataka	3,729	2,516	6,245	16,150	14,540			13,303
Kerala	3,674	1,216	4,890	6,926	6,792			6,347
Madhya Pradesh	5,407	3,647	9,054	13,594	11,505			13,715
Maharashtra	7,730	2,801	10,531	25,555	25,431			24,172
Orissa	4,885	1,673	6,558			6,403	1,726	8,129
Punjab	3,832	790	4,622	7,732	6,123	4,100	842	4,942
Rajasthan	5,379	2,965	8,344	12,064	12,074	8,820	3,509	12,329
Tamil Nadu	6,578	2,021	8,599	13,521	13,537			11,648
Uttar Pradesh	15,629	6,509	22,138	25,026	27,140			18,759
West Bengal	5,818	4,475	10,293	8,428	8,815			8,645

1. Statement has been prepared from Audited Finance Account of State Governments.
2. It reflects State Plan Expenditure contained in State Accounts.
3. In certain States expenditure on State Plan and Central Schemes is not separately reflected.
4. Government of India Assistance is the sum total of Central Assistance and Market Borrowings.
5. Approved and Revised State Plan figures are from the Planning Commission.

8

No. 1077 Rep (S)/143-98
Dated: 17.09.1998

To

All Pr. Accountants General (Audit)
All Accountants General (Audit)
(As per mailing list)

Sub: Planning and selection of topics of State Audit Report (Civil) 1998–99.

Sir/Madam,

While reviewing the existing practice in the selection of topics of reviews for the Audit Reports (Civil) for the States recently it was noticed that the topics selected by the field offices constitute about 25 percent of the total number of reviews etc. in the Audit Report. It has been felt that this is not a very desirable trend and needs to be reversed. Essentially, these topics should predominantly be based on the field offices suggestions. For this purpose it is necessary that selection of topics for Reviews in the Audit Report except the All India Reviews and a few synoptic reviews proposed by the Report States Wing is done by the State Accountant General based on some systemic approach.

To achieve the objective set out above, planning and selection methodology for the Reviews has to be toned up and elaborate steps taken by the field offices for a meticulous examination of the activities of the government both in the non plan and in the plan (including Centrally Sponsored Scheme and Central Plan) areas.

The best results can only be achieved if the Accountant General has a fairly good idea of the total expenditure trends of State Government and the progress on major plan schemes. It is presumed that some exercise is already being done. If not, it should be immediately taken up and on that basis, the topics for inclusion in the Audit Report 1998–99 may be suggested with detailed justification for selection of each topic of review and long draft paras.

While the field offices will have their own priorities in recommending the topics, the following overall criteria should always be kept in mind in selecting topics for the Reviews etc.

(a) Criteria of materiality

A thorough study of the Annual Budget documents and wherever applicable, annual administrative reports of the Departments and the annual plans for the departments of Government would help to ascertain the sectoral allocation of funds and those schemes where substantial funding have gone. Based on these sectoral allocation and the priorities of funding within each sector, Accountant General should be in a position to identify schemes/ projects/

activities of high priority and heavy expenditure and accordingly pick up the areas/topics for detailed audit study comments in the Audit Report.

(b) Criteria of coverage

Once the priority sectors and the schemes are identified for audit, Accountant General would also employ the criteria of coverage and identify such schemes, which cover expenditure over large number of districts. Such schemes may be accorded precedence in the matter of selection for the Audit Report. At the detailed planning stage, Accountant General should devise a suitable sample so as to give a balanced and unbiased picture of the achievements or failures of the schemes.

(c) Criteria of impact on the life of people

Schemes that have been framed to make a perceptible impact in the improvement of living standards of large segments of population should be a natural choices of audit review. In other words, schemes with beneficiary orientation, should as far as possible be given higher precedence.

The above criteria are only illustrative and Accountant General will be free to consider any other factors, material to the selection of topics. However, the idea is that the selection is basically done on the basis of the above noted criteria or/and any other criteria as may be found relevant for the selection and not on any adhoc manner or in a huff.

4. Time schedule

Adequate lead-time is a must for any worthwhile audit review. Therefore, the selection of topics should be completed by end of September and sent to us soon thereafter (preferably by the first week of October). The pilot study of the reviews should be completed by end of October and guidelines should be sent to us by mid November, at the latest. Soon thereafter, the audit teams should be sent out for field work on reviews and in next 4 months i.e., upto February end the entire field work should be completed and draft reviews should be sent to Headquarters by mid or end March. While conducting the reviews, the figures of accounts for 1997–98, which should by ready by October 1998, should also be considered.

5. Actual field work of the review should not wait for Headquarters reaction to the review guidelines. If there is any point to be considered additionally, it will be communicated to the Accountant General as quickly as possible from Headquarters.

Kindly send your proposal accordingly on terms of time schedule as per Para 4 above. Kindly acknowledge the receipt of this letter.

Yours faithfully,
Sd/-
(P.K. Mukhopadhyay)
Pr. Director (RS)

9

No. 1153 Rep (S)/15-98
Dated: 31.10.1998

To

All Accountants General
(Except the North Eastern States,
Himachal Pradesh,Jammu & Kashmir and Goa)

Sub: Indicators of Financial performance of the State Governments.

Sir/Madam,

It has been decided to include in the Chapter I of the Audit Reports (Civil) of the State Governments for the year ending 31st March 1998, a separate Section namely "Indicators of the financial performance of the State Governments". The enclosed note on this subject would indicate as to what would be the parameters and indices that are to be used in determining the financial health/ performance of the State Government.

In finalizing your write up for this new section, most of the material will be available in Finance Accounts and is also being used in the existing Chapter –I write up. A few cases, where additional information will require to be collected by you are indicated below:

(1) Balance of Current Revenue: Under this section, plan assistance grants should mean the assistance recorded under Minor head 02. Sub-heads 10-Block grants and 104-Grants under proviso to Article 275(1) of the Constitution under the Major Head 1601-Grants-in-aid from the Central Government.

(2) State Domestic Product SDP: This figure should be obtained from the Government as is presently being done.

(3) Capital borrowings would mean the loans included under the Major Head 6003-Internal Debt of the Government, and the figures under Major head 6004 Loans and advances from the Central Government excluding the Non-Plan Loans (Minor Head 01) and ways and means advance (Minor Head 06).

(4) Guarantees: While the figures relating to guarantee given by the Government are already included in the Chapter-I, details relating to the letters of comforts given by the Government are to be collected from the Heads of Departments and the Finance Department.

Besides, the above a separate section on the 8th plan performance will be included in Chapter-III for which we are issuing a separate guideline.

Yours faithfully,
Sd/-
(P.K Mukhopadhyay)
Pr. Director (RS)

10

K.N. Khandelwal
ADAI

No. 60-AC.I/SP. 11/96-98
Dated 19.02.1999

Dear Shri

You are aware that presently the Finance and the Appropriation Accounts are presented to the State Legislature alongwith the Civil Audit Report(s). This has perhaps been because of delay in the compilation of accounts in the Accountant General office. With your efforts we have been able to close annual accounts for 1997–98 timely and as of today the Finance Account and the Appropriation Accounts for 1997–98 are already printed and are available for signatures of the Comptroller and Auditor General of India.

The presentation of the Finance Accounts and Appropriation Accounts at the earliest to the State Legislature without waiting for finalization of the Audit Report had been engaging attention of this office for some time. It has now been decided to delink the presentation of the Finance Accounts/Appropriation Accounts to the Legislature from the Civil Audit Report from 1997–98. After the Comptroller and Auditor General of India signs the accounts, these can be sent.

With the transmission of accounts the Governor could be requested to arrange presentation of these accounts on convening of the Legislature in case it is not in session. A press note indicating that the Comptroller and Auditor General of India has transmitted the accounts to the Governor for presentation to the Legislature will be issued by the Accountant General (Audit). The form of the Press note is being circulated separately.

In the revised arrangement, the existing certificate of the Comptroller and Auditor General of India in the Finance Accounts and the Appropriation Accounts needed corresponding change. Accordingly the certificates have been slightly modified. A copy each of the modified certificate is sent herewith.

The existing certificate in the printed accounts for 1997–98 shall be replaced by the modified certificate before these are transmitted for presentation after C&AG's signatures. This shall have to be done on top priority with the help of a binder from the press so that these are available for immediate presentation. Where the bound copies have already been sent to Headquarters for signature of Comptroller and Auditor General, these may be collected back and the existing certificate replaced by the modified certificate before these are got signed by the Comptroller and Auditor General of India.

Hindi version will follow.

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The Appropriation Accounts have been prepared and examined under my direction in accordance with the requirements of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. On the basis of the information and explanations that my officers required and have obtained, I certify that these accounts are correct, subject to the observations in my Report(s) on the accounts of the Government of ……………………being presented separately for the year ended 31 March……………

SD/-
(V.K SHUNGLU)
Comptroller & Auditor General of India
New Delhi,

11

General Circular No. 5 of 99
No. 845/Rep (S)/FT/7-97 dated 30.08.1999 addressed to All Pr. AG (Audit), AG (Audit) and PDA (Central), Mumbai

Subject: Audit of expenditure on Foreign Travel

Ref: This office letter No. 1135-Rep (S)/7-97 dated 26.10.1998

Sir/Madam,

As you are aware, audit of expenditure on Foreign Travels was conducted in the offices of Accountants General and a review on the subject was included in the Civil Audit Reports of 1997–98. It has since been decided that cent percent audit of vouchers of foreign travel expenditure will be conducted in Central audit as well as in field audit from now on every year. We have issued several instructions on the subject from time to time as detailed in the margin.Following further points are brought to your notice for strict compliance while auditing the expenditure on foreign travels of the Ministries and officials of the State Government.

(ii) The audit observations and the facts/figures included in the review should be supported by irrefutable evidence/KD. Information/replies furnished by the Department in respect of individual officers/ Ministries etc. should be verified in audit before their inclusion in the Review. In this sensitive audit, we cannot afford even one percent misreporting even it is backed by Departmental documents. To obviate any such eventuality, you may send a copy of the audit findings to the persons(s) performing the journey (by name to all officers concerned and private secretaries to the Ministries concerned) with the request to give their response within stipulated time. You may state there as usual that if no reply is received within 4 weeks, facts would be taken as confirmed.

(iii) It is reiterated that the correctness of the facts reported should be given utmost importance and the officers responsible for reporting the facts as well as the supervising officers including Group Officer should be personally responsible for the correctness of the findings being reported.

(iv) TA advance and adjustment bills, acquittances, paid vouchers, debit advice from embassies etc. should be checked with reference to tour programmes to ensure that the Minister etc. have actually undertaken the foreign travel and that there was no last minute cancellation.

(v) You may also request the Government to appoint a nodal Department for processing the cases of foreign travel so that all the records are available in one place. Simultaneously, you should take immediate action to build up a computerized data base of foreign travel in your office on the basis of the information contained in the paid vouchers and debit notes received in the A&E office from Indian Embassies abroad regarding facilities provided e.g. accommodation, transport, DA etc. Centralized information regarding clearance of cases by Ministry of External Affairs and copy of all sanctions issued by the State Government for Government officers and also for part time officials/Directors of State PSUs should be obtained. The information in the data base should be carefully processed and used not only to supplement the findings in the field audit and also for planning the audit of expenditure on foreign travel.

(vi) In some States the TA bills for foreign travel were not preferred and further there were considerable delays in the submission of adjustment TA bills. You should take up the matter with the Chief Secretary for issue of necessary instructions for submission of TA bills in the prescribed format and within a specified periods as the only authorized mode of adjustment.

(vii) The field parties dealing with foreign travel audit should be supplied with a complete compilation of up to date orders issued by Government of India and State Government regarding foreign travels. This compilation prepared in the field office should be up dated every year. A check list of the important checks to be conducted in such audit should also be prepared on top priority for guidance of the auditors. The check list should include *interalia* a list of obligations of officer/Ministers drawing composite DA rates. A copy of the check list prepared by your office may please be sent to Headquarters for record.

2. Besides the above points you are requested to take such other measures as deemed necessary to ensure comprehensive audit of expenditure on foreign travel and accuracy of the audit points being reported. An institutional arrangement may be evolved in consultation with the State Government to obtain as far as possible, the response of the State Government before inclusion of the comments in the Audit Report.

Kindly acknowledge the receipt.

Yours faithfully,
Sd/-
(P.K. Mukhopadhyay)
Pr. Director (RS)

12

No. 1079-Rep (S)/3-98
Date: August 09, 2000

Subject: Preparation of State Civil Audit Report in regional languages.

Sir/Madam,

It has been decided that from this year's Audit Report a regional language version of the Civil Reports would be prepared for placing in the State Legislature to facilitate wider dissemination of the Audit Report findings and for the benefit of easy comprehension of the audit view point. It is to be kept in mind that the regional version shall not be signed by A.G or countersigned by C&AG and only a certificate that it is a truthful translation of English version may be given. To implement this decision the following action may be please taken:

(1) The Secretary of the Legislative Department should be contacted to obtain their view in placing unsigned regional language version in the Audit Report in the Assembly. While taking up the mater with the Secretary, it may be pointed out that this practice is being followed in Gujarat and Maharashtra for many years. The Finance Secretary may also be kept informed appropriately in this regard.

(2) The Report should be translated in-house by A.G and in case in the initial year there is any difficulty in getting the translation done in-house, the Directorate of local languages or any similar organization of the State Government may be requested to do the translation. For this purpose, the help of the Finance Department may also be appropriately taken, wherever necessary. The details of such arrangements available may be intimated to us for further advice in case, in-house translation in first year is not possible.

(3) The time required for translation and printing of the local language version may be assessed to find out the time gap that may be involved in making available the regional language version to the Legislature for placing on the Assembly. In case the government agencies are not able to provide timely help, you may examine the option for going to private translators. The cost implication of translation by outside agency may also be assessed and informed.

You may send your reply in regard to the above matters by 3rd week of August positively duly indicating the action proposed to be taken by you to implement this decision.

Yours faithfully,
Sd/-
P.K. Mukhopadhyay, Principal Director (RS)

13

No. 90-C&AG/2002 dated: 21.10. 2002 from Vijayendra N. Kaul Comptroller & Auditor General of India to K.C. Pant Deputy Chairman, Planning Commission

Dear Deputy Chairman,

I have carried out an analysis of resource flows from Government of India to the States and their plan expenditure during the Ninth Five-Year Plan to enable us to comment before the finalization of plan outlays for the Tenth Plan (2002–07). You may recollect that my predecessor had written to you on September 4, 1998 in this matter after analysis of expenditure during the Eighth Five Year Plan (1992–97). An analysis of accounts at that time had revealed that approved and revised State plans were far too ambitious; States' contribution to resources for financing their plans were modest; there was considerable diversion of funds and the size of plan was largely beyond a State's capacity to implement.

Now that the exercise for the finalization of plan outlays for the Tenth Plan (2002–07) is nearing completion, I felt it may be desirable to look at the resource flows, originally approved and revised State plan outlays, assistance from Government of India for State plans and the States' contribution to their plan expenditure during the Ninth Plan (1997–2002). Enclosed with this letter is a Statement for General and Special category States, which inter-alia indicates that fiscal and planning anomalies noticed earlier during the Eighth Plan period have become more pronounced after the Ninth Plan. Specifically, it is found that:

(1) Approved State plans continued to be overly ambitious and had to be scaled down at later stages. The ratio of revised plan outlays to the originally approved plan outlays has declined further from 94% during the Eighth Plan (1992–97) to 89% during the Ninth Plan (1997–2002). Actual expenditure has also declined from 94% of the revised outlays during 1992–97 to 92% during 1997–2002. These are in nominal terms and inflation adjusted figures for revised outlays and expenditures would be even lower, thus leaving planners open to the charge of being unrealistic.

(2) State's contribution to the resources for financing of their plans have continued to remain modest. Nearly three fourths of the plan expenditure was financed by central assistance (plan grants and loans), market borrowings and resources transferred for Central Sector and Centrally Sponsored Schemes. In case of Special Category States, central assistance exceeded their plan expenditure. It is time to re-examine if central assistance is acting as a perverse incentive.

(3) Audit Reports on State Finances have also revealed that nearly 60% of the total plan expenditure continued to be for the purpose of maintaining the existing level of services and as such very little was spent by the States' for extension of social and economic services beyond existing levels.

(4) The diversion of funds from Centrally Sponsored and Central Sector Schemes has become a widely prevalent practice in States with no effective action being taken to curb such malpractice. Centrally Sponsored Schemes end up being almost fully funded by assistance from Government of India.

(5) With continuing fiscal deterioration in the States' finances and the persistence of a negative Balance from their Current Revenues (BCR), it has become necessary that Planning Commission accords higher weightage to the State's contribution to financing of their plans while deciding their plan size.

I will be grateful if these findings receive your attention and the attention of the Planning Commission. A copy of this letter is being sent to the Finance Minister for his information.

14

No. 329 Rep (S)/83-2004
Dated: 05.04.2004

To

All Principal Accountants General (Audit)
All Accountants General (Audit)

Sub: Interface between the Accountants General (Audit) and the State Administration for discussion of draft reviews and important draft paras

Sir/Madam,

C&AG had desired to write to the Chief Ministers of the States for constituting a mechanism for an interface between the Principal Accountants General/Accountants General and the State Administration for discussion of the draft review reports and important audit paragraphs before finalization. A copy of the draft letter is also enclosed. For this purpose, please intimate us the number of Paragraphs and Reviews included in the Audit Report (Civil) 2002–03, and number of paras and reviews on which replies were received from the State Governments. As the matter is urgent, the information may be sent to us by fax and by email (aaors4@C&AG.delhi.nic.in) within 06 April 2004 positively.

Encl: as above

Yours faithfully,
Sd/-
(R B Sinha)
Principal Director (RS)

15

No. 1082- Rep (S)/186-2005
Dated: 04.10.2005

To
All Principal Accountants General (Civil Audit)
All Accountant General (Civil Audit)

Sub: Printing of State Audit Report

Sir/Madam,

The need for expediting the printing of the Audit Reports had been emphasized in HQrs circular letters no. 701-Rep (S)/186-2005 dated 16 June 2005 and no. 822-Rep (S)/186-2005 dated 11 July 2005. Necessary steps to be taken for translation and printing of Audit Reports by the field offices right from forwarding the Bond Copy of the Audit Report to the HQrs were also suggested.

C&AG has expressed concern over the existing arrangements for printing of the State Reports and desired that the matter should be reviewed and necessary steps taken to ensure timely printing of the Reports so that the same are placed in the State Legislatures well in time. Arrangements for getting the printing work done from private press in case this is felt necessary may be made well in advance.

It is, therefore, reiterated that all out efforts may please be made at your end so that the printing of the Reports is completed and printed documents are sent to the HQrs within six weeks from the date of approval of the Bond Copy of the CAG.

As regards the translation works of the Audit Reports, instructions issued in Headquaters circular letter dated 16.6.2005 pertaining to simultaneous translations should be strictly adhered to.

A weekly report with regard to progress towards translations and printing may also please be invariably sent to HQrs office.

This issues with the approval of ADAI (RS).

Yours faithfully,
Sd/-
(Dhiren Mathur)
Director (RS)

16

No. 435- Rep (S)/120-2006
Dated: 07.04.2006

To
The Principal Accountants General (Audit)
The Accountants General (Audit)
(with ADAI-RS)

Sub:Instructions of the C&AG on the issues related to Audit Reports

Sir/Madam,

To discuss certain important issues related to improvement of the quality of Audit Reports, a meeting was recently held by the C&AG on March 20, 2006 with ADAI (RS). Based on the review of the cycle of Audit Reports for the year ended March 31,2005, the C&AG desired that particular attention should be given to the following points while processing the material for the next years' Audit Reports.

Audit Reports

1. Old cases should not be included in the Reports. As a general rule, transactions over five years old should not be included in Transaction Audit Reports. However, where an old Para is included the reasons for doing so may be sent along with such Para(s) for submission to the C&AG. Exceptions can, however, be only in respect of cases that could not have come to the notice of Audit earlier and question of principle are involved. Cases of lack of response to constructive suggestions of audit aimed at remedying deficiencies in control systems may be commented upon, if the continuance of the unsatisfactory features is attendant with risk of fraud or loss to the Government.
2. Care should be exercised to ensure that obvious errors in the Audit Reports are not repeated next year.
3. It may be ensured that Audit Reports do not make any reference to any document, which is of a secret/confidential nature. In particular no reference should be made to noting and notes for the Cabinet or its Committees.
4. Care should be exercised to ensure that audit does not take credit where the matter has already come to the notice of the Executive on its own or through internal audit, etc. and on which action is being taken or proposed. Such Para should not be issued for inclusion in the Audit Reports.
5. Highlights appearing in Performance Reviews should list out major audit findings and not be a mere Statement of facts, as has been noticed in a few cases.
6. Money value attributed to the Paras should not be inflated.
7. With a view to highlight Paras relating to fraud/misappropriation, such Paras should be printed in bold from next cycle of Audit Reports. A

system of monitoring of Paras relating to fraud/corruption should be put in place and a brief mention should be made in the annual post audit letters to the Chief Ministers. Material for such letters should be submitted along with CDs for uploading on C&AG website when the printed copies of the Audit Reports are sent for countersigned of the C&AG.

Chapter I

8. Fiscal situation should be analysed carefully on the basis of accounts.
9. It has been observed that in many cases figures relating to expenditure are obtained from the State Government. Proper course should be to rely on the figures available with the A&E office.

Transaction Audit

10. Targets set for draft paras should be achieved and in case of shortfall the Pr. AsG/AsG should explain the reasons. The above instructions may kindly be noted for compliance and these would come into effect from submissions of Batch material for Civil Audit Report-2005–2006.

Receipt of this letter may please be acknowledged.

Yours faithfully,
Sd/-
(Dhiren Mathur)
Director (RS)

17

No. ……………..Audit (AP)

C&AG

My Dear Chief Minister,

As per the present practice, draft audit paragraphs and performance reviews proposed to be included in the Audit Report are forwarded to the Secretaries of the concerned administrative Departments/heads of Departments through demi-official letters drawing their attention to the audit findings and requesting them to send their response within 6 weeks. In many cases I find that comments of the Government are not received within the stipulated time. For instance, in the State Audit Reports for the year ended 31st March 2003, comments/observations of the State Government were received in respect of ……………….out of …………audit paragraphs and ………………………out of …………………performance reviews only. However, I have advised my Principal Accountant General/Accountant General to get in touch with your Chief Secretary/concerned administrative Secretaries personally for their observations/compliance which has helped the matter. These clarifications or remedial actions have gone a long way in serving the public interest.

I however, find that there are number of issues that still figure in the Audit Reports, which could have been avoided if the Government had taken due care to clarify the issues raised therein time. I, therefore, suggest that an institutional arrangement should be put in place wherein the Chief Secretary and the concerned administrative Secretaries can meet when the draft Audit Report is ready and discuss the issues raised in the Audit Reports with the Principal Accountant General/Accountants General and his officers so that the views/comments of the Government could be effectively included and a more rounded view taken in the Audit Reports.

The time and agenda for these meetings could be finalized mutually between my Principal Accountant General and your Chief Secretary. I would be grateful, if you could kindly confirm the institutionalization of the arrangement suggested.

Yours sincerely,
C&AG

LIST OF KEY EVENTS-SECTION 'C'

6 September 1995	Ministry of Finance, Department of Expenditure-Monitoring cell issued instructions that paras selected but not discussed by PAC would be treated as not selected paragraphs and qualify for ATN during subsequent years.
6 June 2001	Ministry of Law, Justice and Company Affairs gave opinion on the issues referred to them regarding Animal Husbandry Scam.
18 June 2002	DG Audit issued instructions regarding making cabinet notes and other confidential records as key documents and their production before Parliamentary Committees.

18

No. 1/105/95-NC (Pt) 6 September, 1995

Ministry of Finance
Department of Expenditure
Monitoring Cell

Sub : Action taken on the recommendations contained in the Hundred and Fifth Report (Tenth Lok Sabha) of the Public Accounts Committee on Paragraph 11.3 of the Report of C&AG for the year ended 31 March, 1994 (No. 1 of 1995), Union Government (Civil) relating to 'Follow up on Audit Reports'

The Public Accounts Committee in its 105th Report (10th Lok Sabha) on the above subject has expressed their dissatisfaction over the state of affairs in various Ministries/ Departments in regard to the submission of ATNs both in respect of PAC Reports/C&AG's Reports to the Lok Sabha Secretariat/ Monitoring Cell. The necessary extracts on which action is required to be taken by the Ministries/Departments are enclosed for early submission of ATNs.

The Committee have pointed out that they select about 30–35 paras every years for detailed examination but all the paras cannot be examined by them. Consequently, in subsequent years these paras assume the position of non-selected paragraphs and qualify for reporting of remedial/corrective action, as per the existing directions of the Committee. The Committee desires that ATNs on such un-examined paragraphs should also be furnished to the Monitoring Cell. The action may be taken accordingly.

The Committee also desires that ATNs in respect of PAC Reports as well as C&AG's Reports should be furnished in the format as per Annexure I and II to this O.M.

An uptodate list of pending audit paras alongwith the ATNs may be furnished to the Monitoring Cell by 31 October, 1995 positively in order to enable the Monitoring Cell to compile and forward the same to the Lok Sabha Secretariat within the specified time limit.

Sd/-
(H.N. NAYER)
Joint Controller General of Accounts

The Financial Advisers of all the Ministries/ Departments

Copy forwarded for information and necessary action to all the Ministries/ Departments of Government of India.

Copy also forwarded to Shri P. Sreedharan, Under Secretary (PAC), Lok Sabha secretariat, Parliament House Annexe, New Delhi-1 with the request to forward five printed copies of the Report.

Sd/-
(H.N. NAYER)
Joint Controller General of Accounts

19

Copy of Smt. A. Basu Director General (Audit) Letter in respect of procedure / 209-99 (KW) dated 18 June, 2002 addressed to Functional wings in Headquarters and field offices.

Sub: Making Cabinet Notes and other confidential records as key documents to Audit Paras and their production before Parliamentary Committees.

Sir/Madam,

A reference is invited to the provisions contained in Section 18 of the C&AG's (DPC) Act, 1971 according to which the Comptroller & Auditor General is entitled to have access to all relevant documents and information which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend. By virtue of these provisions, documents which are classified as 'secret' or 'top secret' including Cabinet notes, are examined in Audit and are utilized as key documents for the audit observations that are included in the Audit Reports. Once included, these documents come under the scrutiny of Parliamentary Committees, such as the Public Accounts Committee and the Committee on Public Undertakings when the Audit Paras are selected for examination by them.

Recently, the Government of India have informed this office that the Government is entitled to claim privilege from production of Cabinet notes and other connected records before Parliamentary Committees in the public interest, and have requested that these documents may not be produced before the PAC/COPU by Audit.

The matter has been considered and it has been decided as follows:-

(a) In cases where a Ministry or Department of the Government of India proposes to withhold any document relating to any matter included in a draft para proposed to be included in the Audit Report from any of the Parliamentary Committees, the Ministry/ Department concerned will bring this fact to the notice of the ADAI/ DAI demi-officially at the time of furnishing comments to the draft para.

(b) The requests of the Ministry/ Department will be considered by the concerned ADAI/ DAI at Headquarters while finalizing the Audit Reports and while dealing with the follow up action during the deliberations of the matter by PAC/ COPU. In case, the Parliamentary Committees request submission by Audit, of copies of these supporting documents in respect of which privilege is proposed to be claimed, Audit will inform the Committee concerned of the Government's intention to claim privilege from production of the said documents and that Government may, therefore, be approached for the production of the documents in question without the intervention of Audit.

These instructions may be followed in respect of Audit Reports finalized in future.

Yours faithfully,
Sd/-(A.BASU)
Director General (Audit)

20

EXTRACTS FROM CHAPTER VIII OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE'S FOURTH REPORT (THIRD LOK SABHA) AS REPRODUCED IN HISTORY OF INDIAN AUDIT AND ACCOUNTS DEPARTMENT BY SHRI. M.S. RAMAYYAR

The Committee understands 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 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. It is also an accepted convention for the Auditor General in U.K. to call for any document relating to transactions to which his duties in respect of Audit extend. The position in this regard has been very clearly Stated by Durell in his "The Principles and Practices of the System of Control over Parliamentary Grants" in the following words:"

He (the Comptroller and Auditor General) alone is competent to say what information is necessary for the discharge of his statutory functions, and if required for audit purposes it cannot be withheld…He is bound to afford to Parliament the fullest and best information in his power with regard to expenditure; but Parliament would not require to be furnished with information which it would not be in the public interests to make public. In the exercise of this, as in that of many others of his functions, the decision must be left to his discretion."

In USA, the Budget and Accounting Act specifically provides for the production of all records which the Comptroller General requires for the purpose of audit. On a complaint made by the Comptroller and Auditor General in UK in 1917 the Treasury agreed with the Public Accounts Committee in sharing the hope that the documents necessary to enable the Comptroller and Auditor General to AuditNavy Accounts would in future be supplied to him with the least possible delay. The Committee understands that even in the worst days of the Second World War, no restrictions were placed on the Comptroller and Auditor General in U.K. and USA in the matter of calling for such papers and files as they considered necessary.

GLOSSARY OF ABBREVIATIONS

ATN	ActionTaken Note
AYUSH	AyurvedaYoga and Naturopathy, Unani, Siddha and Homeopathy
CGA	Controller General of Accounts
COPU	Committee on Public Undertakings
CPCB	Central Pollution Control Board
DDO	Drawing and Disbursing Officer
DP	Draft Paragraph
FR	Fiscal Responsibility
GDP	Gross Domestic Product
GIC	General Insurance Company
HOD	Head of Department
IR	Inspection Report
KD	Key Document
LBA	Local Bodies Audit
LIC	Life Insurance Corporation
MIP	Memorandum of Important Points
MLA	Member of Legislative Assembly
MLC	Member of Legislative Council
MODVAT	Modified Value Added Tax
NCAER	National Council of Applied Economic Research
NE	North East
P&T	Post & Telecommunications
PW	Public Works
PWD	Public Works Department
PHED	Public Health Engineering Department
RBI	Reserve Bank of India
SGSY	Swarn Jayanti Gram Swarojgar Yojna
SHO	Station House Officer
SRA	State Receipt Audit
TA	Travelling Allowance
TFC	Twelfth Finance Commission
UK	United Kingdom
USA	United State of America
VAT	Value Added Tax.

6

Audit of Receipts

Audit of receipts (Direct Taxes, and Indirect Taxes) was entrusted to the C&AG, on consent basis, by the Government even prior to the enactment of C&AG's (DPC) Act, 1971. The audit of Central Excise was taken up in 1959. Even though 'a memorandum of understanding of the audit of Income Tax Receipts and Refunds' was agreed to in March 1960 by the then C&AG, A.K. Chanda, and Secretary to Government of India, A.K. Roy, regular audit of Income Tax receipts and refunds commenced from 1 April 1961[1]. With the enactment of C&AG's (DPC) Act, 1971 however, specific provision exists in Section 16 thereof for C&AG to audit all receipts. Thus, the statutory duty of C&AG to audit all receipts of the Governments of the Centre as well as States and Union Territories, and his power therefor are now fully formalized, and established.

The history of auditing receipts by C&AG has been a long and interesting one. In many respects, audit of receipts or revenue Audit, as it was known previously, presents a fascinating Chapter in the history of the development of SAI India's auditing system. For long, audit was mostly concerned with Government expenditure only, albeit the audit of customs receipts and departmental receipts like Public Works and Forests was in vogue even from earlier years, much before Independence. Customs audit was entrusted to Auditor General in 1913. With the passing of Government of India Act, 1919 the duties and powers of Auditor General were prescribed in the Statutory Rules under the Act known as the Auditor General's Rules, 1926. Under this (Rule 12), audit of the Customs revenue was entrusted to the Auditor General, which was adopted in the Government of India (Audit and Accounts) Order, 1936 promulgated under the Government of India Act, 1935. The Audit of receipts of Public Works and Forests was initially conducted by the respective

Departments themselves, but subsequently it was carried out by the Auditor General as part of his audit of these two departments, as is the position today.

Article 151 of the Constitution requires C&AG to audit the 'accounts' of the Union and the States. The expression 'accounts' naturally incorporates not only expenditure but also receipts. Dr. Gauri Shankar, who is often referred to as the architect of the revenue audit in the IA & AD, writing about the genesis of present Revenue Audit System, confirms[2] that during the time of Shri Mavalankar, the first Speaker of Lok Sabha, a resolution was passed in the Speakers' Conference requesting the Auditor General to take up the audit of receipts in a comprehensive manner and report the results of such audit to Parliament separately. The Central PAC also endorsed this recommendation. Despite these strong recommendations, the first C&AG, Narahari Rao, could not take up the audit of revenue receipts because in his view 'the department did not have the necessary expertise to audit revenue'. He felt it would take some time to acquire necessary skills for conducting revenue audit. The Speakers' Conference and the PAC, of course, took note of it even as PAC was of the view that Auditor General was bound by the Constitutional mandate to audit the receipts of the Union in terms of Article 151 of the Constitution. A.K. Chanda who succeeded Narahari Rao made sincere efforts to organize Revenue Audit Branch, but it was during the time of A.K. Roy, who succeeded Chanda, that a separate Revenue Audit setup was created in the office of the C&AG to be fully manned by Audit personnel except for Gauri Shankar who was seconded from the Income Tax Department.

The bold initiative of A.K. Roy to have a separate Revenue Audit setup manned by the Audit personnel (barring, of course, the sole exception of Gauri Shankar) rather than by officers taken on deputation from the Revenue Department, has been lauded as a reflection of Roy's confidence in the Departmental officers' capabilities[3] which was the result of his insight of the intricacies of such an audit, having been earlier, Member, Central Board of Revenue and subsequently Chairman of the Board and eventually Revenue Secretary. The department could not have had a better person than him to organize revenue audit. His approach in building up this wing of Audit consisted of three elements: (1) the expertise needed for auditing revenue receipts could be built "inhouse" by special training inputs and skill development, (2) he started initially with "pilot audits" whose reports were vetted at the Headquarters, and (3) he borrowed the services of a competent and experienced officer of the Indian Revenue Service whose abilities he knew having seen him during his tenure in the Board of Revenue. The officer concerned (Gauri Shankar) was eventually inducted into the IA&AS with appropriate seniority.

Gauri Shankar took the help of a couple of dedicated and competent officers of the IA&AD to devise a Manual on the audit of revenue receipts. Initially, the Inspection Reports on the audit of Income Tax were received in Headquarters and after vetting, they were issued to the concerned Income Tax Office(s). The auditing technique adopted was itself unique. Audit would take up the Income Tax assessment files and carry out a de-novo assessment exercise to test whether the assessing officer had correctly assessed the tax due. Initially, a small percentage of completed assessments were examined to see whether 'any leakage of revenue arising from negligence, collusion, mis-application and non-application of law relating to revenues'[4] was involved. Audit will base its case on the legal framework, by pointing out the legal deficiencies and infirmities in the assessment. These legal defects related to 'settled question of law by Supreme Court or High Courts'[5]. An interesting case, quoted in this context related to audit examination of the exemption given by an executive notification to interest earned on Government Securities held by rulers of the princely states, which was objected on the ground that the relevant exemption was no more valid after the enactment of new Constitution. The draft Audit Para was sent to the Central Board of Revenue where the Chairman asked for the opinion of Law Ministry who confirmed the view of the audit. The revenue implication for this objection was Rs. 500 to Rs. 600 crore, a significant amount those days. This paragraph boosted the image of revenue audit.

It is remarkable that the Audit Department took up full-fledged audit of receipts in 1959 (for Central Excise) and 1961 (for Direct Taxes) whereas customs audit was being done by the C&AG from earlier times. The significance of these dates will be apparent from the fact that it was only in 1959 in 3rd Congress of INTOSAI at Rio de Janeiro that a mention of the subject of receipt audit was made for the first time. At that time, Receipt Audit 'partook of the nature of audit of expenditure in approach, detail and presentation'[6]. Further, 15 years later, INTOSAI in its 8th Congress, (Madrid, 1974) proclaimed 'that receipt audit should cover assessment and not only collection, legality and not only regularity and demand access of audit to all fiscal documents including individual tax files'.[7] As R.S. Gupta says 'it is much more than a mere coincidence that the great Indian experience in designing and working a most comprehensive audit of receipts fell between these two dates—rather years ahead of 1974 declaration of INTOSAI'.[8]

It would be pertinent here to say that revenue audit was not merely a unique exercise in building an expertise in an entirely new field of audit, which had no precedent; at another level, the Audit Department faced even more difficult problems. This was the problem of 'Audit vs. Administration' which was one of the familiar local audit problems in the initial days. The hostility to the revenue audit by Income Tax, Central Excise and Customs Departments was perhaps understandable.First, the assessing officer surely would have felt that an outsider and a 'novice' had come to question his assessment, which was a quasi-judicial function. The second reason perhaps was that the PAC, which was taking keen interest in the Revenue Audit Reports, made the department to explain hard for their lapses pointed out in audit. The assessing officers thought that they were in real danger career-wise due to the strictures from PAC.

The next C&AG S. Ranganathan, the seasoned administrator that he was, made sincere attempts to get the administration rid of these feelings, when addressing the Commissioners of Income Tax in 1969, he said that audit should be held as an ally of the administration and not a 'sterile and carpic critic' and went on to say that a defect in the assessment pointed out by audit, should not necessarily result, on that account, the officer being considered incompetent or corrupt. The revenue department had to view the officer's performance in its totality. He conveyed these remarks to the top management and said that rather than go after leather hunting, it was more important to make improvements in the quality of assessment and collection of taxes[9].

Beginning in 1961, in such circumstances, Direct Taxes Audit made smooth and quick progress. This was the branch of audit where audit systems and procedures were meticulously manualised. Then there was always a centralized experienced command at Headquarters, as far as technical guidance was concerned. The skill development was a key factor. And soon the stamp of audit efficiency on Income Tax, other Direct Taxes and Customs and Central Excise was clearly visible. Even as both Chanda and Roy pleaded for a strong Internal Audit for Income Tax and Central Excise and Customs Department, and the assessment cases to audit were given after the Internal Audit had vetted them, several deficiencies in application of law and assessment were still detected by Audit. This speaks of the high level of knowledge and auditing skill of the Audit Department that even from such a highly filtered sample of tax assessments, they could find out mistakes in assessment of significant financial implications.

The Receipt Audit Wing came to be known as one of the most well-organized wings of Headquarters. This is due to several reasons, the most important of which is the fact that Revenue Audit is basically concerned with Tax Laws, Rules and Regulations and the Case Laws decided by the High Courts/ Supreme Court. Thus, the information base for Audit is precisely defined. With regard to availability of records (a perennial problem in many offices), an added advantage in Receipt Audit is that Audit gets all the records and documents concerning an assessee in a single file.

DEVELOPMENTS IN TAX AUDIT SYSTEMS AND PROCEDURES

The Revenue Audit Manual drafted under the leadership of Gauri Shankar in early sixties remains the main source book of Revenue Audit. There have been, as is often the case, additions to the material to cope with either new kinds of taxes or meet some new developments. But overall, the principles and procedures laid down in the original Manual retain their validity. That is a tribute to the meticulous planning for the Manual and its details shown by the original author(s). A third edition of the Manual was brought out in 1990. As Audit is always evolving with changes and developments in law, rules etc., so the Audit of Receipts also underwent this evolution.

It has always been said of Income Tax audit that 'general is more important than the particular', enforcing the view that it is the systems approach that counts in Income Tax audit. And yet, the methodology of conducting a check of the individual assessments to ascertain the 'general' position, forms an important part of the audit process. As R.S. Gupta, a veteran of Income Tax Audit states 'Since all individual assessments to tax under a tax law are controlled by the same legal provisions of substance and procedure, an error of interpretation or procedure is likely to have implications of a much wider nature than just an under-assessment in a particular case… The approach of receipt audit was, ... to use individual cases as a starting point of enquiry into the working of tax laws, rules and procedures in relation to whole segment of tax administration'[10].

Audit Methodology in Tax Audit used by India is unique in many ways and has now been adopted by many countries including Canada. Some others find it hard to adopt for lack of adequate

'Mandate'. The Receipt Audit Manual of IA&AD has been suitably adopted by several South East Asian countries.

SYSTEM APPRAISALS IN AUDIT OF DIRECT TAXES

Way back in 1977, LIMA declaration of Guidelines on Auditing Receipts, brought out by the INTOSAI, emphasized that Tax audits should cover not only testing the legality and regularity but also examining the organizational efficiency of tax collection with a view to suggesting improvements in the legislation and in its enforcement.

Similarly, Bali Seminar of ASOSAI in 1988 examined the subject, and recognizing the socio-economic implications of Taxation, recommended that 'To evaluate the effectiveness of Tax measures, the audit may include review of the systems used in Government for monitoring and evaluating the realization of such goals. Further, the impact of Tax rebates and concessions should also be examined in the audit'.

As part of performance audit system that was developing in SAI India from mid 1960s, system appraisals in Direct Taxes started appearing in the Audit Report on Revenue Receipts from 1973–74 onwards. Such reviews/ system appraisals have featured every year in the Receipt Audit Reports except for the years 1979–80 and 1980–81.

Topics for reviews/ system appraisals are selected in consultation with the direct taxes wings of the field offices. Generally, interesting topics, which have greater impact on the revenue receipts, are selected. In system appraisals, implementing mechanism of the Income Tax Department is also reviewed.

After a topic for review is finalized, selected field offices conduct pilot studies. On the basis of these pilot studies and feedback received from the selected field offices, guidelines, containing detailed audit checks and checklists for conducting the review and collection of related data, are issued by the Headquarters office to the field offices. Before 1990s, guidelines were issued directly by the Headquarters office without any pilot study by the field offices but in the early 1990s, pilot study system was introduced. Zonal workshops are held for review parties including concerned group officers to discuss threadbare the problems/ bottlenecks and audit strategies. Field offices finalize the draft review keeping in view the guidelines and discussions held during workshops and send it to Headquarters office. Headquarters office, after going through the review material received from the field offices, prepares the review report, which finally appears in Audit Report after its approval by the Comptroller and Auditor General.

C&AG's reviews and appraisals on direct taxes have been highly commended by PAC, and others. These are also extensively covered by Media. There are several instances when, based on these reviews, Govt. has introduced changes in the Law, Rules, Procedures etc.

PERFORMANCE AUDIT GUIDELINES AND RECEIPT AUDIT

Applicability of Performance Auditing Guidelines to the realm of Receipt Audit was discussed following C&AG's remarks on the Action Plan of RA-INDT section for 2005–06 where he minuted that 'Director General (Performance Audit) may be consulted on the two reviews for March 2006'. The discussion was in the context of the fact that tax audits are primarily legality and regularity audits as emphasized in Lima Declaration of Guidelines on auditing receipts. At the same time, receipt audit, as already pointed out, also examines the system and efficiency of tax collection machinery. Looking at these facts, the C&AG had remarked that while compliance audit should not be diluted, Performance Audit guidelines should be followed to the extent possible. Additional Dy. C&AG (RA), in the context of above orders of the C&AG, amplified in a note to him that in line with these directions, receipt audit would keep in mind the methodology and basic features enumerated in Performance Auditing Guidelines like strategic planning, selection of topics for review, documentation, entry and exit conferences, defining of audit objectives, audit findings, audit conclusions and audit suggestions etc. These features are now part of Performance Audit of Receipts.

RECENT DEVELOPMENTS IN DIRECT TAXES

Audit Planning – Risk Based Approach: A major change that has taken place during the last few years is that in Revenue Audit also, like in other audits, much greater emphasis is being placed on Risk Based Audit Planning. This is in line with the objectives of the Perspective Plan 2003–2008 of the Audit Department, which emphasizes improving the quality and impact of audit by adopting best international practices. Moving towards a risk based approach to audit namely, using risk analysis and statistical samplings in local audit was in line with the above goal. With a view to further refining Audit methodology in Direct Taxes and for better results, the Headquarters asked the field offices in August 2003 to create an independent database of high risk assesses from various sources as detailed in the annexure to Headquarters letter. This database was to be used for selection of cases for local audit and these were to be audited 100 percent and were to be updated every year. Subsequently, Headquarters issued detailed guidelines on risk analysis and statistical sampling in local audit of Direct Taxes on 1 July 2004. It was emphasized in the preamble to these guidelines that while 100 per cent scrutiny of assessments which are already being selected in audit will be continued, emphasis would be on streamlining the selection of cases/ units and assessments completed in summary manner. This method of selection of units and assessment records based on risk analysis and statistical sampling and audit checks were to be adopted by field offices for the Audit Plan of 2006–07. This document now sets about at one place the basis for audit planning in Direct Taxes Audit. Towards this objective, statistical sampling techniques have been redefined in an attempt to capture the high-risk areas of Direct Tax auditing. The objectives of new Audit Plan framed on this basis are: (i) to select the auditee units and thereafter assessment records in the selected units in a scientific manner during local audit of Direct Taxes, (ii) to derive an assurance that the audit findings are correct with a certain level of confidence, and (iii) to attempt an extrapolation of results from such sample audit to the total population (assessments) and make a comment on the 'performance'.

The system of risk analysis and statistical sampling in Local Audit was applied for the first time from 1 July 2004 by audit offices in four Metro cities (Mumbai, Delhi, Chennai and Kolkata) and by other offices from 1 October 2004.

These instructions are in line with the current best practices of the Audit Department to carry out the audit on the basis of the perceived risk profile of the entities. The document, therefore, has categorized the units on the basis of inherent risk factors and control risk factors as High (H), Medium (M) and Low (L) risk areas. Accordingly, weights have been attached to each parameter. The periodicity of audit of a particular unit will be decided on the basis of this categorization. The application of the risk analysis will be both for planning of the audit units and subsequently for selection of assessment records. For both of these, detailed instructions are contained in this document. This new approach and its implementation is reviewed every year in a workshop where the experience of field officers in implementing the Risk Based Audit is discussed and based on the shared inputs, improvements/

modifications are carried out in the document detailing Risk Based Audit approach and guidelines. For the Audit Plan 2006–07 therefore, a revised set of guidelines was issued. The instructions also emphasized on the creation of an independent data bank of assessments cases, assesses and other issues pertaining to audit jurisdiction of each field office involving all 'high risk' assesses. The updation of this data is to be done each year during the conduct of audit of a unit.

It would be relevant to mention here that use of statistical sampling techniques was debated and discussed in the XVIII conference of the Accountants General held in January 1991 and thereafter in May 1991 the C&AG emphasized the need for introduction of random sampling method in selection of assessment cases for audit after some pilot audits in a few wards to consider the viability of such a procedure. The Audit Department introduced a Statistical Random Sampling Method (SRSM) for selection of cases for audit. Detailed stepwise instructions on to how to go about this was mentioned in the circular of May 1991. The circular also suggested that the officers and staff should be familiarized with the system and it was also suggested that the new method should be closely observed for three months in implementation and thereafter evaluation of the effectiveness and viability of the new procedure should be carried out in the Headquarters. This would indicate that Audit Department was conscious of the use of statistical random sampling method from 1991 itself; but what has been introduced from 2004 is a fairly comprehensive and integrated technique of risk analysis and statistical sampling for audit planning and assessment of cases. Another advantage now is that the sampling model is prepared by Direct Taxes Wing in consultation with the in-house specialist who is an officer of Indian Statistical Service.

Computerization and IT Audit: Direct Taxes Wing has been making efforts to increasingly use more and more computer applications and IT based techniques for its internal working as also in the field audit of the auditee units; for example, in the risk based audit plan, a good deal of work is done through computers like selection of units, etc. In its internal working, the wing has been successful in 'Work flow Automation' as far as audit report work is concerned. All the draft paragraphs along with key documents are uploaded from field offices online and they are dealt with in Headquarters through 'omnidocs'. After the receipt of material in computer by the data entry operator from the field, the same passes through various levels upto ADAI (RA) for examination and approval of PD (DT)/ ADAI (RA) in a completely paperless environment online system. The printout is obtained only for the approved draft paragraphs for issue to the Ministry.

IT Audit made its foray in the real sense in Receipt Audit for the first time in 2005 when it carried out performance audit of Assessment and Information System, which was included in Direct Taxes Report of C&AG of 2006. The review was carried out using CoBiT framework of the IT Governance Institute which was adopted by the C&AG of India Even before this, in the year 2000 when C&AG conducted a review of Voluntary Disclosure of Income Scheme, 1997. The audit methodology adopted required preparation of specially designed input sheets containing about 100 fields which was used by field audit staff to collect information, and additional information was extracted from the folders of the declarants on to notepads for eventual computerization. Thus, extensive use of computers was made for scanning 12 lakh input sheets to convert the information into a database for analysis through the computer. Today, Direct Taxes (Receipt Audit wing) is fully geared to conduct IT audits concerning direct taxes assessments as well as their schemes.

AUDIT REPORT (RECEIPTS)

Subsequent to the introduction of regular audit of Income Tax in 1960–61, the first Report on Revenue Receipts was brought out in Chapter-VII of Union Government Audit Report (Civil), 1962. The Chapter covered audit comments on Customs Audit, Central Excise Audit and Income Tax Audit. This first Report on Revenue Receipts dealt with subjects like significant variations between budget estimates and actuals in Income Tax, cases of income escaping assessments, cases containing mistakes in assessing total income due to negligence, arrears of tax, demands etc. The entire Report covering audit comments on Income Tax, Central Excise, Customs duties receipts consisted of 22 pages only. From 1963, however, the C&AG introduced a separate Audit Report on the Revenue Receipts where one Chapter (Chapter IV) was devoted to Direct Taxes. From 1971–72, separate Audit Reports on Direct Taxes were presented. The Report on Direct Taxes was bifurcated into two volumes from 1999–2000. The present format[11] of the audit report on direct taxes volume-I (other than Performance Audit) has the following chapters:

(i) Chapter-I includes information on the arrangements for auditof direct taxes and mentions the result thereof;

(ii) Chapter-II incorporates important statistical information on the tax administration;

(iii) Chapter-III mentions issues arising out of the test check of assessments of corporation tax;

(iv) Chapter-IV deals with results of test check of income tax assessment;

(v) Chapter-V highlights the results of test check of other Direct Taxes viz. wealth tax, gift tax, interest tax and expenditure tax assessments.

The change brought about in the Audit Report from the year 1993–94, when a new Chapter-II on Tax Administration was introduced, will rank as a very important induction from many angles. This Chapter captures important data on the various aspects of the working of Income Tax Department including tax recovery machinery, refunds etc. The wealth of data given in this Chapter has proved, in the eyes of experts, a real boon to the cause of better tax management because of their acceptability by Tax Department and their willingness to act on them. In this, no doubt, the guidance of PAC works as a great catalyst because eventually it is the keen and close questioning of PAC that brings out the best answers to the various issues thrown up by Audit Report.

From materiality angle, there has always been a floor level money value, which a Draft Para has to satisfy for being considered as a Para for eventual inclusion in the C&AG's Audit Report. The floor level of these money values has kept changing (rising) with the passage of time. For the Audit Report 2005–06, this was as given below for different taxes and for Metros and Non-Metros.

Area	Corporate Tax	Income Tax	Other Director Taxes
Metros	Rs. 10 lakh	Rs. 5 lakh	Rs. 50,000
Non-Metros	Rs. 5 lakh	Rs. 2 lakh	Rs. 30,000

Metros include: Mumbai, Delhi, Chennai, Kolkata and for special reasons Ahmedabad also.

QUALITY OF MANPOWER AND TRAINING ASPECTS

High quality and expertise of the staff working in the Income Tax Receipt Audit (ITRA) have always been recognized within as well as outside the Department, including by the PAC and the Income Tax fraternity. The CBDT gave recognition to this in the early nineties by including the SOG (RA) Examination as a qualification for acting as 'Authorized Representatives' before Income Tax Officials in assessment proceedings, etc., under the Income Tax Rules, as is applicable for lawyers, chartered accountants and former income tax officials etc. Apart from granting due recognition to the quality and standard of the Departmental Examination held by the C&AG, this decision opened up an opportunity for the retired officials of the IA&AD, with adequate experience and qualification, to seek a second career after leaving the department. It would also act as an incentive for the ambitious officials of appropriate seniority to acquire the Receipt Audit qualification and expertise through self-development.

However, with significant and far-reaching developments taking place in the field of taxation policy, it is imperative that audit upgrades its technical expertise and auditing skills consistently. The Bali declaration of ASOSAI had strongly stressed the need for specialized training to Tax Auditors when it said 'Tax Audit is a specialization which requires thorough knowledge of the relevant Laws and Regulations. SAIs should provide intensive and frequent training for tax auditors taking advantage of the training facilities available in their local tax department's training institutions as well as those with other SAIs'[12]. The key to the strong foundation for Direct Tax audit was the rigorous training inputs and hands on practice given to selected staff at the base level (Section Officers and Audit Officers) in the late fifties and early sixties. There is some vacuum of expertise being felt now at that level. Interaction with the Senior Officers in the department indicated that their perception was that manpower quality was a worrying factor. In that context, training becomes a key input in the RA Wing. While there has been no drastic structural reforms in the training system, the wing is trying to meet the challenge by intensifying its existing training systems, which is done at 3 levels—an inhouse training programme conducted in each AG office, training programmes at RTIs and finally training programmes for IA&AS Officers at National Academy of Direct Taxes at Nagpur (in line with ASOSAI recommendations quoted above).

Besides, every year zonal workshops (2 or 3) on important topics are organized. These workshops mostly have a vertically integrated participation of officers from AAOs upwards to Accountants General level. These workshops are more "audit report oriented". Other than these, short workshops of the duration of a day or two are organized on specific and relevant topics of importance by the Headquarters where mostly outside experts act as faculty. A third development towards the improvement of manpower quality was revamping of SOGE Revenue Audit Examination system in 2006 on the basis of the recommendations of a committee set up for the purpose. The new syllabus emphasizes objective type questions to test the practical knowledge of the candidates on the taxation matters.

ROLE AND IMPACT OF C&AG'S RECEIPT AUDIT IN THE EYES OF EXPERT COMMITTEES

The subject of role and impact of receipt audit has been discussed in two important committees that were set up by the Government of India on the tax reforms. The first one called Tax Reforms Committee chaired by Professor Raja J Chelliah (popularly called Chelliah Committee Report) extensively discussed the role and impact of C&AG's audit of Income Tax and Central Excise. The Committee acknowledged that receipt audit by C&AG 'had played important role in ensuring accountability and helping the Tax Department identify lapses and mistakes which could be rectified as well as avoided in the future'. The report specifically paid compliments to the C&AG's audit personnel who do 'painstaking work towards the fulfillment of the responsibilities placed on the shoulders of the C&AG by the Constitution'.

Having said that the Committee proceeded to review what it called some problems and consequences 'which in fact tend to militate against the long term growth of the economy and the growth of revenue itself as well as impose hardship on the assessee'. Some of the more important aspects rather complaints examined by the Committee related to audit raising too many objections with several of them not of very significant revenue implications. Many of these eventually get dropped from the audit reports or not accepted by the Board. This results in adverse implications for the assessee. Audit contests the Board's interpretation of the law; audit places excessive emphasis on the revenue aspect in individual cases rather than emphasizing on the adequacy of laws, rules, systems and procedure; audit pays little attention to cases of over pitched assessments and finally in the context of Central Excise, the report pointed out another complaint namely, audit parties often visit factories not only to check documents but also to verify stocks etc. which is in the nature of investigation work. The Committee was especially concerned about visit of audit parties to factories of small-scale producers. The Committee while recognizing the important role of external audit, stressed that difference of opinion between the department and audit should not result in an audit phobia developing in tax collecting mechanism, which often resulted in high-pitched assessments in favour of revenue. However, the Committee did not give any recommendation on the plea of department that audit should not visit the Central Excise units for checking of the records.

The other important report that has come out recently (2002) is the report of Task Force on Direct-Indirect Taxes whose Chairman was Dr. Vijay L Kelkar. The Committee also discussed audit related issues concerning mostly Indirect Taxes. The two main recommendations made by the Committee concerning Indirect Taxes (Custom and Central Excise) were that there should be instructions by the CBEC to the effect that where an audit objection runs counter to its own instructions/ circulars no protective duty demand need be issued. This should however be complimented by evolving a mechanism to settle the objection with the C&AG at the earliest. The Committee also recommended exchange of officers on deputation between the two departments.

Kelkar Committee also raised the issue of visit of C&AG's staff to Central Excise assessee units i.e. the manufacturing premises. The Committee was of the view that since Central Excise Officers, as part of their duty visit the manufacturing units for internal audit purposes, there was no need for a repeat visit for the same job by the C&AG's officers. In Committee's view, this upsets the work programme of taxpayers and reportedly, 'it is also undesirable as it increases interface and give rise to unhealthy practices'. The Committee's interpretation was that C&AG is not authorized to visit the taxpayers both on the customs as well as Income Tax side. Hence, the Committee recommended that Rule 22 (3) of the Central Excise Rules 2002 may be amended to exclude reference to audit party deputed by the Comptroller and Auditor General of India.

Under the current provision of Central Excise Rules, Central Excise audit parties are allowed access to the records of excise duties paid on manufactured items and since these records are maintained in the premises of the manufacturing units of the auditee, it follows that the access to the audit party is available at these manufacturing units. This provision was necessitated when, in the late nineteen sixties, system of self-removal procedure was introduced. As brought out earlier, this question was debated and discussed in the Raja Chelliah Committee Report also and significantly, the Committee did not make any recommendation about Audit Parties visiting or not visiting the Auditee Units. When the matter again surfaced in 2002, courtesy Kelkar Task Force, the C&AG took up this matter strongly in November 2002 with the then Finance Minister asking him not to accept such a recommendation. Subsequently, he also wrote to C.S. Rao, Revenue Secretary on the subject pointing out the serious adverse implication of this recommendation.

AUDIT FOCUS IN DIRECT TAXES FROM 2000 ONWARDS

The focus areas in the audit of direct taxes gets influenced naturally according to the changes in the Act, Rules and procedures. Both transaction audit themes and audit appraisals and reviews are influenced by these changes. The materiality as well as impact on the revenues is a guiding factor and the selection is now based on risk perception of the auditee. The major developments in taxation have also shaped the current Audit focus, which is now attempting to carry out audit of certain new taxes for the first time. These future audits would include:

- Fringe Benefit Tax introduced in the Budget 2004/2005
- Securities Transaction Tax, 2005
- International taxation

Globalization and policies like allowing FDI in certain areas of economic activity in varying percentages and opening hitherto banned sectors to Foreign Companies, have brought up new challenges for Tax Department and in turn for Audit too. The new issues that will concern Income Tax audit in this context relate mostly to the International Taxation area and therefore special attention and special training programmes for these audits needs no emphasis. The department has already moved in this regard and is currently engaged in developing a new system design to audit these taxes. A feedback on the exposure draft on such auditing is being taken from the field offices. Currently, IA&AD is looking at issues of Transfer Pricing. It is still at a nebulous stage.

First set of assessment is yet to be done in respect of the two new issues viz. Fringe Benefit Tax introduced in the Budget 2004/2005 and Securities Transaction Tax, 2005.

A review of the focus areas of audit during the past 5–6 years has thrown up following system reviews as far as Direct Taxes is concerned:

1. Areas with high risks:
   - ❖ Assessment of private schools, colleges and coaching centers,
     (Audit Report No. 13 of 2004)
   - ❖ Assessment of Sports associations/institutions and sports personalities
     (Audit Report No. 8 of 2007)
2. Growth sectors in the economy
   - ❖ Review on audit of assessments in select sectors: companies in cement, automobiles and Textiles sectors,
     (Audit Report No. 12A of 2002)
   - ❖ Review on assessment of selected companies in the selected sectors of computer software, automobiles and ancillaries, steel and trading
     (Audit Report No. 8 of 2007)
3. Exemptions/ deductions
   - ❖ Review on efficiency and effectiveness of administration and implementation of selected deductions and allowances under the Income Tax Act
     (Audit Report No. 13 of 2005)
   - ❖ Expenditure on eligible projects or schemes- Section 35AC of the Income Tax Act, 1961
     (Audit Report No. 12A of 2002)
4. Specific schemes
   - ❖ Operation of the scheme of taxation of companies under special provisions of the Income Tax Act
     (Audit Report No. 13 of 2004)
   - ❖ Status of improvement of efficiency through the Restructuring of the Income Tax Department
     (Audit Report No. 13 of 2005)
   - ❖ Efficiency of summary assessment scheme and process of selection of cases for scrutiny.
     (Audit Report No. 7 of 2006)
   - ❖ Review on effectiveness of search and seizure operations
     (Audit Report No. 7 of 2006)

INDIRECT TAXES

Customs Audit: Customs Audit unlike other branches of Receipt Audit i.e. Direct Taxes and Central Excise, as already detailed, has a long history. This was one of the audits, which was entrusted to Audit Department from 1 May 1924. However, in its modern version, Customs audit came along with audit of other individual taxes from the year 1959. The audit findings on Customs receipts were contained in a separate volume of C&AG's Audit Report on 'Indirect Taxes – Customs' upto the year ending March 2004. Audit Reports on Customs, Central Excise and Service Tax have been clubbed into one volume for Transaction audit findings and another volume for Performance Audit from the Audit Report, 2006. Hence, the nomenclature of the report for the year ending 31 March 2005 changed to Union Government (Indirect Taxes—Customs, Central Excise and Service Tax) (Transaction Audit) and Union Government (Indirect Taxes—Customs, Central Excise and Service Tax) (Performance Audit).

Customs receipts have been a major source of revenue in the Indirect Taxes but after the economic liberalization of 1991 and the consequent rationalization of custom tariff, the peak customs duty has gradually come down which has impacted the growth of customs receipts. However, it still remains a formidable source of income and is likely to have a better share in the overall resources because of the current economic boom where imports are growing fast.

The Customs audit techniques are the same as have been discussed in the paragraphs above—it is assessment based for transaction audit purposes and performance based for systems reviews. The system reviews of Customs (as also of Central Excise Audit) have been highly rated for their deep analysis and have helped the administration in course correction and tax policy as would be reflected in the section devoted to Audit Report findings in this Chapter.

Significant Developments in Customs Audit: In the year 1992, the monetary value of draft audit paragraphs to be proposed for Audit Report (Custom Receipts) was fixed at Rs.50,000. However, in the year 1998–99 this limit was raised to Rs.1 lakh and for the Audit Report for the year 2006–07 this was further enhanced to Rs.5 lakh.

Technical Inspection of Customs Audit Field Offices was introduced in the year 1999–98. This inspection is done by the Customs Audit Team of the Headquarters and is different from the inspection done by the Director of Inspection from the Headquarters. Generally, every year, two field offices are inspected.

In the field of audit reporting some important developments were:

❖ An analytical para depicting excess/ short-fall of actual customs receipts vis-à-vis budget estimate on a 4-year timeframe was introduced in Chapter I of the Audit Report for the year 1999–2000 for the first time.

- Individual cases where recoveries had already been made at the instance of audit were incorporated in the Total Under Assessment (TUA) para in the Audit Report for the year 1999–2000 for the first time. It is a standing practice now.
- Online audit through the CR Audit Module (NIC) was introduced at CRA, Chennai in the year 2002–03. The NIC Module was developed for internal use of customs department which was not suitable for C&AG's audit process. Hence, CRA Chennai, developed its own module to query the history database provided by the department, periodically. This module was extended to all major field offices with a proper server-client architecture. A training course was also conducted at RTI Chennai on the use of the software module.
- From the year 2003–04 a para on functioning of Internal Audit in the customs department was introduced in the Audit Report (Customs). Like other functional departments of C&AG, in Customs audit also, a system of measurement of effectiveness of audit (matrix) was introduced in the year 2003–04 to adjudge the contribution of the field audit offices in terms of the money value of the paragraphs.
- From the year 2004–05 a system of 'Entry Conference' and 'Exit Conference' between the representatives from the Ministry and Audit was introduced in the case of performance audit in terms of performance audit guidelines applicable to all the functional groups.
- In a case of participatory audit, the Audit Department carried out a review on non-realization of Foreign Exchange (for the Audit Report 2000–01) with active cooperation from the RBI and authorized dealers.
- The powers of the AO/ Sr.AO, Group Officers and AG/ PD for dropping the objections was revised in the year 2002–03 as under:

Sr AO/ AO	Upto Rs.10, 000
Group Officer	Rs.10, 000 to 50,000
AG/ PD	Full powers

- The Perspective Plan of IA&AD for 2003–08 as adopted by the Accountants General Conference held in 2003 and as approved by the C&AG is currently under implementation in the Customs Audit Wing. The system of preparing self-learning packages on various topics for receipt audit was introduced in the year 2003–04.

Central Excise Audit: Audit of Central Excise duties started on entrustment basis in the year 1959–60. A separate report of C&AG on Central Excise Audit was introduced from the year 1971–72. It contained two chapters and 52 paragraphs, of which 37 were effective paragraphs- 21 on Central Excise and 16 on Customs. The first review on Central Excise revenue appeared in 1976–77 on 'Iron and Steel and products thereof'. The Audit Reports on the Indirect Taxes were produced in two volumes in 1995–96—one on the Central Excise and the other one on Customs. The Audit Report on Customs was later merged with Audit Report on Central Excise in 2006 as already stated.

Prior to 1997–98, the monetary limit of draft audit paragraphs proposed for inclusion in the Audit Report (Central Excise) was Rs.2 lakh. However, in the case of 5 major field audit offices located at Mumbai, Calcutta, Hyderabad, Ahmedabad and Lucknow, it was fixed at Rs.5 lakh. This limit was raised to Rs.10 lakh from Audit Report 1997–98 onwards. In the case of Service Tax, the money value for draft audit paragraphs was fixed at Rs.5 lakh from Audit Report 2000–01 onwards.

Central Excise Audit Offices, like Customs Audit Offices also undergo technical inspection. There is a system of selection of units for audit on the basis of computerized audit plan and statistical sampling in the audit plan was introduced from 2005–06. The Plan has provision for implementing statistical sampling in non-computerized assesse units. The draft paragraphs to the Headquarters are dispatched online from October 2005. In terms of the Perspective Plan, various offices are completing the specific projects or goals like creating electronic data base, revision of audit manual (revised manual issued to all offices).

Visit of Audit Officers to Assesse Premises for Checking the Records: Rule 173 (G) (6) of the Central Excise Rules 1944 provides that every assesse shall, on demand make available to the central excise officer or the audit party deputed by the Commissioner or Comptroller and Auditor General of India, records including the Cost Audit Reports, IT Audit Reports and other records for audit purpose. However, new Central Excise Rules notification of 1 March 2001 effective from 1 July 2001 had no provision to enable audit parties of C&AG to carry out the checks of assessee records in their premises.

The new Rule 21 had provided access to these premises only to officer empowered by the Commissioner, which meant his own staff. The then Dy. C&AG took up the matter strongly with the Secretary Revenue, Ministry of Finance in April 2001 reasoning with him that it was necessary for audit parties to carry out a sample check of accounting and other records of manufactures mostly to obtain assurance regarding adequacy and operation of controls in the central excise revenue collection system. He, therefore, requested the Secretary to get suitable provisions incorporated in the new Central Excise Rules.

The Ministry of Finance responded by issuing notification in June 2001 where it duly incorporated the above provision in Section 22(3) of the Central Excise Rules for making relevant records available to audit parties by the assessee.

In earlier part of this chapter, where the Reports of two expert committees have been discussed, we have discussed this subject as reflected in their Reports. It would be relevant to mention, however, that in 2006, the Government of India have authorized the C&AG audit parties to carry out a check of the assessee records relating to service tax also. This practically amounts to the same kind of powers to audit in relation to checking of records as are available to them under Rule 22(3) of the Central Excise Rules, in relation to audit of Central Excise.

SETTLEMENT OF AUDIT OBJECTIONS

Though there was a system of periodic meetings on this subject between Commissionerates and the C&AG's field offices dealing with the Central Excise audit, over the past few years these were not being held regularly. The Central Board of Excise and Customs issued fresh directions in August 2006, conveying the following decisions:

- The jurisdictional Dy. Commissioner Incharge of Central Excise/ Service Tax division may have a meeting with Senior AO/AO of the Local Accountants General immediately after audit by CERA party is over—this probably was more in the nature of the exit meeting on the conclusion of audit.
- Monthly meetings were to be held between the Joint/Additional Commissioners audit with Senior DAG/DAG of the local AG office. This meeting was to take place at the stage of Statement of Facts which is a prelude stage to the draft paragraph.

- The Commissioners of Central Excise or Service Tax would review the outcome of the above meetings and should also hold quarterly meetings with local Accountants General/ Pr. Directors of Audit with a view to settle the issues before these are converted into draft audit paragraphs/ audit paragraphs.
- Finally, the zonal Chief Commissioners of Central Excise were to take meetings with the local AG or Pr. Directors of Audit twice a year to review the foregoing arrangements and the results therefrom.

The detailed orders on such meetings were contained in CBEC letter of 4 November 1996. It is obvious that the interactive process between the Central Excise and the Audit had been formalized for quite sometime but reiteration of the instructions in 2006 have been timely and effective.

A new activity in this interactive process is the monitoring of the recovery of dues which have been adjudged as payable to the Government with regard to the cases or paragraphs that appear in the C&AG's Audit Reports. This monitoring mechanism started from the Audit Reports of 2006. The results of recovery were to be furnished to the Accountants General or Principal Directors for every quarter by the 15 of the each following quarter.

A consolidated Report on All India basis for each quarter was also to be furnished to Principal Director (Indirect Taxes) of the office of C&AG. These Reports are compiled separately for Customs, Central Excise and Service Tax. These instructions were also applicable from the Audit Reports of 2006 onwards. For earlier Audit Reports on Indirect Taxes, the instructions reiterated that action was to be taken in accordance with the law and without delaying and let up but these old recoveries were not to be included in the quarterly Reports mentioned above.

The C&AG on the basis of these instructions of the CBEC addressed all the field offices dealing with the audit of Indirect Taxes in October 2007 on the above lines including frequency of such meetings. In particular, it emphasized on the exit meeting of the CERA party incharge with the jurisdictional Assistant or Dy. Commissioner concerned; Group officer incharge of CERA to have monthly meeting with Dy. Commissioner Central Excise and discuss cases given in the Statement of Facts and Accountants General/ Principal Directors to review the results of above meetings and quarterly meeting with local Commissioners of Central Excise as also with Chief Commissioners. All these meetings were also to take stock of the monitoring of the quarterly meetings on recovery of central excise duty and service tax on the basis of audit paragraphs.

The procedure outlined above would apply *mutatis mutandi* to customs audits also.

AUDIT REPORTS ON NON-TAX REVENUE

An important development was the presentation of a separate audit report on non-tax receipts of the Union Government titled 'Union Government (Non-tax Receipts) No.9 of 2006' which was placed in Parliament on 15 December 2006. This was the first ever-exclusive report for non-tax receipts. The audit report was brought out at the initiative of C&AG V.N. Kaul.

As non tax revenues have historically been inelastic and exhibit very low levels of buoyancy, widespread reform measures in the form of improving the mechanisms for administration, implementation and recovery of user charges and tariffs of various services provided by the government are required to be put in place to increase collections. Owing to the growing share of the non tax receipts in the total revenues of the Union Government, it was decided to compile a separate audit report.

The report has six Chapters including the introductory chapter which provides a trend analysis of non tax receipts accruing to the Union Government. The other chapters dealt with Receipts of the Department of Telecommunications, an appraisal of the system of levy and collection of fees by the Registrar of Companies, a study of some aspects of receipts at Badarpur Thermal Power Station which was set up by the Ministry of Power in 1967 and till recently managed by the NTPC, until its formal transfer of ownership to the latter. One chapter was devoted exclusively to the receipts of the Department of Space and another to the major receipts from the Department of Atomic Energy. The emphasis in the report, in the words of C&AG was towards assessing the efficacy and effectiveness of the systems in place for maximizing revenue collection and the adequacy of internal controls in the departments.

An interesting aspect of this report is that this report was prepared in a very short period by a small team of 3 officers at Headquarters led by PD (DT). It is creditable that this report, the first of its kind, brought out the revenue potential available in areas other than direct and indirect taxes. The report is also noteworthy for the fact that extensive use of IT skills was made specially in the case of auditing of Registrar of Companies where analysis of computerized data was done using Computer Aided Audit Techniques (CAATs) and Interactive Data Extraction and Analysis (IDEA 2001).

STATE RECEIPTS

The issue of audit of Sales Tax Receipts was taken up by the C&AG with the State Governments and the Government of India in regard to Union Territories in early 1961. The State Governments issued orders entrusting the audit of Sales Tax Receipts and refunds to the C&AG between 1961 and 1968. The MP Government issued orders for audit of Excise Receipts and refunds (June 1964), UP, Union Territory of Goa, Daman and Diu (1960). In the year 1971, Audit of Mining Receipts (Bihar), Motor Vehicle Tax Receipts (Orissa), Tamil Nadu and Mysore, Agricultural Income Tax Receipt (Orissa) were entrusted. Entertainment Tax in Mysore, Electricity duty in Orissa were entrusted from April 1967. These were also entrusted by Tamil Nadu (September 1968), Mysore (April 1967), UP (1966). Since then, State Receipts Audit has made significant progress in all directions.

Audit Reports

At the beginning of 1990, separate Audit Report on State Receipts was being brought out by Accountants General in Andhra Pradesh, Kerala, Punjab, Haryana, Bihar, Tamil Nadu, Rajasthan, Orissa, Gujarat, Madhya Pradesh, Himachal Pradesh, West Bengal, Assam, Maharashtra, Uttar Pradesh and Karnataka and in 12 States viz. Goa, Pondicherry, Tripura, Nagaland, Sikkim, Arunachal Pradesh, Jammu and Kashmir, Mizoram, Meghalaya, UT Chandigarh, Dadra and Nagar Haveli, Andaman and Nicobar Islands, Minicoy and Lakshadweep Islands and Daman and Diu, Delhi and Manipur in a chapter on the Civil Audit Report. As of March 2007 three more States Chhattisgarh, Jharkhand and Delhi are having separate Audit Reports totaling 19 and in 12 States with one UT Chandigarh, the results of Audit of Receipts form a chapter in the Civil Audit Report.

Sales tax used to constitute the most important tax source of receipts for majority of the States, till replaced by Value Added Tax recently. In Audit also, sales tax audit paragraphs dominated the State Audit Reports on receipts. Some of the important developments that took place in the sales tax audit during the years 1990–05 are enumerated below:

- In 1998, C&AG fixed the following floor ceilings for audit of Sales Tax Assessments. Assessments below the limits prescribed shall not be audited without Headquarters approval.

States	Gross Turnover below which no audit to be done	Gross turnover above which all cases to be audited by Senior most members of party
Group A Andhra Pradesh, Karnataka, Gujarat, Maharashtra, Tamil Nadu, West Bengal & UP	Rs. 75 lakh	Rs. 5 crore
Group B Bihar, Haryana, MP, Rajasthan, Punjab & Delhi	Rs. 50 lakh	Rs. 2.50 crore
Group C Assam, HP, Orissa, Goa, Pondicherry, J&K, all NE States, Kerala and Union Territories.	Rs. 10 lakh	Rs. 50 lakh

❖ The minimum monetary value of Draft Paragraphs for inclusion in the Audit Reports (Receipts) was Rs.20,000 till Audit Reports 1990–91. From 1990–91 onwards, the minimum value was raised to Rs. 30,000 for each paragraph for some large States. The limit however, did not cover cases involving mis-appropriation, fraud or violation of statutory provisions etc. ADAI (RA) prescribes the minimum monetary value of draft paras every year for each State. For Audit Report 2006–07, the minimum monetary value of draft paragraphs was Rs. 5 lakh for large States and Rs. 2 lakh for other States.

State Excise constitutes the next big revenue earner in most of the States.

The instructions prior to 1996 were that, in cases where recovery of money covered by an Audit para has been effected and no system failure was involved, the paragraph may not be included in the Audit Report. In 1996, instructions were revised stating that such paragraphs having money value of Rs.1 lakh and above for large States and Rs. 75,000 for other States may be included in the Audit Reports as individual paragraphs.

In January 1997, Headquarters issued detailed instructions to the Accountants General on Receipt Audit Reports. One of the important requirements conveyed was that Receipt Audit Reports of State Governments must include, as far as practicable, Audit paragraphs relating to all types of receipts raised by State, which will make the reports truly representative of the entire spectrum of revenue activities of the State, instead of merely being a compendium of isolated objections.

In June 2003, the format of Chapter-1 of the Audit Reports on Revenue Receipts was revised, effective from Audit Reports for the year 2002–03 onwards. The new format contains highly useful trend analyses of revenue receipts, which give time series analysis of 5 years' revenue realizations. This analysis is to be done separately for tax revenue and non-tax revenue. Another paragraph would analyze and comment on follow up measures taken by the Government on commitments made in the Finance Minister's Budget Speech, MOU with Government of India, Mid-term fiscal plan, Finance Commission's observations etc. Some of the illustrative items listed in the relevant instructions referred to critical fiscal and economic issues pertaining to the States, measures for rationalization of tax structures, appraisals of resource mobilization efforts etc.

A separate section was to be devoted for analysis of budget preparation. The analysis was to be based on study of the government files. Another section was devoted to the variation between budget estimates and actuals. As mentioned above, a time series analysis of GSDP and receipts for a five-year span would also be included in the Reports, in a tabulated form which will cover percentage growth of GSDP, percentage growth of tax and non tax receipts, buoyancy in receipts in percentage terms and receipts as percentage of GSDP. Analysis of collection and cost of collection was also to be done carefully. Similarly, collection of sales tax per assessee was to be provided to indicate the efficiency of the tax collection. An intelligent analysis of arrears of revenue was also required, as also arrears in assessments. A separate section on evasion of tax, write off, waiver and refunds was to be made. There was also a section where failure of senior officers to enforce accountability and protect the interest of the Government was to be recorded. Details of Departmental Audit Committee meetings and response of Departments to draft audit paragraphs was also to be included in separate paragraphs as also follow up on Audit Reports.

In August 2003, in an important decision, C&AG desired that all cases of audit observations accepted by State Government should be tabulated in the relevant chapters of the State Revenue Receipts Report in the same manner as is done in the case of C&AG's Audit Report on Union Government Direct Taxes. C&AG also prescribed a matrix containing weight for different parameters under different groups to assess audit effectiveness of Receipt Audit Reports. This matrix is to be sent along with bond copy of the Audit Report by the concerned AG.

In line with C&AG's observations, instructions were issued in August 2003 for evaluation of the Internal Audit Systems in the revenue administration of State Governments, beginning with the Receipt Audit Report 2002–03. Internal Audit System of Sales Tax was selected for evaluation, initially.

BIENNIAL AUDIT PLAN

From the year 2003–04, a revised format of biennial audit plan was prescribed. This was more or less corresponding to the structure of Audit Report described above. The biennial audit plan had many interesting sections namely critical issues in Government Revenues and tax administration and also statistical information on revenue receipts, etc.

AUDIT REVIEW COMMITTEE FOR COMPREHENSIVE APPRAISAL OF STATE RECEIPTS

In February 2005, in an important decision, the C&AG of India approved constitution of a State Level Committee for the State Revenue Reports, to be called Audit Review Committee, for comprehensive appraisal of State Receipts. This Committee will primarily devote itself to discuss issues relating to comprehensive audit appraisals or reviews of any tax or non-tax revenue of the State Government. The idea was that such appraisals contain a number of instances of control failures, etc. and therefore it was important that these were discussed with the Government before inclusion in the Audit Report. The mechanism evolved in this case is similar to the one obtaining on the State Commercial side. The Committee members are the AG who undertook the concerned appraisal as Chairman, another AG of a neighbouring State holding charge of Receipt Audit as an expert member, and Government to be represented by the Secretary of the respective Department, with the Group Officer incharge of State Receipts as member secretary. There was a provision for a Headquarters nominee also attending meeting if the concerned ADAI so desired. The procedure for Committee meetings were also detailed—it will go into merits and de-merits of the points of audit findings and evidence (key documents) which are the basis of audit opinion may be produced before the Committee by both the sides. In the case of dis-agreement by Government, a written reply should be given by them which shall be considered for incorporation in the final appraisal after due verification, as is the present practice.

Feed back received suggests that the system is proving effective in promoting meaningful interaction between audit and administration leading to firm audit conclusions.

The State Revenue Audit Wing was following 'Style Guide' to ensure uniformity of the drafting/ reporting style of Audit Reports.

FOLLOW UP ACTION

The C&AG desired in 1991 that a uniform practice be followed by all states regarding follow up action on Audit Reports and directed all Accountants General that States PAC Secretariats may be requested to follow the provisions applicable to the Central Audit Reports, as regards vetting of Action Taken Notes by Audit.

IMPORTANT AUDIT PARAS AND REVIEWS ON RECEIPT AUDIT

(A) DIRECT TAXES

C&AG's reviews and appraisals on direct taxes have been highly commended by the various stakeholders. Some of the important audit appraisals and reviews that appeared in Audit Reports during the period 1990–2006 are the following:

(i) Mistakes in assessments completed under Summary Assessment Scheme (1990–91), (ii) Computerization in the Income Tax Department (1991–92), (iii) Functioning of Investigation circles (1992–93), (iv) Administration of Tax Deduction Account Number (1993–94), (v) Interest, penalties and prosecutions (1993–94), (vi) Summary Assessment Scheme and Accounts under section 44 AB of the Income Tax Act, 1961 (1995–96), (vii) Deductions in respect of profits and gains from newly established industrial undertakings after a certain date (1996–97), (viii) Export incentives and deductions in respect of profits retained for export business (1997–98), (ix) Tax deduction at source under Section 194 C and 194 E of IT Act (1997–98), (x) Assessment of search cases made on or after 1 July 1995 under Income Tax Act, 1961 (Block Assessment) (1998–99), (xi) Voluntary Disclosure of Income Scheme, 1997 (1998–99), (xii) Kar Vivad Samadhan Scheme, 1998 (1999–2000), (xiii) Private Banking Companies and Non Banking Financial Companies (2000–01), (xiv) Private Hospitals and Nursing Homes (2000–01), (xv) Implementation of selected judgments of Supreme Court (2001–02), (xvi) Assessment of companies in the select sectors of Pharmaceuticals, Food Processing, Paints & Varnish and Cigarettes

(2001–02), (xvii) Assessment of business of civil construction (2002–03), Assessment of private schools, colleges & Coaching centers (2002–03), (xviii) Some aspects of non resident taxation with reference to Double Taxation Avoidance Agreements (2003–04), (xix) Status and adequacy of follow up action in selected post-VDIS assessments (2003–04), (xx) Efficiency of summary assessment scheme and process of selection of cases for scrutiny (2004–05), (xxi) Effectiveness of Search and Seizure operations (2004–05).

Functioning of Investigation Circles (Paragraph 2.1 Report No. 5 Of 1994): A review was carried out in audit and report brought out in 1994 in C&AG's Audit Report on Revenue Receipts—Direct Taxes to evaluate the post-search and seizure performance of the Department, specially investigation circles and analyze the efficacy of the existing system. The report acknowledges a number of constraints faced by audit including extreme reluctance by the Department to part with the relevant records specially appraisal reports. Resultantly, a large number of appraisal reports were not produced to audit. The rules provide that prosecution would be launched for certain defaults like willful attempt to evade tax, false statement in verification etc. Audit gathered that out of the 6,462 cases that were scrutinized by the investigation circles, prosecution proceedings were initiated in just 173 cases during the period 1988–89 to 1992–93. Apparent conclusion therefore was that department could not establish any tax evasion in majority of cases.

Audit discovered that in 3,712 cases (which was 35.88 per cent of 10,348 cases i.e. the number of cases where final assessments were completed), no concealed income was detected or established.

The regular assessments were unduly delayed although, Action Plan was proposed for each financial year. Apparently, the objective of quick follow up action was not achieved after the search and seizure operation. The regular assessment scrutiny revealed wide variations in the income estimated in orders passed under section 132(5) that is the appraisal report prepared after the search and seizure and income finally settled. The differences were staggering as indicated by data below:

Rs.13.54 crore determined initially in regular assessment was reduced to 93.02 lakh and against the tax of Rs.2.82 crore, the final determination of tax was only Rs.42 lakh. More importantly, the quality of assessments in investigation circles was also poor going by the decisions of Appellate authorities.

Similar reviews were printed subsequently in Report No.12 of 2000 (Paragraph 3.1) and Report No.7 of 2006 (Chapter II).

Review on Summary Assessment Scheme[13]: Summary Assessment Scheme was introduced first time in 1970 to be effective from 1 April 1971 and inserted as Section 143(1) of the Income Tax Act, 1961. Since then, the scheme has undergone a number of changes and some of the provisions originally contained under section 143(1) have been amended. Audit had conducted a review of Summary Assessment Scheme in 1987–88 where its major conclusions were that:

- Expectations of the scheme had not been fully realized;
- Frequent dilution of the scheme by raising income/ loss limit and reduction in tax rates had not promoted greater voluntary compliance by the tax payers;
- Contrary to Board's claim that the scheme had not been abused, audit found substantial tax evasion by the assesses due to loopholes in the scheme; and
- Finally, the assessment, monitoring and control machinery had not proved effective.

PAC discussed this report and made recommendations on the Audit Report in their 173 Report. The Committee, inter-alia, made a strong criticism of the Ministry's instructions issued in August 1987 'for stoppage of all action on audit findings in summary assessment cases'. It also called for a relook into the effectiveness of the scheme preferably by reputed experts and not by the concerned Ministry/ CBDT. It also recommended that uniform set of instructions on the scheme be issued at the commencement of every assessment year and also no changes be made thereafter to these instructions. Audit had reviewed the scheme on two more occasions after 1987–88. First in 1991 Report, Audit reviewed Action Plan of the department for the year 1988–89 and subsequently in Audit Report 1997 C&AG again reviewed summary assessment scheme. The gist of both these reviews was that despite the Board's instructions to reduce pendency of assessments, the overall pendency of assessments continued to remain very high.

In the backdrop of the above developments, the review in C&AG's Report of 2006 was conducted. The thrust areas of Audit examination were:

- ❖ Position of pendency/ efficiency of disposal
- ❖ Ambiguity and inconsistency in initiating remedial action on audit observations especially where assessment was completed after prima facie adjustments were done away with, with effect from 1 June 1999
- ❖ Extent of mistakes/wrong availment of exemptions, concessions, reliefs in summary assessments
- ❖ Effectiveness of internal audit in audit of completed summary assessments
- ❖ Adequacy of follow up action on the recommendations of PAC on earlier audit findings
- ❖ The rationale and methodology of selection of cases for scrutiny in the period covered under the review

In Summary, audit examination was on rationale, scope and actual implementation of summary assessment scheme and an evaluation of its implications on revenues. Alongwith this, Audit also attempted to examine the methodology of selection of cases for scrutiny. Broadly, audit findings were as below:

(i) The disposal of summary cases as a percentage of disposable cases of the department was 90.69 per cent, 71.88 per cent and 77.16 per cent during the years 2002–03, 2003–04 and 2004–05 respectively. The corresponding percentages of disposal of scrutiny cases was 43.51 per cent, 52.41 per cent and 51.83 per cent respectively for these years.

(ii) Audit test check revealed various types of mistakes as a result of which the assesses availed non-entitled benefits involving a revenue of Rs.390.51 crore (in a sample check of 64,755 summary assessment cases for the period 2002–03 to 2004–05). The department accepted audit observations in 210 cases, which had a tax effect of Rs.69.62 crore but did not accept audit view on 627 cases with a revenue effect of Rs.135.11 crore on the usual ground that assessments had been completed in summary manner.

(iii) The Board has not prescribed any time schedule either for initiating proposals for selection of cases for scrutiny or for issue of instructions to field formations in this regard. A large number of non-corporate assessees were out of purview of random selection for scrutiny for the years 2002–03 and 2003–04. Even though the Finance Minister in his Budget Speech for the year 2003–04 had promised immediate abolition of existing discretion based system of selection of returns for scrutiny to be replaced by a computer generated intelligent random selection (only 2 per cent of the returns for annual scrutiny), several categories of cases were still being selected manually even in 2004–05. Moreover, the number of returns selected for scrutiny was less than even 2 per cent of the total assessments in 2003–04 as well as 2004–05. Overall, number of assessments completed after scrutiny assessed as a percentage of total assessments due was less than 1 per cent in all the years under review.

Audit gave its recommendations on the basis of their study (and this is one of the features of the present performance audit system of the C&AG). Some of these were:

(i) The summary assessment scheme should be got studied by an Expert Group with the objective of finding ways to reduce the quantum of revenue foregone as a result of assessee availing non-entitled benefits due to the scheme.

(ii) The Government should make a clear statement on its position with respect to powers of assessing officers and take remedial action in summary cases as a result of audit observations specially after 1 June 1999 when prima facie assessments were done away with by a suitable amendment to the law. However, the amendment did not clearly provide whether assessing officer could rectify mistake apparent from record under section 154 in summary assessment cases in the light of those circulars of 1999. The result is an ambiguity leading to inconsistency in the departmental action on the issue of initiating remedial action on audit observations relating to summary assessments specially those, which were completed after 1 June 1999. This needs to be remedied.

Audit also recommended that Government may review its chain system of internal control and make it more effective.

(B) INDIRECT TAXES

Gist of some important Audit Report Paragraphs and their impact on Customs Receipts is given below:

1997 Report on Customs Receipts: Had featured 2 systems appraisals viz. i) 100% Export Oriented Scheme and ii) Gem and Jewellery units under Export Processing Zones. The highlights of the reports were-

- ❖ Misuse of the scheme by the Gem and Jewellery units in Export Processing Zones resulted in loss of substantial revenue and non-fulfillment of stated objectives viz. boosting exports and improving foreign exchange earnings.
- ❖ Deficient internal control in tax administration of 100 per cent Export Oriented Units led to a loss of revenue of over Rs.549 crore.
- ❖ Audit detected a loss of revenue of Rs.114 crore due to various factors like incorrect classification, grant of inadmissible exemption, etc. in its test audit.

Audit Report of 1998 (for the Financial Year 1996–97): There was one review on Export Processing Zones (EPZ) and 184 paragraphs of non/ short levy of Customs duty amounting to Rs.4108 crore. Out of this, lax control mechanism in tax administration of EPZ scheme accounted for a loss of revenue (with interest) of Rs. 2943 crore.

C&AG's Report on Customs Duties for the Year Ending March 1999 (10 of 2000): It has a very interesting system appraisal on Export Promotion of Capital Goods scheme. The scheme administered by the Ministry of Commerce was meant to provide import of capital goods at concessional customs duty with an export obligation equal to three times the CIF value of imports to be achieved within four years from the date of import. The review revealed that the licensees could achieve only 77 per cent of the total export obligation. In the bargain, the Customs Duty concession of Rs.247 crore became infructuous. The Ministry of Commerce in an unusual move notified a blanket amnesty scheme to the defaulting firms by extending the period of export obligation to March 2001. This was against the opinion of Law Ministry and Finance Ministry had not issued any corresponding Customs notification. Resultantly, the defaulters were being penalized by way of recovery of duty and interest.

Report for Year Ending March 2000, (10 of 2001) and 11 of 2001 on Customs and Central Excise and Service Tax: In the review on 'Kar Vivad Samadhan Scheme' applicable to both Customs and Central Excise cases, Audit commented on the failure of the scheme to realize its objectives of decloging tax administration and raising revenue of some significance (on Customs duty); similarly, this scheme on the Central Excise side failed in its objective and benefited only undeserving cases. While the Government realized Rs.400 crore from the scheme, it lost Rs.624 crore which was forgone by way of abatement of 50 per cent of outstanding dues. For Customs part, realization was Rs. 124.89 crore and revenue forgone was Rs. 179.40 crore. The balance amount relates to Central Excise and Service Tax.

Audit noticed a number of irregularities in a scheme for levy of duty on the basis of production capacity on certain products of iron and steel and also in implementation of scheme leading to loss of revenue. Finance Minister while presenting 2000–01 Budget admitted that the scheme did not work and scrapped the scheme. The earlier system of levy of duty on Ad Valorem basis was restored. A similar para was printed in Audit Report 10 of 2002 in regard to processed fabrics and the scheme had to be denounced restoring Ad Valorem rates of duty.

Report on Customs Duty for the year ending March 2001 (10 of 2002): C&AG carried out a systems appraisal of Customs Departments' computerized System called Indian Customs Electronic Data Interchange System (ICES), which envisaged acceptance of customs documents and exchange of information with other agencies involved in international trade electronically. The salient points of this audit were that the project was far from completion even after 9 years and estimates were poorly formulated while the selection of VSAT technology proved imprudent. Audit also commented upon inadequate security policy as a result of which a fraudulent payment of drawback of Rs.1.95 crore in Delhi Customs House was noticed.

Audit Report for the year ending March 2002 (No. 10 of 2003): The Report contained 2 systems appraisals and 213 paragraphs involving non levy/ short levy of Customs Duty of Rs.4423.86 crore. The systems appraisal on 'Non disposal/ delay in disposal of seized, confiscated and detained goods' highlighted inter-alia loss of revenue of Rs.29.62 crore and blockage of revenue of Rs.773.95 crore and sale of arms/ ammunition to MPs/ VIPs at extremely low prices.

Audit Report for the year ending March 2004 (No. 10 of 2005): This report contains a review on working of Inland Container Depots (ICDs)/ Container Freight Stations (CFSs) – 71 ICDs/ CFSs were examined of which 43 were public and 28 private entities. The audit objectives in this study were to seek an assurance that (i) imported goods received at ICDs and export goods cleared/ dispatched therefrom had been properly accounted for; (ii) revenue due to the Government *viz.* duty on lost/ pilfered goods, unclaimed/ un-cleared goods and cost of customs staff posted at ICDs had been recovered in time; and (iii) there was no failure of systems/ procedure, lack of monitoring or leakage of Government revenues due to non-compliance of codal provisions prescribed for working of ICDs.

The audit findings in this case revealed that customs revenue of Rs.2400 crore remained unprotected against risk of loss, pilferage etc. due to non/deficient execution of bond/ bank guarantee by custodians (for import cargo storage), by carriers for trans shipment of export cargo, non-renewal of bank guarantee and insufficient insurance coverage.

Unclaimed/ uncleared/ confiscated goods worth Rs. 287.96 crore were lying undisposed.

Test check revealed absence of system of reconciliation of containers.

Recovery of duty of Rs.23.57 crore plus interest of Rs.3.14 crore on account of failure to re-export of 2404 containers that were imported without payment of duty was pending.

It was also noted that there was no mechanism to monitor the realization of foreign exchange and ensure the correctness of export incentives of Rs 681 crore paid on such exports. This was due to the fact that the Customs Department was not forwarding GR Forms to Reserve Bank of India.

The report has a system review on 'Recovery of arrears of revenue' where audit had analyzed this issue on the basis of a study of record of 36 Commissionerates for the three-year period 2000–2003 covering 8 States.

Broadly, the findings were:

The Rule Position: Section 12 of Customs Act, 1962 provides that except as otherwise provided in the Act or any law, customs duties are levied at such rates as may be specified. Normally, these duties are to be paid within 5 days. The Act also provides that customs duties that have either not been levied or paid or have been short levied or short paid may be demanded by issue of a notice. If the confirmed amount is not paid within 3 months and there is no stay from an appellate authority, recovery proceedings are initiated.

Audit observed that recovery proceedings had not been initiated by the department, despite no pending appeals in 1844 cases involving Rs. 127.79 crore. Thus, 69 per cent of pendency lay with the department. Although there were 7345 cases of defaulters, certificate action under section 142 (c) (i) and (ii) was initiated by the department in 932 and 2415 cases only involving Rs.70.06 crore and Rs.200.64 crore respectively. Against this, District Authorities could only recover Rs.0.71 crore and Rs.9.79 crore respectively. In 12 Commissionerates, no case was even referred to the District Collector. Delays in initiating action by the department were numerous and delays ranged between 1 to 15 years in certificate action and 3 to 10 years in intimation of action by the department to the district authorities. Department broadly agreed with the audit view and said that change in approach and strategy would address the shortcomings. In 835 cases involving Rs.307.40 crore, provisions of Attachment of Property Rules were not invoked.

Audit also detected pending unconfirmed demands involving duty of Rs. 2278.13 crore in 2 Commissionerates.

In general, audit conclusion was that failure of system and weak monitoring were the major causes for the arrears. Audit noticed inaction and delayed action under the provisions of the Act even as statutory framework provided for solutions. Similarly, tardy action to issue certificate, to recover personal penalties or attach property was evident. As a result, arrears doubled in the last two years.

CENTRAL EXCISE

Audit Report for the year ending 31 March 1996: The significant audit findings in the Report were:

- 46770 cases involving duty of Rs.12730.62 crore were pending finalization with different authorities at the close of financial year 1995–96. Rs.2709 crore were the short collection of duty on account of various factors like short levy/ non-levy of duty, inadmissible exemption, excess Modvat Credit and incorrect classification, etc. The report suggested the need for strengthening the controls in the Department.
- In an interesting case noted in audit, interest of Rs. 1630 crore was not demanded from an assessee while confirming demand of duty pertaining to the period 1983 to 1987.
- Rs. 100 crore were lost by Department due to fixation of lower tariff value of aerated water and inconsistent criteria in the classification of prickly heat powder by the CBEC.

Audit Report for the year ending 31 March 1997: This Report contained two Performance Audits viz. (i) Modvat Credit on Capital Goods, and (ii) on Soap and Detergents.

It had 374 paragraphs. The review on Modvat Credit on Capital Goods brought out incorrect availment of credit of Rs. 250 crore. The pendency of the cases was huge—50687 cases having a revenue implication of Rs. 56395 crore including 31157 cases involving Rs. 22600 crore.

Audit Report for the year ending 31 March 1998: In this Report on Central Excise Receipt for the same period, the aggregate financial implication was Rs. 22769 crore representing 221 paragraphs featured individually or grouped together and one review on "Delay in finalization and collection of demand". The system appraisal depicted a poor picture of the Department. For want of adequate action, it could not realize Rs. 5270 crore confirmed demands till March 1998 with interest of Rs. 2317.72 crore. There were instances of non-finalization of adjudication cases within 6 months, loss of revenue duty of Rs. 58 crore for not raising the demands in time, etc.

Audit Report on Central Excise and Service Tax for the year ending March 1999: The highlight of this Report was the appraisal of Service Tax. This appraisal is significant not only because it was first review on audit of Service Tax, which had completed four years since it was introduced, but in many ways, this review was very different from other reviews, which C&AG had conducted. Perhaps for the first time the C&AG ventured into a discussion of merits and de-merits of certain policy aspects like fixation of rate of tax, inadequate and staggered coverage of services and omissions in covering certain sectors, which audit thought, were more taxable. In that sense, this review marks a watershed in C&AG's Audit Reporting.

Audit pointed out that poor collection of Service Tax was due to inadequate coverage of services. On the basis of Audit recommendation, Government appointed a Committee and 10 more services were brought under the Service Tax net in 2002 Budget. The input services used in the output services were also brought into Service Tax net.

Audit Report for the year ending March 2003: This Report on Indirect Taxes pointed out department's failure to stop revenue leakage of Rs. 1328.18 crore on determination of assessable value under new section 4. Similarly, a review of Call book depicted poor performance of the Department in incorrect/ unauthorized transfer of cases to call book, cases kept pending for want of clarification from the Board, non-vacation of stay etc. that involved revenue of Rs.5712.21 crore. In an interesting case, the C&AG in the test check of records found that 10 assesses were allowed exemption on the pan masala containing tobacco which was in contravention of the notification (which allowed exemption only if pan masala did not contain tobacco) resulting in loss of revenue of Rs.81.78 crore. Similarly, the report pointed out two unauthorized exemptions not covered by exemption notification which resulted in loss of revenue of Rs. 54.34 crore.

This report also contains a para where audit was able to establish simultaneous availing of Cenvat/ Modvat credit on capital goods and depreciation under Income Tax Act by Numaligarh Refinery Limited. Audit contended that the availment of credit amounting to Rs.51.67 crore was incorrect because the company was paying minimum alternative tax (income tax) on the basis of book profit calculated after charging depreciation on capital goods and the fixed assets were exhibited at their cost inclusive of duty availed. The Ministry accepted the objection.

A similar para in this report concerning a car manufacturing company also pointed out Modvat credit of Rs.14.79 crore on capital goods whereas they had claimed a revenue expenditure of Rs.354.33 crore in their Profit and Loss Account for the year ended March 2000 and this included amount of Modvat credit taken on capital goods. Due to non disclosure of this fact, the audit contended that company was liable to pay Rs. 14.79 crore in addition to duty of Rs.14.79 crore and with interest of Rs.10.72 crore up to January 2003. The Ministry admitted this objection also and said that necessary action to recover the amounts including penalty had been taken.

(C) STATE RECEIPTS AUDIT
ACCOUNTANT GENERAL (AUDIT) PUNJAB

- For manufacturing spiced country liquor, the plain spirit is redistilled after adding flavours and spices. There was no provision in the State Excise Act, 1914 or the Rules made thereunder for allowing wastage of spirit that may occur in the process of redistillation. The loss of excise revenue due to wastage occurred in the process of redistillation and allowed by the department was pointed out by Audit. The Government amended Rule 101—A which before substitution provided wastage allowance for spirit, in storeroom (2 per cent) bottling operation (1.5 per cent) and bottled spirit room (1 per cent). The amended notification dated 26 June 1999 made provision for wastage in redistillation at the rate of one percent. Although in making these amendments no reference to audit observation was given, it was apparent that these were made as a result of audit objection.

(Paragraph 4.3 of Audit Report for the year ended March 1996)

- ❖ Audit had been objecting through local audit reports to non-levy of interest and penalty on delayed payment of installments of license fee. There was no provision for levy of interest and for penalty for late payment of installments of license fee for vends for sale of liquor in the Excise Act/ Rule/Policy. Government moved in the matter and in the Excise Policy for the year 2005–06 made a provision for the year 2005–06 onwards for levy of interest @ 1 per cent per month to be calculated on daily basis in addition to penalty not provided earlier.

- ❖ Audit had been pointing out through local audit reports about non-levy of stamp duty on agricultural land and rural residential property transferred to 'wife' by an owner. The Punjab Government remitted in December 2001 stamp duty in case of transfer of agricultural land and rural residential property in favour of son, mother, daughter, widow etc. but did not mention 'wife'. Audit impact is visible from the fact that Punjab has now included 'wife' with effect from December 2001 vide notification issued in November 2006.

PRINCIPAL ACCOUNTANT GENERAL (AUDIT I)
MAHARASHTRA, MUMBAI

- ❖ Review on Internal Control on claims relating to branch transfer of goods to and from the State of Maharashtra to other States brought out deficiencies in Sales Tax assessments viz:

  (i) Non accountal/short accountal of goods received from other States by branches/agents.
  (ii) Acceptance of claim relating to branch transfer in the absence of prescribed declaration form(s)/dispatch proof.
  (iii) Acceptance of invalid/incomplete declaration forms.
  (iv) Acceptance of photocopies of declaration forms.
  (v) Allowing interstate transactions as branch transfer (without tax).
  (vi) Allowing consignment sales to agents in other state though not registered in the other state under the Central Sales Tax (CST) Act.
  (vii) Admitting branch transfer claim even though the branch to which goods are transferred were not registered in the other State.

The above matter was discussed in PAC in August 2006. Accordingly, in view of the audit observations and recommendations of PAC, the provisions of Rule 9(b) of CST, Mumbai Rules 1957 were revised and circular issued by the Commissioner of Sales Tax on 10 November 2006 issuing specific instructions in respect of Branch Transfer Transactions.

(Paragraph 2.2 of Audit Report for the year ended 31 March 1999)

- Non-recovery of incentives from closed units—A test check in seven divisions revealed that out of 224 closed units, 190 eligible units which had availed incentives of Rs.74.30 crore were either closed, disposed off or had stopped manufacturing activities during the period from 1985 to 1987 which was within operative period of agreement. Even though the cumulative sales tax incentives of Rs. 74.30 crore availed by 190 units and the quantum of incentives by 34 units were forthwith recoverable with interest/ penalty, no effective and timely steps were taken to recover the amounts. There are two types of units, namely; (a) units availing sales tax incentives by way of exemption, and (b) units availing sales tax incentives by way of deferral. The units availing incentives by way of exemption are assessed to nil tax during currency of their eligibility and entitlement certificates and no tax demand is raised. Even if such unit closes before expiry of the operative period of the agreement, since there are no sales tax arrears assessed on such unit, the sales tax authorities cannot proceed to recover the incentives availed. It becomes incumbent for the implementing agency to take cognizance of the fact of closure of the unit before expiry of the operative period of the agreement and proceed to take consequential action such as cancellation of the eligibility certificate and recovery of the Sales Tax incentives as provided in the agreement, eligibility certificate and the scheme. In respect of (b) above, cancellation of eligibility certificate immediately after closure has to be done by the implementing agency before any action is initiated by the Sales Tax Department. The concerned implementing agencies were given information about the closure of the units. Principal AG also sent a copy of the draft review to Government of Maharashtra on 10 September 1998. The Government set up a High Power Committee under the chairmanship of Secretary (Industries) and Commissioner and Principal Secretary (Financial Reforms) as members in September 2003 to monitor the closed units and recover availed incentives from such units. (Paragraph 2.3.7 of Audit Report for the year ended March 1998).

NOTES: CHAPTER-6

[1] R.K. Chandrasekharan, op. cit. Vol.-II (page 639&640)

[2] Appendix LI to the Public Accounts Committee First Report 1951–52

[3] Dr. V. Gauri Shankar in his article on 'Revenue Audit- Some Reflections', Golden Jubilee Commemorative Volume' National Academy of Audit & Accounts, Shimla 1950–2000 has put it thus "He did not agree (very rightly as subsequent events showed) that it required special expertise which the Audit Department could not possess for auditing revenues"

[4] Dr. V. Gauri Shankar, 'Revenue Audit—Some Reflections', Golden Jubilee Commemorative Volume 1950–2000 National Academy of Audit & Accounts, Shimla

[5] Dr. V. Gauri Shankar, op. cit.

[6] Dr. R.S. Gupta: 'Development of Receipt Audit' "Golden Jubilee Commemorative Volume 1950–2000 National Academy of Audit & Accounts, Shimla

[7] ibid

[8] ibid

[9] R.K. Chandrasekharan, Op. Cit- Vol.-II (page 649)

[10] Dr. R.S. Gupta, op. cit.

[11] This Format is as per Audit Report for the year ending March 2005 which is titled as "The Report of the Comptroller and Auditor General of India, for the year ended March 2005—Union Government (Direct Taxes) No.8 of 2006.

[12] 'Bali Declaration' at 4th Assembly and 3rd International Seminar of ASOSAI June 6–11, 1988 Bali, Indonesia

[13] Report of the Comptroller and Auditor General of India, for the year ended March 2005—Performance Audit—Union Government (Direct Taxes) No. 7 of 2006

LIST OF KEY EVENTS

9 May 1991	Instructions issued regarding selection of cases for audit of direct taxes assessments using statistical random sampling.
1993–94	Commencing from 1993–94 Audit Report, a chapter on Tax Administration was included in Audit Report.
1997–98	Introduction of Technical inspection of Customs Audit field parties by a team from C&AG.
11 November 2002	C&AG wrote to Finance Minister asking him not to accept recommendation of Kelkar Task Force that audit parties should not visit premises of tax payers.
August 2003	C&AG desired that all audit observations accepted by State Government should be tabulated in the relevant chapters of the State Revenue Receipt Report.
August 2003	Field offices instructed to create database of high risk assesses.
2002–03	Online audit through the CR Audit Module (NIC) inaugurated at CRA Chennai.
1 July 2004	Headquarters issued detailed guidelines on risk analysis and statistical sampling.
February 2005	C&AG approved constitution of a state level Committee for the State Revenue Reports to discuss issues relating to comprehensive audit appraisals/ reviews.
October 2005	Online dispatch of Draft Paragraphs from field offices to Headquarters (Indirect Taxes Wing) commenced.
8 December 2006	Empowering CERA parties of C&AG to have access to the commercial records of the service Tax assesses through notification of 2 November 2006.
15 December 2006	The first ever-exclusive Audit Report on non tax receipts of the Union Government presented in Parliament.
October 2007	Instructions issued on periodic meetings of Audit with Central Excise and Customs authorities.

DOCUMENTS

1

No. 801/RA/INDT/CE/577-2004/ST/Tech
Dated 08.12.2006

To
All Pr. Accountants General/Accountants General/Pr. Directors
(Dealing with Central Excise and Service Tax)
As per mailing list

Sub: Notification No. 29/2006-Service Tax dated 2nd November 2006 empowering CERA parties of C&AG to have access to the commercial records of the Service Tax assesses

Sir/Madam
I am directed to enclose herewith a copy of Notification No. 29/2006-Service Tax dated 02.11.2006, wherein Rule 5 of Service Tax Rules, 1994, has been amended to the effect that every assessee shall make available, at the registered premises at all reasonable time, records as mentioned in sub-rule (3) of Rule 5, for inspection and examination by the Audit Party deputed by the C&AG of India for your information.

2. Upto the Budget 2006–07, ninety six services were covered under Service Tax net and there is possibility that in near future more services may be brought in Service tax net. Therefore, it is imperative that a comprehensive data base of registered assesses of Service Tax as per annexure "A" (copy enclosed) may be prepared Commissionerate wise and sent to Headquarters since this exercise is an essential pre requisite for selection of units for effective control of Audit including risk based audit approach.
3. Revenue on account of Service Tax which was around Rs. 23000 crore for the year 2005–06 and is expected to grow steadily and there may be need of additional manpower to conduct the audit of registered assesses of Service Tax. Therefore, it is requested that requisite manpower in addition to manpower already existing for Central Excise audit may be worked out as per annexure "B" (copy enclosed) and furnished for further scrutiny and examination at Headquarters.
4. All information should be sent in soft copies (CD/Floppy) also.

Yours faithfully
Sd/-
(C. Nedunchezhian)
Director (Customs and Central Excise)

Encl: As above.

2

DO No. 6(23)-B(R)/2006
February 12, 2007

Dear Shri Kaul,

Thank you for your letter No. 3/NTR/22-2006 dated December 29, 2006 enclosing the audit Report on Non-Tax Receipts of the Union Government (No. 9 of 2006) covering five Ministries/Departments.

2. This is indeed a welcome initiative. The coverage of the issues in the report and the respective recommendations highlighted the need for the concerned Ministries to put in place effective tracking and recovery mechanisms and gear up their reviews to maximize revenue non-tax collections and tighten their internal supervisory controls. Recognizing the importance of this contribution, a meeting of the concerned Financial Advisers was convened under the Chairmanship of the Finance Minister during the course of which the Financial Advisers were asked to take corrective action based on the recommendations contained in the Report.

Yours sincerely
Sd/-
(Ashok Jha)
Finance Secretary

Shri Vijayendra N. Kaul,
Comptroller and Auditor General of India,
10, Bahadur Shah Zafar Marg,
New Delhi

GLOSSARY OF ABBREVIATIONS

CBDT	Central Board of Direct Taxes
CERA	Central Excise Receipt Audit
CIF	Cost, Insurance and Freight
CoBiT	Control Objective for Information and Related Technology
EDI	Electronic Data Interchange
FDI	Foreign Direct Investment
GSDP	Gross State Domestic Product
ICD	Inland Container Depot
ITRA	Income Tax Receipt Audit
NBFC	Non Banking Financial Company
NIC	National Informatics Centre
NTPC	National Thermal Power Corporation
SOGE (RA)	Section Officer's Grade Examination (Revenue Audit)
SRMS	Statistical Random Sampling Method

7

Commercial Audit

The audit of Government Companies and Corporations, which were set up mostly after Independence, had raised a number of issues concerning the audit jurisdiction of the C&AG for these entities. Initially, when State owned companies were set up, C&AG's audit was provided in their Articles of Association. When the Government embarked on a massive industrialization drive by setting up Government owned enterprises in varied areas, in fulfillment of its role envisaged in Industrial Policy Resolution, 1948, it took recourse to two forms—a large number of state enterprises were set up as Private Limited Companies or as Statutory Corporations. The setting up of a number of companies in early fifties as Private Limited Company without any specific status was considered contrary to the Constitution by the first C&AG, V. Narahari Rao (1948–1954). In his famous deposition before the Public Accounts Committee in December 1952, Narhari Rao expressed the opinion that the 'Formation of Private Companies under the Indian Companies Act for the management of Government industrial undertakings from the Consolidated Fund was a fraud on the Companies Act and also on the Constitution, because money could not 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.'[1] After an acrimonious debate and fight with the Ministry of Finance but backed by the support of the Public Accounts Committee, the audit by C&AG of these Companies was provided when, in December 1953 Finance Minister informed the House (Lok Sabha) about Government's intention to bring before Parliament proposals for legislation which would cover Industrial Undertakings of Government and also to provide for audit of C&AG compulsory for them and presentation of his reports to Parliament in usual manner for scrutiny by the PAC. Eventually, when the Indian Companies Act, 1956 was promulgated, it contained provisions for the audit of Government Companies by the C&AG under Section 619. The provision for audit of deemed Government Companies was brought under a new Section 619 (B) by an amendment in 1974 on the suggestion of PAC.

Having secured the audit of Government Companies and Statutory Corporations, the biggest challenge was to create a team of professional auditors to carry out the duties of auditing them. R.K. Chandrasekharan[2] in his book has detailed the manner in which the commercial audit was built, brick by brick first by V. Narahari Rao (1948–1954) and later by A.K. Chanda (1954–1960) and subsequently during the tenure of A.K. Roy (1960–1966), Audit Report (Commercial) started coming out. A major expansion of the Commercial Audit Wing was done during the tenure of S. Ranganathan (1966–1972) when, on the basis of Administrative Reforms Commission's (ARC) recommendations, several new commercial audit offices were set up. These were called offices of Member, Audit Board and Director of Commercial Audit. The Audit Board mechanism was also introduced on the basis of ARC Report. An Audit Board was constituted only when a comprehensive appraisal of any PSU was undertaken to guide and supervise that appraisal. It consisted of 5 persons including the Chairman viz. Dy. Comptroller and Auditor General (Comml.)[3] who was common to all such Boards. Of the members, one was the concerned Director of Commercial Audit who was the Principal Audit Officer of the PSU concerned and one more Director of Commercial Audit was co-opted; besides, there were two technical experts nominated as members of the Audit Board by the Ministry/ Department relevant to the PSU concerned. The Audit Board mechanism, however, has undergone a comprehensive and qualitative change recently as discussed elsewhere in this Chapter. In effect, 9 new offices were created between 1970 and 1978. During the tenure of A. Baksi (1972–1978), 7 new offices of MAB and Director, Commercial Audit[4] were created. As on March 1991, there were 12 offices of Pr. Directors, Commercial Audit with 14 branch offices. In March 2005, there were 12 Pr. Director offices, 15 branch offices and 120 Resident Audit Offices (RAOs). RAOs are meant for specific Companies/ Corporations. These offices were engaged in the audit of 288 Central Government Companies, 89 deemed Government Companies and 6 Statutory Corporations. 5 General Insurance Companies were also in the audit jurisdiction of C&AG. The State Government undertakings, numbering about 1233 as on 31 March 2005[5], are audited by the concerned State Accountants General. The total staff strength in Commercial Audit in October 1990 was 2218 while in March 2005, it was 2094. The Commercial Audit Wing of C&AG is headed by DAI (Comml.)-cum-Chairman, Audit Board and is responsible for the audit of Central Government PSUs. He is, however, cadre controlling authority for commercial cadre of Central audit offices and State audit offices (Accountant General offices). The audit of State PSUs conducted by State Accountants General is overseen at Headquarters by an Addl. DAI. The appointment of statutory auditors, however, is processed in the DAI (Comml.) Wing for all the PSUs—Central as well as State.

Central Public Sector Undertakings (PSUs) in 2006 (31 March) numbered 404—consisting of Statutory Corporations (6), Government Companies (304) and Deemed Government Companies (94); the Government investment in Equity Capital in 277 PSUs (including six Central Statutory Corporations) for which data was available, was Rs. 1,21,006 crore[6]. As regards Return on Investment (ROI) or profitability, net profit of 175 Central Government Companies and Corporations was Rs. 79,427 crore. 69 per cent of this profit was contributed by 38 PSUs—these were mostly in Telecom, Petroleum, Power and Coal & Lignite Sectors. 94 PSUs suffered losses. Dividend paid to Government of India represented 14.33 per cent of total investment of Government in PSUs including Corporations.

CHANGES IN THE COMPANIES ACT

There have been, some changes in the Companies Act that are relevant to C&AG's audit of Government Companies. The one significant amendment made in the year 2000 to the Act related to the appointment of statutory auditors of Government Companies (Chartered Accountants) directly by the C&AG; earlier they were appointed by the Department of Company Affairs on the recommendations of C&AG. Notably, even when C&AG was recommending authority for the appointment of statutory auditors (Chartered Accountants), his advice was, by convention, always accepted.

Another important change was the insertion of a new section 210A in the Companies Act, vide amendment to Act in 1999, empowering Central Government to constitute National Advisory Committee on Accounting Standards (Committee) to advise the Central Government on formulation and laying down of Accounting Standards for adoption by companies. Section 210 A(2)(e) provides that this Committee shall have one representative of C&AG of India, amongst others. The Central Government have constituted the Committee accordingly, in which Director General (Comml.) is presently representing the Audit Department.

The Chartered Accountants Act 1949, was amended in 2006 to establish Quality Review Board (QRB) which shall have a Chairperson and ten other members, five members of the Board shall be nominated by the Central Council of Institute of Chartered Accountants of India (ICAI) while the other five members shall be nominated by the Central Government. A representative of Comptroller and Auditor General of India was also nominated on the QRB of the ICAI. The C&AG in May 2007, nominated Director General (Commercial)[7] as his nominee on the QRB. The Board, inter-alia, will make recommendations to the Council with regard to quality of services provided by the members of the Institute, including audit services after a review of these services. It will also guide the members of the Institute to improve the quality of services and adhere to various statutory and other regulatory requirements.

During the last 5 years or so, some Committees were appointed for specific purposes including reviewing the Companies Act and make their recommendations. Irani Committee figures as most prominent amongst these; another Committee popularly known as Arjun Sengupta Committee was constituted to consider autonomy, delegation of financial powers etc. to Central PSUs. Their report and recommendations were a subject of intense debate and discussion in C&AG's Organization. These are discussed elsewhere in this Chapter.

C&AG'S POWERS REGARDING AUDIT OF COMMERCIAL BODIES

C&AG's audit deals with three types of commercial undertakings:

- ❖ Departmentally run commercial undertakings
- ❖ Statutory Corporations

- ❖ Government Companies including Deemed Government Companies[8]

The powers to audit Departmental Commercial undertakings is derived from the C&AG's DPC (Act) since this audit is as an audit of expenditure from Consolidated Fund of India or State as the case may be. The audit of these undertakings is conducted in State by Commercial Wing of the Accountants General or by Accountants General (Commercial) wherever separate Commercial Accountants General are posted. In Central audit offices, this audit is entrusted to Civil Wing both in Central and State Reports. However, the results of audit of departmental entities are reported in C&AG's Report Civil.

Statutory Corporations are audited by the C&AG in terms of the provisions of the relevant Act constituting that Corporation. The audit of these Corporations includes certification of Annual Accounts and is conducted by the Commercial Audit branch of C&AG. Central Statutory Corporations now number just six.

The third category of Commercial entities which is the largest is that of Government Companies set up under the Companies Act, 1956. C&AG derives his authority for audit of Government Companies from the relevant provisions of Companies Act, 1956 read with Section 19 of C&AG's (DPC) Act. Very briefly, these relate to:

- ❖ Appointment of Auditors of Government Companies and deemed Government Companies [(Section 619 (2)].
- ❖ Issue of directions to the Statutory Auditors regarding the manner in which Companies shall be audited [Section 619 (3) (a)].
- ❖ Conducting a Supplementary audit or test audit of the accounts of the Government Companies [Section 619 (3) (b)].
- ❖ Comment upon or supplement, Audit Report of Statutory auditor in such a manner as he may think fit [Section 619 (4)].

Section 619 B extends the provisions of section 619 to deemed Government Companies.

The Reports of the C&AG in relation to accounts of a Government Company /Corporation shall be submitted to Government or Governments concerned who shall cause it to be laid before the Legislature under the powers vested vide Section 19 (1) of the C&AG's (DPC) Act, 1971, read with the provisions of Sections 617 to 619 of the Companies Act, 1956.

APPOINTMENT OF AUDITORS OF GOVERNMENT COMPANIES ETC.

With the change in the Companies Act in 2000, C&AG is now the appointing authority for statutory auditor of Government Companies under section 617 and deemed Government Companies under section 619 B. He maintains a panel for the purpose, where the interested firms of Chartered Accountants are empanelled on the basis of their applications. Empanelment criteria is very transparent and is in public domain through Press Advertisement etc. Beginning from 1993 when N. Sivasubramanian was the DAI (Commercial) and Chairman, Audit Board, a computerized data base of the various applicants for the registration in the panel was introduced, gradually more refinements towards transparency in the registration and objectivity in the selection of firms for audit assignment has taken place. A couple of years back C&AG's office developed a system of 'online submission'[9] of forms by CA firms for registration. This has not only facilitated considerably in reducing the time and energy in data entry work in the preparation of panel for PSU auditors, but has also ensured that there is no error in the data as the same is entered by the firms themselves. The final panel prepared on the basis of ranking obtained through the criteria of points earned by each firm is cross-checked by an independent committee headed by a Joint Secretary level officer (who does not belong to the Commercial Audit Branch). The CA firms which are listed in the C&AG's panel are also picked up often by other organizations by making a request to the C&AG to release the names from his panel. Such is the credibility of the system.

Prior to 2003, partnership firms with two full time partners (one of them FCA) were considered for empanelment except for special regions like J&K and North Eastern States. From 2003–04, as per directions of Honourable Supreme Court of India, all firms having at least one full time FCA are eligible for empanelment.

The Reserve Bank of India appoints statutory auditors (firm of Chartered Accountants) for the audit of Public Sector Banks and Financial Institutions for which purpose, C&AG provides RBI a panel of auditors from which the Bank selects[10] the statutory central auditors for the audit of annual accounts of Public Sector Banks etc.

As a result of these reforms, C&AG is able to appoint the statutory auditors by August, which is very much timely—this is as good as in the case of Private Companies (Public Limited Companies).

DIRECTIONS UNDER SECTION 619 (3)

The Companies Act empowers C&AG to give directions to the Auditors under Section 619 (3) regarding the manner in which they will conduct the audit with reference to certain specified areas which C&AG spells out. It is important to clarify that these directions, in no way, infringe upon the independent audit of the company in accordance with the ICAI Accounting Standards, their professional guidelines and other instructions. The objective of directions under section 619(3)(a) of the Companies Act, has been spelt out by C&AG thus:

'The directions issued by C&AG under section 619(3)(a) are primarily aimed at ensuring compliance with Accounting Standards and evaluating internal controls relating to financial reporting in the auditee organization.'[11]

The subjects on which C&AG gives directions to the Chartered Accountants (statutory auditors) under 619 (3) (a) are those which relate to systems and procedures, financial controls, costing system, fraud/ risks, etc. and, of late, Corporate Governance issues. These subjects are not covered in the normal audit of Annual Accounts by Auditor in the case of Government Companies. This right is made available to them only by virtue of C&AG's powers as the final auditor of the PSUs. There have been allegations, at times, by well informed persons (for example, JJ Irani Committee) that directions under Section 619(3) is an infringement on the independence of the CA to conduct the audit as per ICAI standards and guidelines, which, as would be clear from the foregoing is not correct.

C&AG issued in September 2004, revised directions to the statutory auditors under this section after issue of revised Companies (Auditors Report) Order, 2003 by Government of India. These are fairly adequate and cover most of the important areas/ aspects of Companies working; these specially focus on important and topical issues like corporate governance, business fraud and risk, environmental issues, etc.

SUPPLEMENTARY AUDIT BY C&AG

C&AG has been empowered under Section 619 (4) to review the Audit Report of the Statutory Auditor and comment upon or supplement his Audit Report in such a manner as he may think fit. Under Section 619(3) (b) of Companies Act, C&AG can also carry out supplementary audit or test audit of the accounts of the Government Company. The power to carry out supplementary audit and comment upon the audit of the Statutory Auditors has been a subject of debate amongst various stakeholders of Corporate World. Standing Conference of Public Enterprises (SCOPE), which is a lobby group consisting of Chief Executive Officers of PSUs, has from time to time questioned not only this power but they desired that C&AG should whither away entirely from this function. JJ Irani Committee in their report have also not favoured this power with the C&AG. As would be seen elsewhere in this Chapter, Arjun Sengupta Committee is also not favourably inclined towards this. These persons have held the view that C&AG's Supplementary Audit of Accounts of the Government Companies is frivolous or duplication of efforts and not worth the trouble. This argument looses its shine and rationality when the results of C&AG's Supplementary Audit are seen. The C&AG does not undertake Supplementary Audit under Section 619 B of all the Government companies. There is a criteria for such a selection. Recently (in July 2006) the criteria for selection of Government Companies for audit under Section 619 (4) of Companies Act has been revised and the threshold of paid up capital/turnover of the company for this purpose has been enhanced. This will result in a much larger number of Government Companies' Accounts not being subjected to Supplementary Audit than at present

But the sample which is subjected to supplementary audit yields very rich results. C&AG's comments arising from Supplementary Audit have significant effect on both increasing as well as decreasing the profit or losses of the company as the case may be. Additionally, many Companies revise their Accounting Policy as a result of audit observations. And sometimes these comments are of such profound nature that they result in changing an existing Accounting Standard of Institute of Chartered Accountants of India (ICAI). C&AG, Kaul has aptly described this function of C&AG as in the nature of a Peer Review. Comments are based on materiality and only such comments are placed in C&AG's Supplementary Audit that are really significant and material. A sample of results of 619 (4) audit is given below:

(i) Taking first, the effect of supplementary audit on the profitability or losses of 168 companies (excluding Navratna

Companies) on whom audit comments were issued during the five years period 1999–2000 to 2003–04, there was a reduction in profit by Rs. 1845.52 crore (in 82 PSUs), increase in profit by Rs. 1,272. 36 crore (in 18 PSUs); similarly, losses increased by Rs. 1573.93 crore (in 65 PSUs) and decreased by Rs. 23.67 crore (in 3 PSUs).

With regard to the accepted part and consequent revision of accounts by Management actual increase or decrease in Profit/ losses was as under:

- Increase in profit Rs. 32.55 crore (in 16 PSUs)
- Decrease in profit Rs. 747.85 crore (in 53 PSUs)
- Increase in loss Rs. 219.81 crore (in 23 PSUs)
- Decrease in loss Rs. 10.10 crore (in 6 PSUs).

(ii) The number of cases in which companies suo-moto decided to recast their accounts on the basis of C&AG's Supplementary Audit under 619 (4) of Companies Act were 98.

(iii) C&AG's Supplementary Audit in the case of Navratna Companies revealed an enormous overstatement of profit and understatement of losses for the periods 1999–2000 to 2003–04. The overstatement of profit was Rs. 1835.23 crore in respect of 25 companies while understatement of losses for the same period was Rs. 2100.79 crore in respect of four companies only. This reflected a significant detection by the C&AG of overstatement of profit or understatement of losses.

On the basis of information given by MAB Ranchi, it was seen that as a result of their audit observation the management was able to effect substantial recoveries. In addition a major lacuna in rules relating to Leave Travel Concession for persons seeking VRS, the existing liberal provision was being misused by practically all employees which caused the company about a Rs. 1 crore outgo during the two years period only. On being pointed out this lacuna by Government audit, the company was able to save Rs. 15 crore in respect of 7500 employees who opted VRS subsequently.

The C&AG's supplementary audit has another great value. It enables the Parliament to take a fair view of the state of affairs of a PSU based on the report of the Statutory Auditor, the comments of the C&AG and reply of the management to those comments. It fulfils an essential ingredient in the accountability mechanism of the PSU to the Parliament.

In June 2007, C&AG issued a comprehensive guidance for use of PDCA & MABs and DGA (P&T) in exercising their judgment for determining the significance/ materiality for C&AG's comments under section 619 (4) of Companies Act. This was also prompted by the recommendation made by Dr. Arjun Sengupta Committee. The Guidance contains two parts—one dealing with C&AG's comments on Financial Statements and the other on C&AG's comments on Statutory Auditors' Report.

REVISION/ MODIFICATION OF ACCOUNTS/ ACCOUNTING POLICIES AS A RESULT OF 619(4) COMMENTS BY C&AG

An important impact of C&AG's comments under section 619(4) of the Companies Act is change in accounting policies of the concerned company. The companies often revise their accounting policies in line with C&AG's comments. In the year 2003–04 alone, 17 Central PSUs revised their accounts on the basis of C&AG's comments under section 619 (4). An idea of this can be had from the data available from some offices of MAB. For example, in the case of MAB, Hyderabad alone, about 9 companies revised their accounting policies based on the audit observations on the prevailing accounting policies. The number of such accounting policies which were revised either partially or wholly or introduced afresh numbered 23 in that office during the period 1991–92 to 2006–07.

A review of post 1994 comments of the C&AG reveals that comments of the MABs resulted in revision/ modification of accounting policy of ONGC in important areas like independent reserve estimation, time frame for status of exploratory wells in progress, impairment of assets, abandonment cost, rate of depreciation of processed platform, provisioning for inventory, non-moving inventory, etc.

An important contribution of these comments was that it focused on the need for independent reserve estimation where there were substantial variation between the figures of reserve estimation committee, figures adopted by ONGC for annual accounts and other technical reports. ONGC agreed to Audit suggestion for independent reserve estimation and in 2003–04 adopted the policy of independent audit of hydrocarbon reserves in all major fields. Supplementary audit comments on ONGC contributed towards issue of Guidance Notes on Accounting of Oil Exploration and Production Activities by ICAI in March 2003.

CHANGES IN THE ACCOUNTING STANDARD/ GUIDANCE NOTE AS A RESULT OF AUDIT OBSERVATIONS

While documentation on all such cases, where, Guidance Notes were either amended or changed to accommodate the view point of Audit is not completely available, two notable cases of recent periods are detailed below:

In 2002, MAB, Ranchi[12] made a substantial contribution in redefining clearly the liability of the companies on account of retirement and other benefits to its employees. These liabilities are provided on the basis of AS-15 of the ICAI and guidelines prescribed in the guidance note 11 of Actuarial Society of India (ASI). The MAB noted for the first time a gross under—provision of liability on this score in the case of audit of accounts of SAIL for the year 2001–02. Subsequently, the adequacy of liability provided in the books of accounts in respect of about 90 PSUs under the audit purview of 12 MAB offices was also examined by the MAB, Ranchi where similar deficiencies were noted. As a result, a significant development took place, which could be ascribed as contribution of MAB office. AS 15 was found deficient in as much as it did not specify how assumptions such as discounting rate etc. were to be taken for working out accrued liabilities. The deficiencies were pointed out to President of ICAI for revising and updating them at par with International Accounting Standards, who intimated the MAB, Ranchi office of their intention to do so (ICAI has since revised AS 15 suitably effective from April 2006).

As a sequel to the above the ICAI on the basis of MAB, Ranchi taking up the matter also issued a clarification[13] to Statement of Standard Auditing Practices (SAP)[14] 9 on 'Using the Work' of an Expert which clarifies, the auditor's responsibilities, in using the certificate issued by the actuary in judging the appropriateness and reasonableness of assumptions made for determining such liability.

Simultaneously, MAB also addressed President, Actuarial Society of India and the Chairman, Insurance Regulatory and Development Authority (N. Rangachary) regarding suitable clarification in Guidance Note 11. Both of them thanked the MAB for his views and promised to hasten the process of amending Guidance Note 11 which was issued soon, the new Guidance Note is effective from April 2003. The implication of this revision of Accounting Standard was widespread covering not only PSEs but the entire Corporate India including Banking Companies, Insurance

Companies also where the impact of such provision was significant in monetary terms.

Similarly, comments under Section 619(4) by MAB, Mumbai, contributed to the Guidance Note on accounting for Oil and Gas producing activities issued by ICAI.

There were occasions when C&AG did not agree with the Auditor's certificate of true and fair view given to a company. A couple of cases noted are given below:

As a result of the Supplementary Audit, under section 619(4) of the Companies Act for the year ended 31 March 2005, in the case of accounts of IDBI Intech Ltd., C&AG in his comment on the accounts disagreed with the Statutory Auditor's Report, who, despite their several qualifications, concluded that accounts of the company were prepared on the concept of going concern and had chosen to give the company a clean chit by giving the opinion that subject to their qualifications the accounts gave a true and fair view of the state of affairs of the company, etc. The Audit opinion was that considering the substantive implication of various qualifications made by the CA, the certificate given by him was wrong and not in conformity with generally accepted accounting principles and the requirements of Auditing and Assurance Standard (AAS)-28. The C&AG, therefore, concluded that the opinion was not in conformity with these generally accepted accounting principles and (AAS)-28.

Similarly, in the case of India Tourism Development Corporation (ITDC) in respect of the accounts for the year ended 31 March 2006, the C&AG considered 'it was not proper on the part of auditors to have provided an assurance that the Annual Accounts presented a true and fair view'. This was because the auditors' qualifications had resulted in transforming the accounts from profit after tax of Rs. 45.79 crore into a loss of Rs. 24.30 crore. Despite such material evidence, the statutory auditors gave a true and fair view certificate.

INSTRUCTIONS CONCERNING 619 (4) COMMENTS

From time to time, several instructions on supplementary audit—section 619 (4) audit—have been issued by Headquarters. Some of the important instructions are recounted below:

The question whether C&AG can take up the audit of annual accounts simultaneously with the statutory auditor has often been discussed and debated in Headquarters. The practice prior to 1972 was that simultaneous audit of accounts could be taken up by C&AG. In August 1972, in a communication to field commercial audit offices, Headquarters asked them to discontinue this practice. It prescribed a somewhat different system while keeping the basic process intact. It said that on receipt of a copy of accounts from the management, C&AG's audit could commence simultaneously with the statutory auditor but audit observations should not be released to the company. In April 1997, these instructions were reiterated with the renewed emphasis that preliminary comments of audit should not be released to the management or statutory auditor. It also emphasized need for constant interaction with statutory auditors and the management.

In July 2001, Headquarters addressed field offices on the subject of window dressing their accounts by a number of PSUs and circulated to them a list of 'possible ways by which the Companies manipulate their profits'. The field offices were asked to critically examine the areas in accounts where possibility of window dressing was more.

Since 1990 procedure for issue of comments/ Nil comments on the accounts of Government Companies under Section 619(4) of Companies Act has been reviewed at least on three occasions and changes introduced. The issue was who would issue 'Nil' comments i.e. field MABs on their own or after approval of DAI (Commercial). Prior to August 1992, Nil comments were issued by MABs on their own without seeking approval of DAI (C). In August 1992 a decision was taken that proposal for 'Nil' comments would be sent to the Headquarters for their scrutiny and decision. In March 1996 the position obtaining prior to August 1992 was restored i.e. for Nil comments, no approval of Headquarters was required. However, in Septembers 1996, just after six months of the above order, the practice of sending proposal for approval of Nil comments under Section 619(4) was restored. Instructions were issued again in March 2002 for issue of 'Nil' comments by MABs without approval of Headquarters.

In October 2006, Headquarters addressed all the MABs and DGAP&T on the subject of issue of Management Letter to companies in case of supplementary audit. The main thrust was that management letter to companies should be made a standard practice where MABs could include significant accounting and disclosure issues, which posed a credible risk to fair reporting.

In March 2007, Headquarters reviewed the then prevailing formats for issue of comments under section 619 (4) of Companies

Act in the light of national and international standards on reporting by the auditors. In line with these, the formats of following were revised and circulated to all the field offices:-

(i) Revised Format for issue of 'Comments'
(ii) Revised Format for issue of 'Nil' Comments.
(iii) Revised Format for issue on 'Non-Review Certificate'
(iv) Revised Format for issue of 'Nil comments after Revision of Accounts'
(v) Revised Format for issue of 'Comments after Revision of Accounts'

In revising these formats, the Department also took into account the accepted best practice that the assurance process of financial statements of an entity should clearly indicate its objective, scope and legal requirement.

Audit under section 619(4) by the C&AG was in many cases not being done within the specified time frame and instances of delays were there. In September 2002, Headquarters issued directions to all the MABs where, on the basis of an analysis done of time taken by each MAB for completion of audit of Annual Accounts of Government Companies, it was reiterated strongly that the total time to be taken for communication of final comments of the C&AG to the company should not be more than six weeks from the date of receipt of the accounts by Audit.

IMPROVEMENT IN FINANCIAL REPORTING BY PSUs AS A RESULT OF AUDIT OVERSIGHT BY C&AG.

The Headquarters issued instructions in March 2006 and March 2007 emphasizing on the importance of developing synergy with the Audit Committee of the PSUs and the concerned statutory auditor for an overall improvement in financial reporting by PSUs in the interest of better corporate governance. In March 2007, Headquarters issued instructions that aimed at improving financial reporting as a result of audit oversight by C&AG. Amongst others, these emphasized that audit party should acquire sufficient knowledge of the concerned PSUs business risks. A suggestion given related to reference of such cases to Expert Advisory Committee by PSU or MAB involved if they perceived any ambiguity in the interpretation of accounting policies/accounting standards. Audit should examine the relevance, necessity and possibility of eliminating the redundant, insignificant and irrelevant accounting policies and Notes to Accounts in respect of PSUs that give extensive disclosures through accounting policies and Notes to Accounts. In this context, it cautioned that some items under Notes to Accounts could be construed as camouflaged qualifications while some important information like off Balance Sheet items and important accounting policies may not have been suitably disclosed. An important point was that for audit in a computerized environment, besides judging the capability of statutory auditor to conduct such audit, if required, an official with IT audit experience may be included as a member of audit team conducting supplementary audit. Only material and significant comments were to be considered for issue to the management (the general parameters for determining the materiality have since been developed and issued to the field offices for guidance).

There were also instructions about the qualitative improvements in statutory auditors' reports. In an important instruction, Headquarters asked the field offices to communicate through a show cause memo, any serious lapse on the part of statutory auditor that reflects poorly on his performance.

Additionally, these should also be suitably reflected in the performance evaluation of the statutory auditor.

These instructions also stipulated that field offices, while forwarding the draft comments under 619 (4) audit to the Headquarters should also state:

(a) Whether any Management Letter to the PSU with a copy to statutory auditor was being issued as per instructions in this regard by Headquarters.
(b) Whether any letter or memo to the statutory auditors as mentioned in the preceding paragraph was being issued for any serious lapses on their part.

DHARAM VIR COMMITTEE REPORT

On the directions of the C&AG, a team of officers headed by Dharam Vir (then Member, Audit Board, New Delhi) was set up to do a study and report on the improvements in the efficiency of Commercial Audit Wing; the Committee in their study covered the system of comprehensive appraisal, mini-review and draft paragraphs and based on the recommendations of the team, Headquarters issued instructions in September 1990 for systems improvement in these areas in the Commercial Audit Wing. These instructions, inter-alia, contained guidelines for the qualitative improvements in accounts audit under Section 619 (4) of the Companies Act, processing of draft paragraphs specially with reference to the period of the event or transaction happening and monetary effect of the audit observation and mini reviews. On comprehensive appraisals, the Report was critical of the unduly long time taken for the completion of the appraisals and remarked 'a time frame of 7–8 years for an appraisal is excruciatingly long'. It laid down new time frame for the completion of comprehensive appraisals, namely, two years and for bigger undertakings which were multi units (BHEL, ONGC, etc.) a three years time frame was prescribed. The study, however, did not cover accounts audit issues in detail. This was to follow soon more as a fall out of Securities Scam and JPC Report on that in early nineties.

JPC REPORT ON SECURITIES SCAM

The Joint Parliamentary Committee (JPC) was constituted on 10 August 1992 with Shri Ram Niwas Mirdha as Chairman to go into the irregularities and fraudulent manipulations in transactions relating to securities, shares, bonds and other financial instruments that had rocked the Stock Exchanges and examine the role of Banks, Stock Exchanges, Financial Institutions and Public Sector undertakings in transactions relating thereto 'which have or may come to light'. The Committee was also to fix responsibility of concerned persons, institutions etc. involved in such transactions and further to identify the misuse, if any, and failure or inadequacy of control mechanism and supervisory mechanism. The Committee was also to make recommendations for improvements in the system for elimination of such failures in future and also make appropriate recommendations regarding policy and regulations to be followed in future. The Committee submitted its report on 21 December 1993 to the Parliament. Of the various issues gone into by the Joint Parliamentary Committee, those that dealt with Statutory Audit of Banks and Public Sector Undertakings and recommendations made in that regard were of relevance to the C&AG. The Government forwarded, as desired by the JPC, to the C&AG, specifically paragraphs 10.36, 10.37 and 10.38 of the Report of the Committee for taking appropriate action as recommended by them.

JPC suggested that C&AG (as also Department of Company Affairs) should examine statutory auditors' reports of PSUs etc. involved in the irregularities and take appropriate action against auditors who were negligent in the performance of their duties. In paragraphs 10.37 and 10.38 where the JPC dealt with supplementary or test audit of company accounts by the C&AG, its finding was that there were obviously some shortcomings in the methodology of audit and these deserved to be examined. The Committee, in their summary section repeated that there were grave shortcomings in the objective and methodology of audit as practiced 'at present'. The Committee, on their own, addressed some of the issues concerned with audit system and suggested that with a view to achieving the objective of effective audit, statutory amendments be made wherever considered necessary.

When the Headquarters received the communication from Banking Division (January 1994) asking that observations/ conclusions/ recommendations of the Committee (at Sl.No.69 and 70 of their Report) be dealt with by C&AG for appropriate action, a thorough analysis of the Report vis-à-vis the role of statutory auditors and the Government Auditors was conducted in the Headquarters. A component of the Report on which action by C&AG was identified related to action against the statutory auditors for their failure to report the irregularity in the transactions and investments. For this purpose, an internal Committee of the Headquarters was appointed to look into the gravity of the negligence of auditors. The Committee finally identified 25 firms of Chartered Accountants to be negligent in their duties in pointing out the irregularities and recommended non-entrustment of audit to these companies for specified number of years i.e. 2 years and one year. For companies which were guilty of negligence but not serious enough, warnings were issued. Some companies were left out of action because the Auditors in these cases had discharged their duties as per the requirements of Companies Act and Statement on Standard Auditing Practice. The recommendations of the Committee were accepted by the C&AG.

SHORTCOMINGS IN THE METHODOLOGY OF AUDIT AND KUPPUSWAMY COMMITTEE REPORT

JPC's observations about existence of shortcomings in the methodology of audit was taken very seriously by the Department and a committee of senior officers under the chairmanship of K. Kuppuswamy the then ADAI was set up to review and suggest measures for improvement in the methodology of audit of accounts of Government Companies and Corporations and also recommend changes to be made for in-service training of commercially qualified staff.

Kuppuswamy Committee Report is a comprehensive set of instructions on the audit of Annual Accounts of Government Companies and Corporations. In that sense, it is a supplement to the Commercial Audit Manual. In fact, when this report was given (December 1994), Headquarters instructed that the check list prescribed in the Manual on the conduct of Supplementary Audit was to be used only as an illustrative list while the check list prescribed by the Committee was to be used as a 'must guide' for the conduct of Supplementary Audit. Action on the report of the Committee was taken and suitable instructions on that basis were issued in December 1994 for implementation of their recommendations.

AUDIT BOARD FOR CENTRAL PSUs

One very significant development of the period was a relook at the Audit Board Mechanism by the C&AG.[15]

The Audit Board mechanism for the appraisal of the working of Central Public Sector Undertakings introduced in 1969 consequent to the recommendations of Administrative Reforms Commission (ARC) has been reviewed from time to time as regards its efficiency and efficacy in conducting comprehensive Performance Appraisals of companies/corporations. The Audit Board mechanism did work well for several years after its introduction. In 1970s and thereafter when a large number of Audit Appraisals by these Audit Boards were prepared which, subsequently, on C&AG's approval were issued mostly as his standalone Audit Report.

Comprehensive appraisals of various government companies/ corporations by the Audit Board had several visible advantages: first, the Board had the benefit of the involvement of two outside technical experts; their presence in the deliberations on the audit appraisals lent certain degree of authenticity especially where the subject matter of audit appraisal was overwhelmingly of technical nature. They also, to a large extent, were able to articulate in the Audit Board the executive perspective of any decision since they had gone through that process in their normal job. Overall, their presence gave good deal of credibility to the audit findings.

The second big advantage, Audit Board mechanism provided, was the unique system of interaction at the highest level amongst the three principal parties involved namely Audit, the Management of the company and the Ministry/Department concerned. The two part discussion of Chairman Audit Board first with the top management of the company and later with the Secretary of the Ministry/Department concerned yielded rich results and often moderated the final audit opinions in quite a few cases. There were several cases where corrective action on some of the points brought out on the draft audit appraisals was promised by the Secretary of the Ministry or the Chairman of the Company in the meeting itself and action followed soon thereafter. And finally, in case of disagreement, these meetings ensured that the opinion of the highest functionaries of the company and the government get faithfully recorded in the Audit Report. These meetings were more like the exit conference now introduced by Performance Audit guidelines with the added advantage that this conference was invariably held with the Board of Directors of the company and the Secretary and his top management team of the Ministry-the system was so designed that a meeting below this level was not entertained.

With all these merits, the Audit Board appraisal system suffered with the passage of time from one great factor namely the long time taken in finalizing the Audit Report. Here again, quite often, one of the contributory factors was non availability of the Secretary and his team for the formal Audit Board meeting—at times, this could delay the matters even upto several months. As a result, flow of these appraisal reports dwindled and time taken for finalizing the appraisals became unduly long.

C&AG C.G. Somiah and V.K Shunglu and before them C&AG T.N. Chaturvedi had expressed concern at the abnormal delay in finalizing comprehensive appraisals. C&AG, Chaturvedi and after him Somiah made special efforts, by revamping Commercial Audit set up, to speed up the process and due to these special efforts the number of such Audit appraisals again went up (the details are given elsewhere in this Chapter) in the late eighties and early 1990s. The momentum however, could not be sustained for very long and there were limits to turning out large number of such appraisals. By mid–nineties, the view generally held by the C&AGs was that comprehensive appraisals of the Public Sector Undertakings by Audit Boards was time consuming on account of various reasons and this took away the value of these appraisals; in the circumstances a need was felt to have a hard look at the system. The working rule around the end nineties was that no new comprehensive appraisals be taken up instead what used to be called 'Mini-Reviews' on specific topics or areas of the working of the company, should be done by the Commercial Audit wing. In practice, Audit Board Mechanism, in the original sense, was a forgotten institution towards the end of 1990s. The present C&AG V.N. Kaul also realized that 'there is a need to effect changes in the approach of audit from conducting comprehensive appraisals of PSUs to focusing on critical areas of concern in their performance'. As part of his reform process, Headquarters issued fresh instructions on finalization of appraisals through the mechanism of Audit Board, first one in a circular of 30 May 2005 and the second on 7 November 2005. Apparently, the C&AG was thinking deeply about the efficacy of existing utility of the Audit Board mechanism. The May 2005 instructions were more a kind of internal directions regarding conducting audit of PSUs through mechanism of Audit Board. November 2005 instructions drastically re-organised the structure and composition of the Board and brought out basic changes in the approach of audit. In terms of these instructions, the Audit Board was to be a permanent Board for Central PSUs with 4 permanent positions viz. DAI (Commercial) as Chairman, Director General (Performance Audit), Director General (Commercial) and Economic Adviser as Members. Two members were to be nominated from amongst the MABs for a period of one year on rotation basis and the Principal Director conducting the performance audit was to be a special invitee. The Board would, on the basis of strategic audit plan, finalize the selection of topics for performance audit. It would focus on thematic issues and not follow the earlier approach of comprehensive appraisal which covered practically the working of all the areas of PSUs. The thematic studies were to be designed on critical issues and these issues could pertain to a particular PSU or could horizontally cut across several PSUs.

Another important decision was to associate the technical experts by co-opting them as special invitees. The Audit Board would conduct performance audit under two broad categories viz. category I where its role was limited to selection of topics. The concerned PD of Commercial Audit would carry out performance audit in terms of Performance Auditing Guidelines and as per time schedule given in 30 May circular. Category II performance audit related to those topics which would come out as standalone reports. Audit Boards would play bigger role in these Reports. They would follow a three stage process viz. selection of topics, approval of guidelines etc. and in the third meeting finalize the audit report with representative of Ministry/Management. The new system was to be followed from the Audit Report of 2007.

IT audits concerning PSUs would not be included within the scope of Audit Board for Central PSUs and these were to be processed in consultation with DG, iCISA, Noida.

An interesting point in regard to the above is that all these decisions contained in the Circular of November 2005 were taken in consultation with the Department of Public Enterprises and that lends it much more credibility and inclusiveness.

AUDIT REPORTS (COMMERCIAL)

Audit Report (Commercial) as a separate volume commenced in 1963 relating to the year 1961–62 in the case of Union Government. Before that C&AG's observations of his audit on Government Commercial undertakings were a part of the Central Government Audit Report (Civil).

The Audit Report (Commercial) till 1968 contained C&AG's audit findings on the following categories of Government enterprises:

(i) Government Companies
(ii) Statutory Corporations
(iii) Departmentally managed Commercial undertakings

From Audit Report 1969, C&AG's audit findings on departmentally owned undertakings that were earlier part of Audit Report (Commercial) were taken out from there and became a part of Audit Report (Civil).

The important change in Audit Report 1970 related to the Performance Appraisals by Audit Boards that were set up with effect from 1 April 1969 under the supervision and control of the C&AG of India for Comprehensive Appraisals of the working of PSUs. In 1970, for the first time 10 such appraisals appeared as separate volumes of Audit Report Commercial as Part-II to Part-XI. From hereon, these standalone Performance Appraisal Reports became a prominent feature of Audit Report Commercial till their decline in late 1990s leading to eventual restructuring of Audit Board mechanism and abolishing the comprehensive appraisal system in 2004.

Apart from standing reports each year, the variable factor in increasing or decreasing the number of Audit Report (Commercial)/ Reviews presented during a year was the standalone Performance

Appraisals of PSUs based on the Audit Board mechanism. These were essentially performance audit Reports. In their hey days performance appraisal Reports (Commercial) presented to Parliament during a year numbered as many as 21. The decline in their number began after 1996 when standalone performance appraisal Reports dried up. Partially, it was due to the fact that the appraisals were aiming at looking into the entire range of activities on the performance of an entity and as a result it became rather unwieldy and cumbersome to produce good appraisals. It was also dwindling due to the fact that most of the bigger entities had already been appraised in Audit, in some cases more than once. And finally, the mechanism of Audit Board was not proving as effective and successful as were expected of them vis-à-vis timely output, getting better auditee response, or even contributing significantly to the value addition to management.

Both the C&AG C.G. Somiah and V.K. Shunglu had their misgivings about the efficacy of these comprehensive appraisals. Perhaps a time had come to change the system. A beginning was made in C&AG's Shunglu's time by practically giving up comprehensive appraisals and producing more and more what were called mini type of reviews on some specific aspects of the working of an undertaking. These Reviews produced during the period 1995–2002 were better appreciated and were more useful to the auditees. The practice of preparing performance appraisals on specific aspects of working of PSUs still continues and is now the dominant system of Performance audit.

Formally, the entire system was overhauled by C&AG Kaul in 2004 when he decided to do away with the prevailing Audit Board mechanism and its focus on comprehensive appraisals of PSUs. He restructured the Audit Board and redefined its mandate as already detailed in the preceding title.

POST 1990 DEVELOPMENTS IN AUDIT REPORTING

In September 1990, Headquarters issued a comprehensive set of instructions regarding systems improvement in the Commercial Audit wing. These instructions had the approval of Comptroller and Auditor General. Amongst the more important of these instructions were:-

- ❖ Raising limit of annual accounts audit under section 619(4) of the Companies Act from Rs. 20 crore (paid up capital or turn over) to Rs. 50 crore.

- ❖ All draft paragraphs which included transactions of six to eight years before the year of Report and where the monetary impact was less than Rs. 5 lakh should not be processed for Audit Report (this excluded cases of serious system deficiencies or misappropriation or fraud or violation of foreign exchange regulations).
- ❖ Mini review must be finalized within the time frame of one year to 18 months. Regarding Appraisals, the instructions commented that many of them were about seven to eight years old already which, it said, was excruciatingly long. Therefore, the decision was that Appraisal should be finished within the maximum period of two years barring for bigger undertakings where a period of three years was given. A detailed procedure and a stepwise time frame to achieve the objective was also given in these instructions.
- ❖ It was also desired that an overview or summary of the mini review or Appraisal should be sent along with the draft report to the Chief Executive of the Management/Secretary of the Ministry for their quicker understanding of main features / thrust areas without even going through the main volume.

The initial years of 1990s are marked by large number of Audit Reports (Commercial) presented to Parliament but just two years before 1990, that is in the year, 1988 no Audit Report (Commercial) could be presented to Parliament. A very vigorous drive was launched from 1990 onwards to get over the problems and in the first 4 or 5 years of 1990s there was a big turnover of Audit Reports (Commercial), specifically of the Performance Audit Reports. 1994 was relatively dry year because only one Audit appraisal was presented to Parliament. In 1989 Audit Report (for the Financial Year 1988–89), out of 13 Audit Reports (Commercial) presented to Parliament 10 related to Performance Audit Appraisals/ reviews, similarly, for the Financial Year 1990–91, 19 audit reports were presented during the various periods in 1992 of which 16 related to Performance Audit Appraisals/ reviews for the year 1991–92, out of 14 Audit Reports (Commercial) presented in various sessions of Parliament in the year 1993, 11 related to Performance Audit/ Review Reports.

1995 again was bumper year when 24 Audit Reports were presented to Parliament during 1995–96 and 1996–97 out of which, all except 3, related to Performance Audit Appraisals/ reviews. From 1996 onwards till 2000, Performance Reports dwindled in number—on an average every year 3 or 4 Audit Reports were presented to Parliament but from 2001, Performance Audit Appraisals were practically given up.

In 1990 there were 3 Standing Reports on Commercial Audit and the structure of these Audit Report (Commercial) was: Report No.1—Introduction, Report No.5—Resume of Company Auditors' Reports and comments on Government Companies, Report No.7—Audit observations on Individual Topics of Interest.

In 1993, the titles were slightly changed viz. Report-1—Review of Accounts, Report-2—Comments on Accounts, Report-3—Audit observations.

The Structure of Audit Report (Commercial) in the year 2001 was: Report-1—Review of Accounts, Report-2—Comments on Accounts, Report-3—Transaction Audit Observations, Report-4—Review on activities of some PSUs.

From the year 2003, a 5th volume of Audit Report was added, exclusively devoted to PSUs in Telecom Sector. This Report is now a standing feature of Audit Report (Commercial). C&AG, Kaul desired that each year a sector specific review of PSUs should be brought out, apart from Telecom. In subsequent years, sector specific Reports have been brought out e.g. in 2004, an Audit Report on Steel Sector, in 2005, an Audit Report on Petroleum Sector PSUs were brought out. Same year, an important Review on Golden Quadrilateral Project of NHAI was brought out—A resume of the Review appears in Appendix 'B'.

From 2006, Audit Reports were divided into (1) Transaction Audit Reports, and (2) Performance Audit Reports. The Format of the former Report has been changed from the Audit Report 2007. The new Report called Financial Reporting by PSUs amalgamates two former Reports viz. Review of Accounts and Comments on Accounts. The new Report has only four Chapters viz.:

1. Financial Performance of Public Sector Undertakings
2. C&AG's oversight role
3. Corporate Governance in Government Companies
4. Environmental aspect and sustainability reporting

A colour code scheme now distinguishes these Reports. The colour code is unique and common to all the Audit Reports. Transaction Audit Reports (now called Compliance Audit Reports) are called 'Yellow' Series Reports because the front cover of these Reports and back has Yellow border; Performance Audit Reports have two colour Schemes. Standalone Performance Reports are 'Red Series' Reports while the 'Blue Series' Performance Audit Reports contain reviews on several themes/ companies.

MEASURING AUDIT EFFECTIVENESS—ALLOTMENT OF MONEY VALUE FOR AUDIT REPORTS (COMMERCIAL)

Headquarters issued instructions in the year 2003 regarding allotting money values to various Paras and Reviews included in the Audit Reports as per a matrix devised for each functional wing's Report. These instructions were reviewed from time to time to bring more refinements in matrix and correct distortions that had come in assigning money value to Paras/ Reviews. In February 2006, Commercial Audit Wing issued fresh directions on the subject —this became necessary because of tendency, in many cases, to inflate the money values—in several cases credit was taken and money value assigned to audit paras on Transmission and Distribution losses or similar type of paras. The 2006 Circular streamlined the system and laid down the basic principle that the money value was to be assigned only to those paragraphs where Audit effort on contribution is evident. No money value was to be assigned to paragraphs based on the data obtained from the PSU or Government (records) and incorporated in the Audit Report as factual statements or statistical information or without audit findings based on analysis. The letter listed out cases which should not be assigned money value. These included, amongst others, paragraphs on: excessive transmission and distribution losses, shortfall in production of certified seeds, on potential loss of revenue, on amount blocked, (credit for interest amount on such amount can be taken), subjects or matters that had already come to knowledge of Department/ PSU either through their internal audit wing or otherwise. There were some other examples also listed in the letter.

From the year 2004–05 draft Audit Reports, C&AG made it mandatory for the Commercial Audit Paras to indicate the money value of paras together with the classification of para viz. A1, A2, R1, R2, etc.

POST REVIEW OF AUDIT REPORT MATERIAL

The Headquarters carries out an analysis—a kind of evaluation of the Audit Report material sent by various offices after the approval of the Audit Report(s). This analysis is duly conveyed to the concerned offices. For instance in March 2006, analyzing the Report No.12 (Commercial Audit) DAI (Commercial) pointed out to MABs that while the Audit Report contained 145 paras, 107 paras were dropped at Headquarters for reasons such as lack of focus, issue discussed was old-outdated, or not material or even premature. Many paras, lacked proper analysis and there were some others that were sub-judice. Individually each office was intimated parawise detail of the reasons for which para was dropped.

This letter then reiterated some of the issues which the MABs were asked to give attention in order to further improve the quality of Audit Reports. Some of these were: while sequence of events were narrated, no analysis was done as to 'why' such lapses occurred; hence there was, in no way, any value addition for the management; Audit should give more attention to cases of fraud/ embezzlement, operational issues and system deficiencies, internal control, etc. Paragraphs dealing with blocking of funds, idle investment, transmission losses, etc. should not be attempted as a matter of routine unless these involve huge financial (interest) loss or specific management failure. Focus should be more on core activities of the entity. The letter also pointed out that Style Guide instructions were largely ignored. The MABs were asked to follow these strictly.

AUDIT OF FRAUD & CORRUPTION

In regard to audit of fraud and corruption, fresh instructions were issued by Audit Wing in April 2006 and on its receipt CA Wing addressed their field offices in June 2006 and August 2006 as a follow up of these instructions.

Approach of audit towards detecting and reporting of cases of fraud and corruption is dealt with in Chapter 4.

AUDIT MANUAL

The question of having a comprehensive Audit Manual for Commercial Audit is a long pending issue in the Commercial Audit Wing. The task of framing a Manual was given to a couple of officers and eventually the updated Commercial Audit Manual came out in 1993 as second edition. The first Manual was issued in 1967. The letter from Director (Commercial) dated 14 December 1994 which contains the detailed instructions of the Kuppusamy Committee Report regarding audit under 619(4) of the Companies Act including the detailed check list is currently the most exhaustive check list.

At present, there are two Commercial Audit Manuals, one for the audit of Central Commercial Undertakings for use by MABs and the other one called Commercial Audit Manual for State Accountants General which is for the use of State commercial undertakings which was issued in 1994. Apparently, there was a kind of dichotomy in this kind of arrangement because the commercial audit principles including the Check List would be the same whether the undertaking was of the Central Government or of the State Government. Recognizing this fact the present C&AG issued directions that a combined Manual for the use of both Central Commercial Audit and State Commercial Audit (AG offices) should be prepared. Currently the Manual is under preparation. There are separate Commercial Audit Manuals issued by various MABs/AG (Commercial) offices which in detail deal with the audit of the Public Sector Undertakings that are in their audit control.

Between 1993 and 2006, a number of developments in Commercial Auditing domain and in Corporate world took place. Therefore, it was necessary that Commercial Audit Parties are equipped so deal with these new developments. For this purpose from time to time, instructions were issued by the concerned DAIs. These include August 1992 instructions issued by N. Sivasubramanian, who was Deputy C&AG (Commercial) at that time regarding review of Commercial Accounts. In March 1996 instructions were issued by DAI (Commercial), B.P. Mathur which deals with issues on approach of audit to regularity audit, systems audit, reviews, audit plan, issue of draft paras to the Ministry and accounts audit, Inspection Reports and control over audit parties. In July 1996, he also issued instructions on the format for Review of Accounts. In between, and subsequent to these letters clarificatory instructions on accounts audit were issued. The system of issue of Review of Accounts has been dispensed with in August 2006. There is some apprehension that because of the fragmented issue of instructions, many field offices would miss out some of these. This is another good reason why a revised fully updated comprehensive manual should be issued now.

PROPOSALS REGARDING AMENDMENT TO COMPANIES ACT

Concept paper on Companies Act: In recent times, Government has shown its eagerness in the amendment to Companies Act in the wake of several corporate scandals that came to public notice during nineties, like Enron, Wordcom etc. The Government reacted by appointing Naresh Chandra Committee to go into the issues of Corporate Governance in the light of those big scandals and specially examine the Auditor—Company relationship. More important, Government (Ministry of Company Affairs) circulated a Concept Paper on Company Law in August 2004. This Paper had 289 Sections, in contrast to 781 Sections and 15 Schedules in the existing Act. The object of this Paper, which was termed as an 'Approach Paper' to the introduction of a new Bill in Parliament, was to elicit opinion on the paper.

The Concept Paper when examined in Audit Department revealed that the relevant provisions in the existing Act relating to Audit of Government Companies, and the role of C&AG prescribed in the existing Act had been drastically curtailed, in fact more or less omitted. The corresponding sections to existing section 619(3) to (5) in the new document did not have any provision regarding issue of directions to statutory auditors, supplementary/ test Audit by C&AG and placement of C&AG's comments in Annual General Meeting (AGM) along with Auditors' Report. And yet, section 254 of the Concept Paper Document, (corresponding to Section 619 (A) of existing Act) require that comments of the C&AG upon, or supplement to, the auditors' report be placed in Parliament/ State Legislature. This contradicting position made the situation more confusing—apparently, the Concept Paper was drafted with some haste hence these contradictory provisions.

The Audit Department's reaction to the proposed new Act as contained in the concept paper was on expected lines as far as restoration of the existing provisions of the Companies Act namely Section 619 (3) to 619 (5) was concerned but it went beyond it and wanted an expanded mandate for the C&AG in the audit of disinvested companies where Government residuary share was still 25 per cent or more. In advocating this clause for the new Act, the C&AG was guided by the principle of 'substantial' stake of Government in these undertakings (provision would be in line with the current provision for the C&AG's Act in section 14/ 15 where C&AG has a definite role to play in the audit of bodies and authorities where the Government has substantial contribution by way of grants or loans). Keeping these entities out of C&AG's ambit, obviously, leaves 'big gap' in the accountability arrangements for such companies in which large public funds are invested.

Meanwhile, the Ministry of Company Affairs in March 2005 intimated the appointment of an Expert Committee under the Chairmanship of Dr. J.J. Irani for advising the Government on the new Companies Law. One of the sub-groups which the Committee had constituted to facilitate opinions, was on audit and accounts which was set up to examine the provision relating to these in the proposed Act. The Committee had desired that a representative of the C&AG could also attend the meetings of the sub-group.

When the meeting of C&AG's representative with the sub-group was held (in March 2005), it had laid out three issues for discussion on the subject. These were:

- ❖ In view of the overriding nature of provisions of Section 619 (3) for issue of directions by the C&AG to auditors of Government Companies, how the provisions of the Act relating to Accounting Standards would be complied with by the Government Companies? Should there not be uniformity on governance norms for all companies whether private sector or Government?
- ❖ Further, whether the provisions for compulsory appointment of auditors by the C&AG should be applicable only in respect of Government Companies which are wholly owned by the Central or State Government? In other words, whether the provisions of Section 619 B should be reviewed?
- ❖ Should there not be a specific provision that in cases where C&AG has to appoint auditors, the process should be completed within 90 days of start of the Financial Year? In case auditors are not appointed by the C&AG within the specified period, shareholders can appoint auditors.

All the issues were such as had been raised several times earlier and from time to time clarified. It was apparent that the composition of the sub-group and their sectoral interests were at play in raising such issues again. These misgivings of the department of Company Affairs were clarified by C&AG's representative[16] in the meeting itself. The allegation that directions under Section 619 (3) (a) were contradicting the independent functioning of the Chartered Accountants as per ICAI Auditing Standards and Companies Act was a gross (if not deliberate) mis-interpretation by them as C&AG's directions are on matters that are beyond the normal checking in the Annual Accounts audit by Statutory Auditors. It was, therefore, satisfying when after all clarifications, during the meeting, the Department of Company Affairs informed C&AG's representative that the provisions relating to C&AG audit would continue to exist as they were in the existing Act[17].

However, as the subsequent developments showed this was not to be. When the Irani Committee Report was out C&AG's audit was practically given a go by as far as PSUs were concerned. The C&AG had these fears and he had earlier[18] cautioned that a close watch must be kept on the development in this matter lest dilution of accountability of PSUs might occur. The Committee had, as already mentioned above, more or less, recommended abolition of C&AG's audit of PSUs and C&AG would not, therefore, be in a position to submit any Report to Parliament for COPU's consideration. In one word the Committee in their wisdom had recommended abolition of all systems and procedures of accountability to Parliament through C&AG's Reports.

The concern of the Department over these recommendations can be gauged by the fact that the C&AG chose to address the Prime Minister in the matter to brief him on the history and rationale of C&AG's audit of Government Companies in India.

His letter gave a background account of C&AG's auditory control. He strongly rebutted the rationale given by Irani Committee for their recommendations. Very briefly, the C&AG pointed out to the failure of the Irani Committee to appreciate the philosophy of Parliamentary Control over Public Funds invested in these PSUs and a need for public accountability to Parliament. He also quoted at length the recommendations of the PAC which led to incorporation of Section 619 B in the Companies Act, 1956. To the criticism that supplementary audit by C&AG is duplication, the C&AG's view was that supplementary audit was in the nature of a peer-review to give assurance regarding quality of audit or compliance of directions issued to Statutory Auditors. He also gave examples of fruitful results of this audit by quoting facts and figures on its impact on profit/ losses of PSUs, on accounting policies and on guidance notes. He also mentioned about C&AG's Transaction Audit and Performance Audit (which are outside the purview of Statutory Auditors).

Finally, the C&AG pointed out to the trends worldwide which emphasized a larger role for public oversight on Public Limited Companies to ensure greater accountability and transparency. In USA, a Public Accounting Oversight Board exists to ensure greater accountability overseeing the audit of Public Companies. In Britain, C&AG heads the Professional Oversight Board for Accountancy. In India, the institution of C&AG, which is a constitutional and independent authority fortunately performs such oversight functions. Therefore, he concluded that there was a need to further strengthen this institution rather than dilute it.

The C&AG also rebutted the arguments given for taking away his jurisdiction on 619(B) companies or deemed Government companies as they are often called. A factually incorrect position in the Irani Committee Report was that the direction issued by the C&AG to Statutory Auditors was not in accordance with accounting standards, the auditors might be required to mention the same in the notes on accounts. It was explained that the scope of the directions issued by the C&AG to Statutory Auditors was not in conflict with accounting standards because it goes beyond them to include areas like corporate governance, internal controls and economy and efficiency of company's operations—aspects that are not the concern in annual Accounts Audit.

Concluding, therefore, the note said that existing provisions of Sections 617 and 619 relating to audit of Government Companies by C&AG should be retained as such in the proposed amended Companies Act.

The issue of C&AG's role in the audit of Government Companies is still to be finally decided, since the amended Company's Act is yet to be tabled in Parliament.

DR. ARJUN SENGUPTA COMMITTEE

Another report that was discussed and examined very closely in C&AG office was the report of Adhoc Group of Experts (AGE) popularly also called Arjun Sengupta Committee. It was constituted by the Ministry of Heavy Industries & Public Enterprises to consider issues relating to autonomy, delegation of financial powers, etc. of Central Public Sector Enterprises[19]. The AGE was constituted in pursuance of the National Common Minimum Programme of the Government that had 'pledged to devolve full managerial and commercial autonomy to successful profit making companies operating in a competitive environment'.[20]

In June end 2005, Secretary, DPE, while forwarding a copy of the Report of the AGE to C&AG, requested for C&AG's comments/ views on recommendations made in the Report that related to audit of Government Companies.

The Report of the AGE, in summary, generally made a pitch for whittling down C&AG's powers to audit Government Companies. It held that C&AG audit led to delay in finalization of accounts audit; his audit is a duplication of audit done already by statutory auditor. It also cast a doubt on the authority of C&AG for conducting transaction/ propriety audit.

The AGE made several other recommendations: it said C&AG may issue revised guidelines to statutory auditors and rely mainly on their Report. Test/Supplementary Audit should be done only in exceptional cases rather than as a routine exercise and pleaded that appointment of statutory auditors be made at the earliest (in the beginning of the year). It also wanted C&AG to give suitable directions for consultation with statutory auditors at appropriate levels so as to minimize the need for supplementary audit. Finally, it wanted that only malafide, intentional mistakes, frauds, gross negligence or willful ignorance of advice/ suggestions should attract Audit observation. Overall performance of the company should be the guiding criteria rather than individual commercial decisions.

The C&AG, on receipt of this letter, appointed a Task Force of Senior Officers[21] under the chair of DAI (Commercial) to deliberate upon the specific issues arising from Sengupta Committee Report. DAI sent a point-wise reply to the Ministry in July 2005 where he suitably and convincingly rebutted each point. To the doubts regarding C&AG's powers to do transaction audit/ propriety audit the letter said that accounts and transactions audit were complementary in nature. C&AG has to view these functions in totality. C&AG also has authority to determine the scope and extent of audit as per Section 23 of C&AG's (DPC) Act. He can, therefore, undertake performance audit of companies.

Regarding delay in finalization of audit of accounts the letter pointed out that it would not be appropriate to attribute this delay in certification of accounts to C&AG's audit under Section 619(4) because his team took only 4 to 6 weeks to complete the audit after receipt of certified accounts alongwith statutory auditor's report. The DAI also clarified that for all Navratna Companies and listed PSUs, comments under Section 619(4) of the Companies Act for the year 2003–04 were issued well in time to hold AGM by the stipulated date. Similarly, for quarterly financial results (QFR) in case of listed companies, the companies can avail of the services of the statutory auditors appointed by C&AG who would be available by the first QFR or company can engage any Chartered Accountant firm other than statutory auditors as per instructions of SEBI.

He also mentioned in this context, the bigger malaise of delay in closing of accounts by companies and gave data of companies that had not sent their accounts to C&AG for audit by 30 September 2004 (in case of 2003–04 Accounts). Also companies that had not prepared accounts for years.

The C&AG viewed the Report of the Committee very objectively and positively. He responded very positively to some of the suggestions and recommendations of the Committee. As a result of these, some follow up action was taken regarding prescribing materiality criteria in the selection of Companies for annual accounts audit of Central/ State Government Companies.

It will be interesting to recall here that in 1984, Dr. Arjun Sen Gupta, who was then Special Secretary to the Prime Minister headed a Committee to Review Policy for Public Enterprises. The Committee in its Report of 31 December 1984 dealt with the role of Comptroller and Auditor General of India in the audit of Public Enterprises. The two questions that engaged the attention of the Committee were:

(i) Performance audit of PSUs done by C&AG
(ii) Supplementary audit of PSUs [under section 619(4)]

On Performance Audit, the Report had this to say 'The general consensus in the Committee is that performance audit of the Auditor General should be continued. These reports serve a very useful purpose and have generally earned the respect and admiration of the legislator and the discerning public.'[22]

On Supplementary Audit, the Committee said 'It is … a moot point whether supplementary audit on the annual accounts of Public Enterprises should continue. In the view of Chief Executives of PSEs the additional certificate presently given by the C&AG in the case of Pubic Enterprises was superfluous. The Committee then went on to analyze the issue by dividing the PSUs into 2 segments—profitable non-core companies and large enterprises in the core sector. For the former, it recommended doing away with C&AG audit; for the latter it said 'Supplementary Audit, as at present may be continued'[23].

It also suggested that in large core sector enterprises, it was necessary to avoid two audits 'regular audit by Chartered Accountants may be dispensed with and only audit by C&AG provided for by suitable amendment to Act'.

CORPORATE GOVERNANCE

Corporate governance issues became subjects of focused attention, following the disclosure of a number of corporate scandals involving some of the reputed companies like ENRON, World Com, etc. These developments forced the Government towards bringing in some legislation to enforce corporate integrity, accountability and better governance. In USA, SARBANES OXLEY Act was enacted for the purpose in 2002. In India, corporate governance practices were introduced through amendments to Companies Act in 2000. SEBI also introduced a new clause 49 in listing agreements between Stock Exchanges and the Companies listed. These changes were mostly the outcome of three important Committees viz, Kumarmanglam Birla Committee appointed by SEBI in 1999, Naresh Chandra Committee appointed by Ministry of Finance in 2002 and Narayana Murthy Committee, appointed by SEBI in 2003. The important aspects of good corporate governance introduced through clause 49 of Listing Agreement or amendments to Companies Act 1956, were independence of auditors, audit committees, independent Directors on the Board, Chief Executive Officer's certification of financial statements, Director's Responsibility Statement and transparent disclosures. Also Board of Directors should have not less than 50 percent as non-executive Directors in the case of listed companies.

Audit saw its role very clearly in Corporate Governance issues. A quality audit itself is a great contributory factor in Corporate Governance.

C&AG became active in seeking the compliance of Corporate Governance requirements from listed Government Companies, and, therefore, in the Audit Report (Commercial) for the year ended March 2001 (No.1 of 2002), a picture of the compliance of these requirements was presented. The review revealed that a number of companies, though listed, had not fulfilled the requirement of having minimum 50 per cent independent Directors in the Board excluding Government nominee Directors, Government Directors were not regular in their attendance on the Board's meetings indicating their weak commitment towards principles of corporate governance and while BHEL had a Board level Audit Committee from July 1998 which was reconstituted in August 2000 in line with amended Companies Act, but Audit Committee vacancies were not filled in so that Annual Financial Statement of the company for the year 2000–01 could not be reviewed by them. In some of the big companies, Audit Committees were not mandated to look into fraud and fraud related risks.

The present C&AG took a keen interest in corporate governance issues. In a letter to Cabinet Secretary, B.K. Chaturvedi, he made a suggestion, in March 2005, for a need to evolve a Code of Corporate Governance specifically for Public Sector Enterprises. He said such a code would be able 'to highlight issues unique to the Public Sector Enterprises in India'. He said such a move would also have a 'salutary impact on business ethics in Public Sector'. Based on C&AG's advice, guidelines for Corporate Governance have been issued by the DPE for all public sector enterprises under the Union Government in June 2007.

In an important decision, C&AG directed (in July 2006) that a data base on listed and other major Central and State PSUs be prepared to include the information on mandatory practices relating to corporate governance under clause 49 of SEBI Act and under the Companies Act. The data base is quite comprehensive, and will be used by the C&AG to project in his Audit Reports the status of Corporate Governance in PSUs.

In a comprehensive survey of the status of corporate governance requirements in 45 listed Government companies, the results of which where reported in Audit Report No. 9 of 2007, the C&AG made following important observations[24]:

'Though most of the companies had generally complied with the requirements of Corporate Governance in a constructive manner, the main non-compliance observed related to absence of required number of independent Directors on the Audit Committee. In 12 government companies, there was no independent Director on the Audit Committee and in five government companies the Audit Committee did not comprise the required number of independent Directors. This resulted in a number of other related instances of non compliance with clause 49'.

C&AG also directed that of the 10 Best Practices for Audit Committees included in the Blue Ribbon Committee Report[25] on improving the effectiveness of Corporate Audit Committees, the following 4 may be included for C&AG's directions to Statutory Auditors under section 619(3):

(i) The external auditors to report annually on their independence from the company.
(ii) The audit committee to discuss the quality of accounting principles with the external auditors.

(iii) The audit committee to produce a report on its activities.
(iv) Quarterly financial statements to undergo a critical review by the external auditors.

REGULATIONS-2007

The newly proclaimed Regulations have further streamlined the procedure for audit by statutory auditors. These include, interalia, preparation of programme of audit by statutory auditor in consultation with the company and also the Member Audit Board. The Regulations have detailed the various duties and responsibilities of statutory auditor in planning his work. It has also listed out the responsibilities of statutory auditor vis-à-vis Principal Director of Audit (Commercial) and MAB.

Audit Arrears Committee: Regulations have also streamlined the system of settlement of outstanding audit observations which is a big issue at present. In case of both Central and State Public Sector Enterprises, the responsibility for settlement of Audit observations lies with the management of the company. Each Company, which has large number of IRs and paras outstanding for more than two years, shall constitute an 'Audit Arrears Committee' consisting of sufficiently senior officers of the Company for speedy settlement and clearance of outstanding Audit observations. The Government concerned will take steps to ensure constitution of these Committees and their effective functioning.

STATE COMMERCIAL AUDIT

State Accountants General carry out audit in three distinct functional groups namely:

❖ Civil Audit i.e. dealing with audit of all the State Government Departments and other allied institutions;
❖ Receipt Audit i.e. dealing with the Revenue receipts of the State Government; and
❖ Finally, Commercial Audit i.e. dealing with all commercial enterprises or State PSUs of the State Governments.

There is no uniform pattern about the charges held by State AGs in respect of these three functions—at some places Accountant General (Audit) deals with Civil Audit Report as well as Commercial Reports while another AG deals with Audit Report (Receipts) and at the other places one AG deals with Civil Audit while another deals with both, Commercial and Receipts. Only

Accountant General (Commercial Audit) Maharashtra, Mumbai holds exclusive commercial charge. For commercial audit, there is a separate cadre in respect of the Section Officers and above which is administratively controlled by the Commercial Audit Wing of Headquarters under the DAI (Comml.)-cum-Chairman Audit Board.

The audit process and system etc. in respect of audit of State PSUs is exactly same as in the case of Central PSUs. As Companies Act, 1956 applies to Government Companies across the country whether they are Central Government Companies or State Government Companies, the provisions relating to the audit of these companies in the Companies Act which defines the powers and functions of the C&AG as regards the audit of these companies is applicable to State PSUs also. In the case of Statutory Corporations set up under the State Act, even if there is a provision regarding the audit of that corporation by the C&AG, necessary procedure for entrustment of audit to the C&AG in terms of the C&AG's DPC Act will need to be followed.

The total number of State Government entities as on 31 March 2005 subject to C&AG's audit were 1233 comprising 1062 Government Companies; 92 statutory corporations, 15 State Electricity Regulatory Commissions and 64 deemed Government Companies. One peculiar feature of State Government Enterprises is that a number of them are not functional for example as on 31 March 2005, as many as 320 state government enterprises were non functional. Another disturbing feature is that a large number of them do not have their accounts up to date and the arrears in accounts vary from company to company, state to state but overall accounts of around 775 companies were in arrears for a period ranging from one year to 35 years. A large majority of these undertakings are running in losses.

Fifteen[26] State Accountants General produce an exclusive Audit Report on Commercial Audit for C&AG's countersignature and presentation to Legislature. Audit Report on commercial entities in respect of Himachal Pradesh was issued in some years as a combined Civil and Commercial Report and as an exclusive report in some years depending upon the coverage and materiality of the audit findings. In respect of all other states namely Arunachal Pradesh, Chhattisgarh, Delhi, Goa, Jammu and Kashmir, Jharkhand, Manipur, Meghalaya, Mizoram, Nagaland, Puducherry , Sikkim, Tripura, Commercial chapter is included in the Audit Report (Civil) of the concerned states. These reports are discussed in the

Committee on Public Undertaking of the State Legislature. The status of discussion of State Commercial Audit Reports by COPU is reflected in the Annex.

At Headquarters, an Addl. DAI heads the State Commercial Reports Wing, some of the important developments that occurred in the post 1990s in this field are recounted below:

- C&AG constituted an Audit Review Committee for Comprehensive Appraisals of Public Sector Enterprises (ARCPSE) in the State for which a letter was addressed to all the Accountants General in charge of State Commercial Audit in September 2002. This Committee essentially is some kind of a replica of Audit Board mechanism prevalent for the Central Public Sector Enterprises. As far as State Public Sector Enterprises were concerned, no procedure existed for any discussion on the draft audit appraisal or interaction with State administration or the Chief Executive. Some States PAG/AG held power point presentations on the draft comprehensive appraisals/reviews followed by discussion with the Secretaries and the Chief Executive of the organization and from these interactions, the perception gathered was that such an involvement of the auditee companies/State Government secretaries would be highly useful and rewarding for a number of reasons. As a result, C&AG formally decided to constitute a State level committee styled as above on a regular basis. The Committee has six members including the member secretary who will be the group officer in charge of Commercial Audit. The Committee headed by AG in charge of the audit appraisal and AG holding Commercial charge of a neighbouring state were to be another expert member. Government nominees included Secretary of the respective department, and CMD/MD of Company/Cooperation concerned. In case technical issues were involved, State Government could nominate a technically qualified person to be a technical member. It was also provided that DAI/ADAI State Commercial, if he so desired, could nominate an officer from Headquarters to attend the meeting of the Committee. The Committee basically was to be a forum for inputs for the suggested appraisal. The instructions had made it clear that committee would only go into merits and demerits of the points or audit findings and if the management/government disagreed with any audit point they would convey the same in writing in reply to audit queries raised or draft appraisal issued. This will be considered and incorporated with suitable remarks in the final appraisal report. AsG were requested to bring to the notice of the State Government the formation of ARCPSE so that they could issue necessary instructions to the departmental head and Chief Executives of companies. These Committees have been formed in most of the states but the interaction level differs from State to State. However, overall these committees have facilitated in the performance audit of the State PSUs.

- ❖ A five year rolling corporate plan for State Commercial Wing was introduced from the year 2000–01.
- ❖ The IT Audit plan was introduced in the Commercial Audit Wing of States from 2002–03. Now, State Audit Reports on Commercial audit include IT Audit findings.
- ❖ Perspective Plan 2003–08 of the department was also applicable for State Commercial offices.

Several new themes/ topics were introduced for study, analysis and inclusion by the AG in their Audit Report (Commercial) as indicated below:

(a) Analysis of internal control system in the State PSUs;
(b) Corporate Governance in the State PSUs;
(c) Persistent non–compliance with Accounting Standards;
(d) Compliance with environmental laws;
(e) Arrears in accounts;
(f) Analysis of reasons for loss making companies; and
(g) Theft of energy and material in State Electricity Utilities.

Following the introduction of new Performance Auditing Guidelines, the format of Performance Reviews was revised by Headquarters in July 2005.

A system of Audit Committees for settlement of old Inspection Report paragraphs was introduced in April 2003.

RANKING PERFORMANCE OF COMMERCIAL AUDIT OFFICES

In another notable development during this period a system for ranking of Offices was introduced by Headquarters in 2004. This applies to all the branches of C&AG and is not peculiar to Commercial Audit Branch. After implementation of the system for ranking of offices for the year 2004–2005, some skewedness in the system was observed and accordingly modifications were made by Central Commercial Wing for ranking performance of offices under its purview. An attempt has been made for the first time in the department to rank the performance of the Audit Offices in an open and transparent manner, the department is perfecting the matrix further to get as appropriate ranking as possible.

MEASURES FOR IMPROVING THE EFFECTIVENESS OF AUDIT OF COST ACCOUNTS/RECORDS OF PUBLIC SECTOR UNDERTAKINGS

Realizing that the effectiveness of the prevailing audit of cost accounts/cost records of PSUs was not much even though cost control and cost reduction had become significant factors for their survival, the Headquarters issued instructions in May 2005 in this regard for compliance by field offices. These instructions were based on the recommendations of a Committee appointed by C&AG and as approved by him subsequently:

- ❖ The instructions required each PDCA/AG to review the functioning of PSUs within his/her charge and if it was felt that costing in a particular unit/area of activity of a PSU required special attention, a special group/team was to be created by drawing qualified officers from other assignments.
- ❖ Regular refresher courses for officers/staff working in Commercial Audit offices were to be organized in consultation with RTIs for training in understanding costing information and cost accounts as also critical examination/audit thereof; a special course on capital budgeting techniques was also to be organized jointly for all the offices in the area.
- ❖ Commercial Audit staff having professional qualifications like CA/ICWA were to be utilized to their full potential by giving them proper assignments keeping in view their qualifications and requirements of the office.

The instructions also enclosed a list of model checks to be exercised during the audit of cost accounts of PSUs for reference and guidance of the officers.

The existing title sheet for supplementary audit of accounts as prescribed in the 'Handbook of Instructions' was reviewed and revised in March 2007 to include the standard audit checks. The revised 'Title Sheet for Comments on Accounts' is applicable for the reporting cycle 2007–08.

A few important paragraphs pertaining to Commercial Audit are discussed below:

ONGC Joint Venture: The production sharing contracts for development of certain oil fields as joint venture between the National Oil Companies (40% stake) and certain private operators (60% stake) were approved by the Ministry of Petroleum and Natural Gas without submitting to the Government, the comparative economics of these oil fields being developed by National Oil Companies on a stand alone basis. The estimated oil reserves which formed the basis of evaluating different qualifying bids were not only the lowest of a set of varying estimates projected at different stages leading to contract being awarded but also differed from the estimates mentioned in the notice inviting tenders. The bid evaluation criteria mentioned in the notice inviting bids were not complete and unambiguous and the whole procedure of tender evaluation suffered from various inadequacies. In awarding production sharing contracts in respect of Panna-Mukta and Mid & South Tapti Oil fields past cost compensation amounting to Rs. 676.52 crore was not insisted upon. Similarly signatures/ production bonus payable by the Joint Venture to ONGC/OIL were not based on well defined rationale. The contracts were also indicative of lack of level playing field for the National Oil Companies vis-à-vis Joint Venture operators in matters of pricing, royalty, cess and customs duty. No. detailed abandonment procedures were incorporated in the contract.

(Report No. 5 of 1996)

Steel Authority of India Limited (SAIL): In 1999, C&AG brought out a Report on the four areas of working of SAIL. These were; (1) Modernisation of Rourkela Steel Plant; (2) Marketing Organisation of SAIL; (3) Import of Coking coal by SAIL; and , (4) Utilisation of Aircrafts owned by SAIL. This was not a full fledged comprehensive review of the company as such and in that sense 'the Report was not a complete chronicle on the working of SAIL', but the report projected some very vital but weak areas of functioning of SAIL. This Review was more in line with the then prevailing system of bringing out Mini-Reviews on certain aspects of a company's working.

The first Review on Modernisation of Rourkela Steel Plant brought out that despite huge investment of Rs. 2461 crore on modernisation, it mostly turned out to be unproductive since there was little or no improvement in techno-economic parameters and these plants continued to incur progressively huge losses. A part of these losses were attributable to SAIL's late reaction to the changed market scenario. In the case of modernisation, the actual results were very poor compared to what was estimated. While it was envisaged that hot metal production would go upto two million tonne (MT), it could produce only 1.4 MT of hot metal during the years 1997–97 and 1997–98. Similarly, the crude steel production was 1.1 MT before modernisation while after modernisation the actual production was about 1.2 MT which was less than the base capacity level of 1.4 MT before modernisation.

In the review of Marketing Organisation of SAIL, the report brought out the dismal performance of its marketing policy. Among the inefficiencies noted by Audit were failure of the company to formulate its new marketing policy in time to face the challenge of decontrol of the steel sector, failure of the company to regulate the production with the market demand even after making huge investments on plants modernization—the private sector snatched the initiative from them; and the substantial variation in actual production of iron and steel material vis-à-vis the companies sales planning and finally Audit Report also brought out an interesting factor that while the marketing organisation of company was located at Calcutta, its Director was based in New Delhi. Audit criticised the pricing policy of the company on various accounts and brought out that company could not fulfil its target of sales in any of the year from 1992–93 to 1997–98 except in 1994–95. The company was saddled with a very sizeable stock of saleable steel lying in the stockyards for a period of more than six months and on the sundry debtors front, it was again a very dismal picture—the total debts of the company increased from Rs. 913 crore in 1993 to Rs. 1932 crore in 1998.

In its review of Import of Coking coal by SAIL, audit report brought out the adhocism involved in purchase of an important raw material which constituted the significant percentage of total inputs. The coking coal was imported to meet the gap between the indigenous availability and actual requirement and also for improving technical parameters of coal blend. The Report indicated that company changed technical specifications of coal ten times upto year 1991 and these were further broad based in 1995. These changes caused losses to the company as reflected in the Audit Report. SAIL also lost or incurred extra expenditure on import of coal on spot purchases between 1992 and 1995. SAIL also was a looser on long term contracts concluded with Japanese Steel Mill and incurred additional expenditure on these long term contracts and finally, the Report brought out that in violation of Government's instructions, SAIL allowed the foreign suppliers to engage Indian agents and paid agency commission to them.

Fourth subject of review was 'Utilisation of Aircraft owned by SAIL'. SAIL had a fleet of six aircrafts of which one crashed in February 1998. Various points brought out by audit on this subject were: the percentage of non-entitled passengers to total passengers for five year period 1992–93 to 1997–98 was between 34.82 and 56.36; exclusive flights for spouses and dependents numbered 33 which was a violation of guidelines issued by SAIL; there was no rule for taking approval from the next higher authority in case of use of the aircraft by the spouses or the dependents of the competent authority. Audit also noted that journeys of 34 passengers who were spouses/dependents of Managing Directors/ Director were treated as official. There were several comments in the Audit Report about the irregularities like non maintenance of passenger lists, non availability of information relating to entitled/ non-entitled passengers, maintenance of journey log book without indicating the status and entitlement of the passengers who used the aircraft etc. Audit also noted violation of air-safety regulations by the aircraft. It was also brought out that the aircraft were grossly underutilize—the utilization of the aircraft to the available hours ranged between 1.49 per cent and 40.6 per cent during 1992–93 to 1997–98 because of many empty flights. The incidence of extra expenditure due to excess consumption of fuel was to the extent of Rs. 81.46 lakh.

(Report No. 6 of 1999)

Extra Expenditure in Construction of Kishenpur-Moga Transmission System: Additional Expenditure of Rs. 433.81 Crore: Audit Report (Commercial) of 2004 highlighted the case of huge extra expenditure by Power Grid Corporation of India Ltd. in the construction of Kishnepur-Moga Transmission system (KMTS). The original approved cost of the project was Rs. 417.71 crore (in May 1993) and while Audit calculated the total cost of the project when commissioned in January 2001 at Rs. 847.91 crore resulting in overall cost overrun of Rs. 430.20 crore and time overrun of 34 months, the PAC in their report reckoned the initial cost of execution of Rs. 857.63 crore resulting in cost overrun of Rs. 439.92 crore which was slightly more than double the cost of original approved estimate. This extraordinary escalation in the cost was attributable to a number of factors of which the main reason was the absence of any technical scrutiny regarding design of towers by the company at the pre qualification stage. The abnormal increase in the weight of tested towers was the main reason for failure in design. It came out from the Audit Report that whereas the company was not in favour of engaging M/S Cobra, which was the lowest bidder for both the lines of KMTS because of his lack of experience, the World Bank did not agree to the recommendations hence both the contracts were awarded to M/S Cobra. Lack of experience of the firm in the execution of project of 800 KV lines led to repeated failures in design and testing of towers which caused delay of 23 months and resultant increase in project cost by Rs. 217.22 crore. While the management and the ministry stated that no technical compromise was made in adopting qualifying requirements for selection of the firm and that the delay was not due to any inexperience of the firm but the actual failure of towers during testing and limited availability of test beds in India. The delay was also attributed to severe right of way problem in this particular case, the PAC blamed the unreasonable World Bank conditionalities/guidelines and lack of adequate initial technical scrutiny by the Power Grid at the initial evaluation stage as two main factors resulting in cost and time overrun. Due to lack of prudence in initial planning and estimation, the inability of Power Grid to take the World Bank into confidence on various issues also contributed very much to the cost and time overruns. Out of the total project cost escalation, surprisingly more than Rs. 300 crore related to interest during construction (IDC) alone against the approved project estimate of Rs. 2 crore on account of IDC. The PAC wanted the government to open up the matter of payment of IDC with the World Bank for a refund of the claim of IDC on the ground that the delay in completing the project could be attributed solely to the firm which was 'thrust upon the PGCIL to execute the project only at the behest of the World Bank'.

(Paragraph 15.3.1 of Audit Report No. 2 of 2004)

ANNEX

POSITION OF DISCUSSION OF AUDIT REPORTS (COMMERCIAL) BY COPU AS ON 30 SEPTEMBER 2006

State	Year upto which discussion of paras of Audit Reports completed by COPU
Karnataka and Rajasthan	2002–03 (except 2000–01)
Gujarat, Haryana and Madhya Pradesh	2001–02
Kerala	2000–01 (except 1999–2000)
Maharashtra	2000–01
West Bengal	1999–2000
Himachal Pradesh	1998–99
Punjab	1996–97
Tamil Nadu	1994–95
Orissa	1993–94
Andhra Pradesh	1991–92
Assam	1988–89
Uttar Pradesh	1981–82
Bihar	1980–91

NOTES: CHAPTER-7

[1] Statement made by the C&AG of India at the meeting of the sub-committee on the 'Exchequer Control over Public Expenditure' held on the 13th December 1952 also page 360 of R.K. Chandrasekharan: The C&AG of India—an Analytical History

[2] R.K. Chandrasekharan: The C&AG ofIndia—An Analytical History.

[3] Chairman was common to all the Audit Boards constituted for the purpose of appraisal of a PSU. Till December 1989 an Addl. DAI headed the Commercial Audit Wing in HQrs. From 1st January 1990 the post was upgraded to DAI level.

[4] Madras in July 1972; Ranchi in August 1972; Dehradun in December 1972; Calcutta in January 1974; Hyderabad, New Delhi andBhopal in March/ May 1978.

[5] Out of these, 1062 were Government Companies, 64 deemed Government Companies and 107 were Statutory Corporations. Of these about 320 were non functional companies.

[6] This represents equity of 277 PSUs

[7] A.K. Awasthi

[8] Govt. company is provided in Section 617 of the Companies Act while section 619 B lays down the criteria for determining if a company is a deemed Government company.

[9] Receipt of applications 'on line' from CA firms for empanelment was introduced in the year 2005, for the biennial years 2005–06— the data of all CA firms i.e. firm details, member details and branch details etc. are also obtained directly from ICAI in soft copy.

[10] The Committee of RBI that selects the auditor has a representative of C&AG also.

[11] C&AG's Audit Report, Union Government (Commercial), No. 9 of 2007.

[12] R.B. Sinha was the concerned Member, Audit Board; this point was discussed at length by the Chairman, SAIL (Arvind Pande) alongwith his top team with C&AG and author who was then DAI-cum-Chairman, Audit Board.

[13] General Clarification (GC)—AASB/1/2002

[14] Statement on Standard Auditing Practices has been renamed as Auditing and Assurance Standards and carry the same authority as attached to SAPs.

[15] For an excellent account of Audit Board Mechanism and the views of important committees viz The Economic Administration Reforms Commission, chaired by Shri L.K Jha (1984) and Dr. Arjun Sen gupta Committee (constituted in September 1984 to review the policy for public enterprises), please see R.K. Chandrasekharan's History pages 527–534. The author has given his comments on the views of these two Committees concerning Performance Audit of Government enterprises including Audit Board Mechanism.

[16] Note dated 18th March 2005 recorded by PD (Commercial)

[17] Note recorded by Shri Sunil Chander, Pr. Director (Commercial Audit) to Member Secretary Audit Board

[18] C&AG had recorded his note in March 2005.

[19] The Committee was constituted vide DPE Notification No. 18(24)/2003-GM dated 11.11.2004 and was headed by Dr. Arjun Sengupta

[20] Secretary, DPE's D.O. to C&AG forwarding the Report of the Group

[21] Other Members of the Task Force were Addl. DAIs, Report-Central, Report-States, C&SCS, RA and DG (Audit) and DG (Performance Audit). PD (Commercial) as Member & Secretary.

[22] Report of the Committee to Review Policy for Public Enterprises December 1984

[23] As above

[24] Chapter 3 of C&AG's Audit Report, Union Government (Commercial), No. 9 of 2007 (Regularity Audit)

[25] Blue Ribbon Committee was constituted by the New York Stock Exchange and the National Association of Securities Dealers on improving the Effectiveness of Corporate Audit Committees. The Committee was actually created in response to the concerns expressed by Arthur Levitt (in September 1998) Chairman of SEC in address at New York University which mostly focused on issues involving quality of financial reporting.

[26] Andhra Pradesh, Assam, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, and West Bengal.

LIST OF KEY EVENTS

September 1990	Headquarters issued instructions regarding system improvement in the Commercial Audit Wing
1993	Introduction of computerized database of applicants for registration for preparing panel of statutory auditors for companies.
January 1994	C&AG received communication from Banking Division for dealing with recommendations of JPC Report on Irregularities in Securities and Banking Transactions
1999	Section 210 A was inserted in Companies Act empowering Central Government to constitute National Advisory Committee on Accounting Standards having a representative of C&AG.
December 2000	Companies Act was amended with provision that the appointments of Chartered Accountants will be made by C&AG.
July 2001	Issue of instructions containing checks to be exercised by field audit parties to avoid manipulation of accounts.
4 September 2002	C&AG approved constitution of audit review committee for comprehensive Appraisals of State Public Sector Enterprises (ARCPSE)
5 September 2002	Time limit of six weeks laid down for completion of annual accounts of PSUs
30 May 2005	Instructions issued regarding finalization of comprehensive appraisals through the mechanism of Audit Board. These contained measures for improvement of the system. This was followed by another circular issued on 7.11.2005
2 December 2005	C&AG wrote to Prime Minister countering opinion of Irani Committee that supplementary audit of Government Companies was superfluous.
20 January 2006	Constitution of permanent 'Audit Board for Central PSUs'
20 June 2006	Common parameters for evaluation of risk analysis for different types of audit developed in Headquarters were communicated to all MABs and DG(P&T).
21 July 2006	Revision of criteria for selection of Government Companies for audit of their accounts under section 619(4) of Companies Act 2006
2 August 2006	The system of issue of 'Review of Accounts' in respect of Central Government Companies was dispensed with.
5 March 2007	Revision of format for issue of comments under section 619(4) of the Companies Act.
14 March 2007	Headquarters issued instructions regarding improvement in financial reporting.
14 March 2007	Revision of Title Sheet for Comments on Accounts of Central PSUs

May 2007	C&AG nominated DG (Commercial) as his nominee on the Quality Review Board.
20 June 2007	Circular issued for determining the significance/ materiality for C&AG's comments under Section 619(4) of Companies Act.

DOCUMENTS

1

Statement made by the Comptroller and Auditor General of India at the meeting of the sub-Committee on the 'Exchequer Control over Public Expenditure' held on the 13 December, 1952.

14. In considering the setting up of a suitable machinery for Exchequer control, it will not be irrelevant to mention certain recent developments which have the effect of whittling away Parliamentary control over public monies. I refer to the formation of Private Companies under the Indian Companies Act for management of Governmental Industrial Undertakings financed from the Consolidated Fund. These 'Private Ltd.', Companies are, in my 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 Government. Under the Companies Act, a Company can be formed by a group of persons. The President or the Secretary to Government is not a person. These officers do not have any personal financial interest in the Company and their joining together cannot constitute a Company in the correct sense of the term. Further, to convert a Government concern into a Private Company solely by executive action is unconstitutional. While recognizing that the management of industrial and business concerns differs from normal day to day activities of administration and that special organization and delegation of authority more in accordance with the speedier business practices may be necessary, the Government should have the backing of suitable Parliamentary enactment for the setting up of Corporations.

There is another important point involved in this procedure of creating a Private Company under the Indian Companies Act, Private Companies are to be audited by Auditors nominated by the Board of Directors. The Comptroller and Auditor General will not, therefore, have any automatic right to audit such a Company. It is likely to be argued that his audit control is thus ousted. It is true that the Company may 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 are prescribed by Parliament, and cannot be regulated by the Articles of Association of a Company. Furthermore, even if he undertakes 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 Public Accounts Committee the regularity of the operations and the financial results of any such Company. These observations also apply to concerns in the form of Private Companies in which Government take substantial share capital or guarantee against losses.

I regard the entire procedure adopted in these cases as unconstitutional and invalid, and hold that I have a right to exercise audit on the accounts of the Company on the basis that by an improper diversion of funds they should not escape my audit scrutiny. I may mention that the creation of such Companies through executive action is expressly prohibited in the U.S.A., and the Congress has specifically to legislate in the matter.

Authority: Appendix I to the Public Accounts Committee's Third Report 1952–53

2

D.O No. 221-CAIV/94–98 date 25 July 200 fromPr. Director (Commercial) to all MsAB, DG (P&T) and PD (Central Railways)

Dear

While examining the comments on the accounts of Government Companies/Corporations, it has been observed that a number of PSUs are window dressing their accounts for showing better results. The possible ways by which the companies can manipulate their profits are:

- Wrong setting of sales or accounting of income on services rendered at the time of closing of accounts;
- Manipulation in valuation of the closing stock of inventories;
- Unrealistic accountal of interest income, the principal amount of which is doubtful of recovery;
- Some time expenditure is accounted for less or more to manipulate the profit/loss. For example providing less or more depreciation, providing less or more for statutory dues, doubtful debts/loans & advances/ investments, and other liabilities;
- Sometimes specific liabilities are shown as contingent liabilities;
- Making a provision and then writing it back in subsequent year;
- Accounting Policies are changed frequently for showing better results;
- Manipulation in accounting various claims;
- Instead of providing for known liabilities or income, a brief disclosure is given in the notes to accounts;
- Non-registration of title deeds of property and also not providing for liability on account of expected stamp duty payable on registration of title deeds;
- Absence of clear title on property.
- Prior period adjustments;
- Sale/purchase of securities /investments;
- Depreciation amortization and depletion in the case of Oil & Gas accounting;
- Other Sector specific ways within the knowledge of MABs.

DAI (C) had directed that in addition to normal checks being exercised in the accounts audit, the areas where possibility of window dressing is more may be critically examined by the field audit parties during accounts audit and suitably commented upon so that the accounts represent a true and fair view of the affairs of the company. He has further desired that to ensure due diligence in examination of these issues a statement indicating in brief the results of examination of these items (mentioning comments proposed in each category) may invariably be prepared and sent to Headquarters along with the proposal for approval of comments or 'nil' comments.

The issue regarding sending of aid-memoire in respect of draft comments dropped by MAB has been examined and it has been decided that aid-memoire may only be sent in respect of draft comments proposed for approval. In respect of draft comments dropped by MAB or his Group officer, a summary of the dropped comments in the enclosed proforma may be sent along with the proposal for approval of comments or 'nil' comments.

3

No. 376 CA-IV/83-2004
Date: 7-11-2005

To,
All MsAB
DG(P&T)

Sub.: Changes in the Audit Boards Mechanism for Central PSUs.

Sir/Madam,

The system of appraising the working of central PSUs through the mechanism of the Audit Board was introduced w.e.f 1 April 1969 by formation of Audit Boards under the jurisdiction and control of the C&AG as part of this organization for conducting comprehensive appraisal on the working of commercial undertakings of Central Government. The system worked well when the size and geographical spread of the PSU was within manageable limits and the performance of PSUs needed close monitoring because of their inherent weaknesses. However, over the years, there have been drastic changes in the operating environment of PSUs and the monitoring mechanism of PSUs in government has also been strengthened. With the increase in the size of the companies and the vast diversification in their scope of activities, the conduct of comprehensive appraisals on all aspects of their working is perhaps not necessary. Accordingly, it was felt that there is a need to effect changes in the approach of audit from conducting comprehensive appraisals of PSUs to focusing on critical areas of concern in their performance for which orders have already been issued vide letter no. 185-CA-IV/83-2004 dated 30 May 2005. The Audit Board will now focus its attention on Performance Audits of thematic issues. These issue may relate to a particular PSU or could cut horizontally across several PSUs. The objective of such a well-designed study would be to provide a clear sense of direction and focus to the audit effort, provide a logical framework, which will add value to the organization from the likely findings and recommendations, and reduce staff time wasted on irrelevant collection and analysis of data. Such an approach will make the audit findings more relevant for management decision making and will be in tune with the increasing emphasis being laid on performance audits.

2. It has, therefore, been decided, in consultation with the Department of Public Enterprises, to restructure the Audit Board to make it more dynamic and responsive to changing time, while at the same time retaining its useful aspects. The benefit of expertise of technical members (i.e. part-time members)

is proposed to be retained, but in order to reduce delays arising on account of their appointments and difficulties in holding meetings of the Audit Board on account of non-availability of part-time members for one reason or another, instead of two part time technical members (nominated by the Government on the advice of the CAG), they will be co-opted as 'special invitees' depending on the sector of operation of the PSU.

The Audit Board will now be designated as 'Audit Board For Central PSUs'. The structure & composition and duties & powers of the Board will be as under:

I Structure and Composition of the Board: The Board will be a permanent body as against the existing temporary nature of the Audit Board (being formed for each appraisal) and will consist of the following:-

1. Dy. Comptroller & Auditor General (Commercial)—Chairman
2. Director General (Performance Audit)—Member
3. Two Principal Directors of Commercial Audit on rotation basis for one year—Members
4. Economic Adviser—Member
5. Pr. Director (Commercial) as Member Secretary.
6. Pr. Director conducting the performance audit (as special invitee)
7. Special invitees—1 or 2 technical experts in the field.

Technical experts will be co-opted as special invitees, if necessary, instead of as part-time members from a panel of experts to be prepared and maintained (reviewed/revised every year) by this office for each sector and appointed by the concerned administrative Ministry in consultation and concurrence with this Department. The special invitees will have the same status as that of members of the Audit Board for Central PSUs. The nomination of 2 Pr. Director of Commercial Audit & Ex-officio Member Audit Board on rotation basis for one year (without renewal) will be made with the approval of CAG.

The orders for constitution of the Audit Board for Central PSUs will be issued by this office and the Board will function as an internal mechanism for conduct of all Performance Audits of Central PSUs as per Performance Audit Guidelines.

II Duties and Powers of the Board: The Board will examine the selection of topics based on strategic audit plan. It will examine the detailed justification for taking up the critical topics and critical issues to be focused therein. All the topics for Performance Audit will be selected by the Board. The Board will recommend whether performance audit will be taken up as a stand-alone report or for inclusion in Commercial Audit Reports No. 8 & 9. The Audit Board will focus on thematic issues, rather than the holistic approach of a Comprehensive Appraisal as per instructions conveyed vide HQrs. letter No. 185-CA-IV/83-2004 dated 30 May 2005.

The 'Audit Board for Central PSUs' will conduct Performance Audit under 2 categories:

Category I: Only the topics will be selected by the Board. Subsequent processing of performance audits will be carried out as per performance audit guidelines by the concerned Principal Director of Commercial Audit as per time schedule laid down vide this office letter No. 185-CA-IV/83-2004 dated 30th May 2005. A representative of Headquarters may participate in the entry/exit conference with the management. These Performance Audits will be included in Commercial Audit Report new series No. 8 & 9 and will follow a 12 month cycle from one Audit Report to the next.

Category II:This will consist of those topics, which are selected for being brought out as 'stand alone' reports due to the extensive and significant nature of the issues involved. All Performance Audits under this category will follow 18 month cycle as laid down in Hqrs. letter No. 185-CA-IV/83-2004 dated 30th May 2005. After the Ist meeting for selection of topic by the Board, as above, subsequent follow up will also be made by the Audit Board in meetings to be held as under:
2nd meeting: to approve the guidelines, audit objectives, criteria and methodology for conducting audit
3rd meeting: for finalization of audit report, with representatives of Ministry/ Management, who may be invited for the purpose. The special invitees will be nominated after the topics are selected in the first meeting of the Board.

- The Audit Board meetings will be conducted with available members and there will be no requirement of a quorum.
- The Board will be recommendatory in nature, and the selection of topics and performance audit reports finalized by it will be subject to approval of the competent authority.
- All performance audits to be undertaken for the Audit Reports of 2007 (work to be undertaken in 2006) will now be prepared under the jurisdiction of the new Audit Board right from the stage of selection of topics. All ongoing audit board performance audits will be processed outside the audit board system and finalized accordingly for Commercial audit report 8 & 9.

3. The IT audit reports will follow the IT Audit Guidelines and will be processed as per Hqrs. letter No. 238-CA-IV/101-2004 dated 10th August 2005. These will form part of Transaction Audit Report No. 12 as mentioned in Hqrs. letter No. 428 Rep(C)/18-92(Vol.II) dated 31 August 2005 from Director (RC). Hence IT audits will not be included within the scope of the Audit Board for Central PSUs as these are to be processed in consultation with iCISA, Noida.
4.The above instructions are issued for information and necessary action and they will be implemented w.e.f. their date of issue.

Yours faithfully,
Sd/-
(Sunil Chander)
Pr. Director (Commercial)

Copy to :- (i) The Department of Public Enterprises with reference to their O.M. No. DPE/5 (20)/2005-Fin. Dated 18-10-2005.
(ii) All Members of Audit Board for Central PSUs.
(iii) All DAIs & ADAIs for information.

4

No. 35/CA IV/83-2004
Dated: 20 January 2006

Sub.: Constitution of permanent 'Audit Board for Central PSUs'. In pursuance of the instructions contained in this office circular No. 376-CA-IV/83-2004 dated 7 November 2005 circulated to all concerned regarding restructuring of the Audit Board, it has been decided to constitute a permanent 'Audit Board for Central PSUs' constituting of the following members:

1. Dy. Comptroller & Auditor General (Commercial)—Chairmain
2. Director General (Performance Audit)-Member
3. Ms. Revathy Iyer, Pr. Director of Commercial Audit & Ex-officio, Member, Audit Board –II, Mumbai-—Member (for one year)
4. Ms. Meera Swarup, Pr. Director of Commercial Audit & Ex-officio, Member, Audit Board-III, New Delhi—Member (for one year)
5. Economic Adviser—Member
6. Pr. Director (Commercial)—Member Secretary

The duties, powers and other details of functioning of the Audit Board for Central PSUs are contained in this office circular dated 7th November 2005 referred to above. The nomination of members on the Audit Board at S. No. 3 & 4 will be for a period of one year from the date of issue of this Office Order.

(Sunil Chander)
Pr. Director (Commercial) &
Member Secretary, Audit Board

5

No. 405 CA-IV/11-98 DATE-21.7.06 from Director (Comml.) addressed to all MsAB and DGA (P&T), Delhi

Sub.: Criteria for selection of Government Companies for audit of their accounts under Section 619 (4) of the Companies Act, 1956.

Sir/Madam,

I am directed to invite a reference to this office Circular No. 41-CA-IV/11-98 dated 19 February 2004 on the subject cited above and to state that the existing criteria for selection of Government Companies for audit of their accounts under Section 619(4) of the Companies Act, 1956 has been reviewed and it has been decided to revise the criteria as under:

I. Selection of companies other than finance companies:
Criteria: Companies with either a paid up capital of Rs. 100 crore or more or a turnover of Rs. 250 crore or more should be selected for annual audit of accounts.

II. Selection of finance companies:
Criteria: (a) Companies with paid up to Rs. 100 crore or more should be selected for annual audit.
(b) In addition MABs could select more such companies on the basis of risk assessment after reviewing the disbursement/ investment portfolio, poor internal controls and borrowings profile.

III. Selection of finance companies not covered in the above criteria:
Criteria: Companies may be selected by MABs on the basis of criteria like risk assessment, expansion , internal control, huge market borrowings, loss making companies with accumulated losses of Rs. 100 crore etc.

IV. Selection of all companies once in 4 years: All companies must invariably be audited once in 4 years to mitigate audit risk.

The above criteria may please be implemented with immediate effect.

6

No. 617 CA-IV/-22-2005 Date: 27-10-2006 from Director (Comml.) to all MABs and DGA (P&T)

Sub.: Issue of Management Letter to companies in case of supplementary audit.

Sir/Madam,

The matter regarding issue of management letter to companies with a view to bringing to their notice all matters that were not considered material enough for reporting in C&AG's supplementary audit observations, has been examined at Hqrs. It has been decided that issue of such letters to the management may be made a standard practice. Such matters could involve significant accounting and disclosure issues (including complex or unusual transactions and highly judgmental areas permitting alternative accounting treatment), which pose a credible risk to fair reporting in the Annual Financial Statements. It is, therefore, requested that in case of companies chosen for supplementary audit, Management Letters containing an exhaustive list of all important matters which have not been highlighted by statutory auditors and which were not considered material for C&AG's formal supplementary audit comment, may be issued to companies under your audit jurisdiction.

2. A copy of the Management Letter, as issued to companies, may also be sent to the statutory auditors seeking their clarification for not pointing out the same either in their formal Audit Report under AAS-28 or in their letter to the Audit Committee/Board under AAS-27.

7

No. 113 CA-IV/38-2006 dated 5.3.07 from DG (Comml.) to all MsAB and DGA (P&T), Delhi

Sub.: Revision of Format of issue of Comments under Section 619(4) of the Companies Act, 1956.

Sir/Madam,

The existing formats for issue of Comments under Section 619(4) of the Companies Act, 1956 by the C&AG have been reviewed in the light of national and international standards on reporting by the auditors. It is the accepted best practice that the assurance process of financial statements of an entity should clearly indicate its objective, scope and legal requirement. Keeping all these aspects in view, it has been decided under the orders of the C&AG to revise the existing formats of C&AG's comments under Section 619(4) of the Companies Act, 1956 and a copy of the following revised formats are enclosed:-

(i) Revised Format for issue of 'Comments'
(ii) Revised Format for issue of 'Nil' Comments.
(iii) Revised Format for issue on 'Non-Review Certificate'
(iv) Revised Format for issue of 'Nil comments after Revision of Accounts'
(v) Revised Format for issue of 'Comments after Revision of Accounts'

The above revised formats of Comments may be adopted in the Audit Reporting Cycle 2007–08.

2. It has also been decided to obtain a 'Compliance Certificate ' from the statutory auditors along with their Audit Report under Section 619(3) (a) of the Companies Act, 1956 in order to obtain an assurance regarding compliance with the C&AG's directions issued under the above mentioned Section. All MsAB/DGA (P&T) are, therefore, requested to ask the statutory auditors of the companies at the time of issuing directions/sub-directions to submit this Compliance Certificate along with their Audit Report under section 619(3) (a) of the Companies Act, 1956. A format of 'Compliance Certificate' is enclosed.

8

No. 153 CA-IV/4-98/Vol. II dated 14.03.07 from DG (Comml.) to all MsAB and DGA (P&T), Delhi

Sub.: Instructions regarding improvement in financial reporting by PSUs as a result of audit oversight by C&AG.

Sir/Madam,

The prime objective of C&AG's oversight role is to improve the quality of financial reporting by PSUs. It is therefore important to develop synergy with the Audit Committee of the PSU and the statutory auditor so that there is an overall improvement in financial reporting in the interest of better corporate governance. While reiterating the instructions contained in Circular No. 165/

CA-IV/4-98-Vol II dated 29 March 2006, following further instructions relating to the audit of accounts of PSUs may be kept in view by the field offices:-

(i) In order to plan and conduct an effective audit, the audit party engaged in the audit of a particular PSU should acquire sufficient knowledge of the PSUs business risks to enable them to identify the events, transactions and practices that may have significant impact on financial reporting. A useful approach could be to maintain a Risk Register for each major PSU. This would help in identifying areas of special audit attention, to evaluate the reasonableness of accounting estimates and to make judgment regarding the appropriateness of accounting policies, accounting treatment of specific transactions and disclosures. The MABs/DGA (P&T) may please ensure this aspect while planning the audit and deputing audit teams.

(ii) The significant accounting policies and notes to accounts disclosed in the financial statements should be relevant, comparable and understandable. It has been observed that some PSUs give extensive disclosures through accounting policies and Notes to Accounts. In such cases, the MAB/DGA (P&T) should review and discuss the same with the statutory auditors/management during the audit planning interactions to examine their relevance and necessity and possibility of eliminating the redundant, insignificant and irrelevant Accounting policies and Notes to Accounts. It may be kept in mind that some items under Notes to Accounts could be construed as camouflaged qualifications. At the same time, important information regarding extent of compliance with Accounting Standards off Balance Sheet items and important accounting policies (refer AS-1) may not have been suitably disclosed.

(iii) In case of reiterated audit comments of statutory auditors/C&AG which involve interpretation of accounting policies/accounting standards and there is perceived ambiguity in interpretation of the same by the management/statutory auditors, these should be discussed with the management/statutory auditors in order to resolve the issue to the extent possible. In interpretation, the overall philosophy of substance over form should be given due consideration. If considered necessary the matter may be referred for the opinion of Expert Advisory Committee either by the PSU or by MAB/DGA (P&T).

(iv) Where the audit is conducted in a computerized environment, the statutory auditors capability to conduct the audit in such environment in compliance with AAS 29 may be judged at the time of determining the scope and extent of C&AG audit and if required an official with IT Audit expertise may be included as a member of the audit team while conducting supplementary audit. This is vital as separate IT Audits should not reveal flaws in the financial reporting process.

(v) Only material and significant comments may be considered for issue to the management. The general parameters for determining the materiality both the amount (quantity) and nature (quality) are being developed at Hqrs. And would be issued shortly for the guidance of field offices. These may be kept in view while forwarding the draft comments to Hqrs.

(vi) In so far as possible, lead MAB for the corporate entity should ensure that the audit approach and the sub-directions issued to statutory auditors from his/her office and those from the office of the MABs doing the branch audit are consistent. MABs should also try to ensure consistency in the audit approach and the sub-directions issued to statutory auditors of PSUs in the same industry/business sector. This is necessary to deter any criticism regarding whimsical or arbitrary approach to audit by our institution.

(vii) The statutory auditors are required to review and assess the conclusions drawn from the audit evidence obtained during their audit as the basis for the expression of opinion on the financial statements of a PSU. The auditors' report should contain a clear written agreement or disagreement of accounting treatment of a particular transaction which is the subject matter of observations in audit report and it should not be ambiguous or require judgment on the part of the readers. Further, the audit report should also contain a clear and written expression of opinion on the financial statements taken as a whole. Any deviations in this regard may be discussed with the statutory auditors and if necessary, a suitable comment on the report of the statutory auditor proposed.

(viii) Any minor observations on the auditors' report or the audit work of the statutory auditors which are not considered significant or material for C&AG's comments, should be communicated to the statutory auditor by the MAB/DGA (P&T). However, any serious lapse on the part of the statutory auditors that reflects poorly on his performance should be communicated through a show cause memo. These observations should be suitably reflected in the performance evaluation of the statutory auditor.

(ix) MAB/DGA(P&T) while forwarding the draft comments to Hqrs. should clearly state the following:-

(a) whether he/she is proposing to issue any Management Letter to the PSU with a copy to statutory auditors as per instructions issued by this office in this regard

(b)whether he/she is proposing to issue a letter/memo to the statutory auditors as mentioned above.

(c) Whether the supplementary audit is conducted in accordance with audit procedures/checks envisaged in the Title Sheet prescribed for audit of accounts of PSUs (being issued shortly by Hqrs.)

2. Improvements in financial reporting brought about as a result of our audits should be consolidated and reported separately for possible inclusion in C&AG's Audit Report on 'Financial Reporting' for submission to the Parliament.

Instances of ambiguity in treatment under Accounting Standards, disparate financial reporting under the same business sector, disconnect between Government policies and PSU business practice, shortcomings or delays in regulatory action by the administrative Ministry/IRDA/BPE/SEBI/ICAI, etc. and other such mattes likely to be of legislative interest/ concern may also be flagged and reported for possible inclusion in the same Audit Report. Successful initiatives taken up with the Expert Advisory Committee of ICAI may also be aggregated and reported.

9

No. 358 CA-IV/5-2006 dated 20.06.07 from Director General (Comml.) to all PDA and Ex-Officio Member Audit Board/ DGA (P&T)

Sub.: Circular for guidance of MsAB/DGA(P&T) in exercising their judgment in determining the significance/materiality for C&AG's comments.

Sir/Madam,

The matter regarding defining criteria to ensure that only significant/material comments are proposed u/s 619(4) of the Companies Act, 1956 has been examined in this office. It has been observed that materiality depends on the size and nature of an item judged in the particular circumstances of its misstatement and determining the significance/materiality of the comment is wholly a matter of the auditor's own professional judgment. However, in order to assist MsAB/DGA (P&T) in exercising their judgment, certain instructions, as contained in the enclosed Circular, are forwarded for their guidance.

STRICTLY FOR DEPARTMENTAL USE

CIRCULAR

The issue of defining the criteria for ensuring that only significant/material comments are proposed u/s 619(4) of the Companies Act, 1956 has been under deliberation for some time now. Attention is drawn to the Auditing and Assurance Standard 13 of the Institute of Chartered accountants of India, which states that materiality depends on the size and nature of an item, judged in the particular circumstances of its misstatement. While determining the significance/ materiality of the comment is wholly a matter of the auditor's own professional judgment, the following guidance is intended only to assist Members Audit Board/Principal Directors of Commercial Audit/Director- General (P&T) in exercising their judgment.

The guidance has been divided in the following two parts:

- C&AG's comments on Financial Statements
- C&AG's comments on Statutory Auditor's report.

***C&AG's comments on Financial Statements*:**

*1.Compliance with legal and regulatory requirement*s:If the following legal or regulatory requirements applicable to the preparation and presentation of the financial statements have not been followed or complied with, the fact should, with reasons, if any, be commented upon.
(a) Requirements regarding form and contents of the financial statements as prescribed under the regulating Act like Section 211 of the Companies Act 1956 read with Schedule VI and Section 11(1)(a) of the Insurance Act, 1938 read with Schedule B to IRDA (Preparation of Financial Statements and Auditor's Report of Insurance Companies) Regulation, 2000.
(b) Compliance with prescribed Accounting Standards, as applicable.

2. Disclosure of Accounting Policy: Inadequate or improper disclosure of an accounting policy when it is likely that a user of the financial statements would be misled by the description, should be commented upon.

3. Impact of comment: If the impact of an audit comment or the aggregate impact of a number of comments-

(a) converts profit into loss or vice versa in a financial statement;
(b) reverses a trend in the accounts generally or in a particular figure;
(c) increases losses above the limits for disclosure;
(d) increases the amount in an expenditure head above the threshold that requires an explanation in the account; and
(e) creates or eliminates the margin of solvency in a balance sheet (post balance sheet events should also be considered).

4. Repeated comments: In case certain comments are being repeated in the Statutory Auditor's Report or are not being proposed for issue as C&AG's comments due to low materiality (value) or on which Management has offered an assurance but the same has not been complied with, such comments may be proposed after a cycle of two years.

5. Money value of the comments: The materiality of a comment based on the money of individual comments or comments in aggregate should determined with reference to the degree of impact the comments/comments have on the profit/loss of a year as reported in the Profit/Loss Account and with reference to value of line items the comment pertains to in case of the Balance sheet. The monetary impact of the comments of the statutory auditor that are quantified should also be considered to assess the reasonability of the opinion expressed by them.

6. C&AG's comments on Statutory Auditor's report: Comments on Statutory Auditors' Report should be taken in the following cases:

(a) Non-compliance with Auditing and Assurance Standards of the Institute of Chartered Accountants of India
(b) Non-compliance with reporting requirements of Companies Act, 1956 including any notifications prescribing reporting requirements under the Companies Act.

(c) Wrong quantification involving significant variations.

(d) Non-quantification of major qualifications where it can be demonstrated as quantifiable in supplementary audit and meets the criteria of materiality/ significance by value as listed above. It is reiterated that the monetary values mentioned in these guidelines should not be viewed in isolation of the particular circumstances of the financial statements/ Statutory Auditor's Report.

Sd/-
Director General (Commercial)

(File No. CA-IV/5-2006)

GLOSSARY OF ABBREVIATIONS

AFR	Annual Financial Results
AGE	Adhoc Group of Experts
ARCPSE	Audit Review Committee for Comprehensive Appraisals of Public Sector Enterprises
AS	Accounting Standards
BHEL	Bharat Heavy Electricals Limited
CMD	Chairman and Managing Director
ITDC	India Tourism Development Corporation
JPC	Joint Parliamentary Committee
MD	Managing Director
ONGC	Oil and Natural Gas Corporation
QFR	Quarterly Financial Results
QRB	Quality Review Board
SAS	Subordinate Accounts Service

8

Defence Audit

Audit of Defence Services is one of the most important audits of C&AG in terms of coverage and materiality. Defence audit has a chequered history as already briefly narrated in Chapter-1. Audit of defence transactions is done on the basis of records produced by the Ministry, the Services and allied organisations. The financial records are obtained from the various Controllers of Defence Accounts (CDA). In addition, the Plans of the three Services and the budget of the Ministry of Defence are relied upon while drawing out the audit strategy. Information available through internet and reputed defence publications helps Audit in discharge of its mandate.

This branch of audit has often drawn maximum attention of the media and Parliament in the post 1990 era for some of the Audit Reports and paras presented to Parliament. In 1989, it was C&AG's Report on Bofors that created a furore in press and Parliament. In 2001, it was C&AG's Report on Kargil War purchases (Operation Vijay). Other Reports that drew widespread attention were: 'Design and Development of Main Battle Tank Arjun'* (Report No.7 of 1998), Development of Multi Barrel Rocket Launcher System* (the Report appeared in 1999) and Aircraft Accidents in Indian Air Force (Report of 1998)*.

The reasons for Defence Audit Reports getting so much wide publicity are not difficult to see. At Rs. 86,000 crore, defence expenditure is the third largest Central Government expenditure, first two being interests and subsidies. Every adult citizen of the country is deeply conscious of defence preparedness and issues involved in this. Any audit observation pointing to failings in this attracts much greater attention than any other report. Star audit paras on Defence affairs have a great news value. It is to be remembered that Audit Reports on both Bofors and Kargil purchases stirred up a big debate in the media and, of course, amongst politicians even though, as is known, audit reports in themselves are generally drafted in matter of fact language without any bias.

ORGANISATIONAL STRUCTURE

Defence audit wing of C&AG comprises three distinct offices. Army Audit wing conducts the audit of Appropriation Accounts of Defence Services, Army, associated research and development establishments, Military Engineer Services divisions/ formations, related Government sanctions issued by the Ministry of Defence and Border Roads Organisation. This wing is also responsible for the cadre control of the entire defence audit establishment. The Army Audit wing was headed by the Principal Director of Audit, Defence Services at New Delhi till February 1990. In March 1990, it was upgraded to DG level.

Factory Audit wing, headed by the Principal Director of Audit (Ordnance Factories) at Kolkata carries out audit of ordnance factories throughout India, concerned inspection organisations under the Directorate General of Quality Assurance and related government sanctions issued by the Ministry of Defence.

Principal Director of Audit (Air Force and Navy) at New Delhi audits the accounts of Air Force and Navy, associated Military Engineer Services divisions/ formations, R&D establishments and related government sanctions issued by the Ministry of Defence.

The field establishment of Defence Audit (Army) comprises eight offices conducting audit of various Controllers of Defence Accounts and auditee units located in their jurisdiction. Field Offices on the army audit side are called Command Offices and the group officers are called the Command Officers to fit with the organisational structure of the defence services formations under audit jurisdiction of DGADS. There are four field offices each under PDA (AFN) & PDA (OF).

The existing designations of other IA&AS posts of Defence Audit Offices were also revised in March 1990 and instead of Director of Audit, the heads of the Air Force and Navy and factory wings were designated as Principal Director of Audit. A Resident Audit Office under Director of Audit (Navy), Mumbai was opened in Kochi in August 1993 for audit of units and formations located in Southern Naval Command excepting Goa area.

Eleven officers held the charge of the DGADS during 1990 to September 2006 for periods ranging from one month to four years. During the same period, ten Principal Directors held the charge of Principal Director of Audit (Air Force & Navy) for periods ranging from two months to four years and eight Principal Directors of Audit held the charge of Principal Directors of Audit (Ordnance Factories) Kolkata for periods ranging from eight months to over four years during 1990 to February 2007.

Audit of Defence Research and Development Laboratories: The Defence Research & Development Organisation (DRDO) is an inter service organisation under the Ministry of Defence created to serve the scientific and technological needs of the three Services i.e. Army, Navy and Air force. The Scientific Adviser to the Ministry of Defence, in the capacity of head of DRDO functions as Director General of Research and Development overseeing research work in 50 laboratories. The laboratories are grouped under eight Technical Disciplines viz. Aeronautics, Armament, Combat Vehicles and Engineering, Electronics and Computer Services, Life Sciences, Material, Missiles and Naval Sciences and Technology where as DRDO Headquarters and 43 laboratories under it are audited by the Director General of Audit, Defence Services, New Delhi. The remaining seven laboratories that specifically provide R&D support to Air Force & Navy are audited by the Principal Director of Audit (Air Force and Navy), New Delhi.

The audit areas and responsibilities of Defence Audit Offices are being reviewed from time to time. The major change that took place as a result of review was transfer of 116 Military Engineer Services divisions/ formations being audited by the DGADS, New Delhi organisation to the audit jurisdiction of the Principal Director of Audit (Air Force & Navy) and 32 Army Units audited by the latter to the DGADS, New Delhi in November 2003.

The statutory audit of the accounts of receipts and expenditure of Defence Services is carried out by defence audit offices either in Central Test Audit (CTA) or in Local Test Audit (LTA). The responsibility for correct payment and accounting rests with the Defence Accounts Department (DAD) and defence audit offices are entrusted with the task of scrutinising the transactions to see that the payments and accounting have been correct. For this purpose, each office has a CTA section. This section draws up an annual CTA plan for different sections (Pay Section, Transportation Section, Miscellaneous Section, Store Contract Section, Store Audit

Section, Engineering Section, Financial Advice Section, Disbursement Section, Accounts Section, etc.) in each CDA office. Central Test Audit comprises certification audit of all CDAs and concurrent audit on quarterly basis. The local audit of cash and stores accounts and other documents maintained by units and formations, the audit of which cannot be conducted by the Central Test Audit section is entrusted to Local Test Audit parties which carry out such audits and issue Local Test Audit Reports (LTARs) to the officers commanding the units/formations audited with a copy endorsed simultaneously to the CDA concerned. The field offices which issue the LTARs to the CDA are responsible for pursuance of the objections and for reporting important cases to their head office. On the Defence Accounts side, there are 37 Principal Controllers/ Controllers of Defence Accounts. There are twelve Area Account Offices under 7 Principal Controllers/ Controllers of Defence Accounts.

SPECIAL FEATURES OF DEFENCE AUDIT

Due to sensitivity considerations involved, Audit of Defence Services is somewhat different than other audits. The difference is not so much in regard to the audit procedures and systems but mostly in regard to audit response to the concerns of Defence Ministry regarding sensitivity of some audits.

The present C&AG V.N. Kaul observed 'Defence Audit has also to deal with the secretive nature of the functioning of defence and yet fulfil its constitutional obligation through probe and scrutiny. Audit has been able to adopt to these problems well. Secret reviews of Class 'A' equipment and Ammunition inventory of the Army was conducted in 2002. Audit of the secret projects of the DRDO are conducted annually'.

Instructions exist that all files even of secret nature are to be produced to Audit Department, of course, to the officer of appropriate level. This is an old arrangement. If the Ministry of Defence expresses a view that the subject matter of audit is such that publishing the results of audit may jeopardise national interest, C&AG takes appropriate decision whether to restrict his report to the Secretary, Ministry of Defence in such cases from where the remedial action is taken.

Another special feature of Defence Audit Reports is that unlike the Audit Reports of other wings, no press briefs are issued in case of Defence Audit Reports. This practice was introduced by the present C&AG in 2005. Also, these Reports are not put on C&AG's official website since the year 2006.

A system of Entry Conference and Exit Conference which was introduced by Performance Auditing Guidelines of 2004 was loosely in vogue in Defence Audit even in early 1990s. (As far as Exit Conference is concerned, these were in vogue always when the draft report was discussed with the head of the auditee office before being finalised).

Another distinct feature in Defence Audit, unlike in other wings, is that the head of the concerned auditee organisation would mostly respond to the draft audit paragraphs and even to the IR paragraphs. However, the responsiveness of the Ministry of Defence with regard to draft audit paragraphs has not always been uniformally good. In some years, it has been splendid while in other years poor.

While earlier also some Performance Audit Reports in Defence Audit gave recommendations, the system of giving recommendations in the Performance Audit Report after discussing with the executive was made uniformally applicable in Defence Audit as well after the issue of new Performance Auditing Guidelines.

A special feature was that audit inputs were applied to R&D programmes and the results intimated to the Ministry of Defence for remedial or corrective action even where these were not brought out in the Audit Report. And finally, the engagement of consultant/ expert in Defence Audit started from the time of C&AG Shunglu and has now become a formal part of the Performance Auditing Guidelines.

An excellent system of audit—entity interaction was attempted by Audit on the suggestion of C&AG Kaul who, during his visit to Kolkata in 2002 asked Principal Director of Audit (Ordnance Factories), Kolkata, to address or make presentation before the Ordnance Factory Board once a year when special members also attend the Board bringing out key issues. ADAI (Defence) from Headquarters wrote to Chairman Ordnance Factory Board on these lines and after an initial hesitation, the Chairman OFB agreed to this as a special case. PD (OF) made presentation on the salient features brought out by Audit needing attention of the Board during 2003, 2004 and 2005, which was followed by an interactive session with the Board. The advantage of this system was recognised by Chairman of the OFB who acknowledged three positive outcomes of this viz. i) spill-over production came to barest minimum and at acceptable level ii) the varying prices for the same item in different factories were streamlined and iii) the indirect labour cost was brought in tune with the industry norms within the same group of factories. It seems, however, that this arrangement stopped after 2005 after the transfer of the then PD (OF)[1]. However, the PD (OF) does meet the OFB for entry and exit conference on Performance Audit Reports. For example, there was an exit conference between PD and OFB regarding the Performance Audit of High Calibre Ammunition. Similarly, entry and exit conferences were held for the Performance Audit on Procurement of Stores and Machinery and on Chemical Factories and Manufacture/ Issue of 23 mm and 30 mm Ammunition.

MANUALS

Seventh edition of the Manual of the Audit Department, Defence Services was published in 1983. Since then, several far-reaching changes took place not only in the structure of the Audit Department, in the Defence Accounts Department and the Defence Services but also in the methodologies and focus of audit. DGADS published the eighth edition of the Manual in 1994 incorporating all changes upto July 1992. Ninth edition of the Manual (Part 'A', Part 'B') was brought out in two parts and published in 2005. Work relating to Part 'C' of the Manual was in progress. This Ninth edition includes new Chapters on 'Audit Approach', 'Statistical Sampling', 'Risk Assessment', 'Internal Control and Standard' and important orders and instructions issued by various authorities.

Since the existing Chapters in Defence Audit Manual for Air force and Navy proved to be inadequate, an exercise was undertaken to review thoroughly the existing instructions on the subject and bring them in tune with modern day audit practices and requirements. Taking into account all changes introduced upto June 1994, Principal Director of Audit (AF&N) brought out a new Manual in 1995 for systematising and improving the audit of the Air Force, the Navy, the Coast Guard and associated Defence R&D Units.

DEVELOPMENTS IN AUDITING

Audit Plan: Formal audit plans of the nature envisaged in Headquarters Circular of December 1994 were not prepared by Defence Audit presumably because these orders were not made mandatory for wings other than Civil Audit. In November 2001, the then ADAI (P&T) and ADAI (Defence) had a meeting regarding audit planning in Defence Audit based on the experience and system prevailing in P&T audit. On the basis of inputs available in the audit planning model of P&T and Commercial Audit, DGADS prepared an audit plan in 2002 and sent it to Headquarters in 2003 on the advice of PD (RC) who suggested that it should be sent to Headquarters. The Headquarters were already receiving the audit plan of Principal Director of Audit (Air Force and Navy). Since then, the annual audit plans are a regular feature in the Defence Audit wing. From 2007, a quarterly monitoring report by Headquarters on the audit plan has also been introduced. This is common to all the wings dealing with Union Government audit. The audit plans for the ensuing year contained audit objectives, topics for performance audit, total number of units auditable and number of units planned for audit, party days proposed to be utilised and tentative audit plan for the following year. The audit plan prepared in June 2005 attempted for the first time a risk based audit approach to audit planning by classifying the auditee units under the following three categories:

(i) High Risk Units
(ii) Medium Risk Units
(iii) Low Risk Units

This plan prepared in the context of risk profile of the auditees, was based on the instructions issued from Headquarters. A clarification issued to DGADS by Headquarters in June 2005 was that audit plan should be formulated based on the men in position and not on sanctioned strength which was the prevailing practice in Defence Audit at that time.

However, the DGADS had been reviewing the quantum and periodicity of audit for auditee units under his jurisdiction from time to time right from 1995. These revisions of quantum and periodicity were apparently linked to some kind of risk perception of the auditee units and therefore resulted in increased mandays for some units and reduction in mandays for some others. It must be said, however, that such things got streamlined only from the audit plan of 2005. After discussion with field offices, Principal Director of Audit (AFN) also rationalised the periodicity and quantum of audit of Air Force and Navy units in view of relative role/ importance/ activities/ expenditure, etc. of individual auditee units to make audit more effective and result oriented.

Principal Director of Audit (Air Force and Navy) approved the revised norms in July 2002.

The Strategic Plan for the period 2003–08 of audit for Army, Air Force and Navy and Ordnance factories was prepared by Headquarters and sent to the three Defence Audit offices in January 2003. Since then the audit plans are being formulated in line with this strategic plan. The strategic plan is constantly reviewed and if necessary revised with the approval of ADAI (RC). In fact, DGADS did send a revised strategic plan to Headquarters which was approved in July 2005.

Contract Audit System: The question of creating a scientific database containing a broad profile of all auditee units was recognised in Defence Audit and in March 2002, Principal Director of Audit (Air Force and Navy) instructed his offices to create a database containing a broad profile of all auditee units for reference by local audit parties before their proceeding on audit. The field offices were also instructed in June 2002 to issue a detailed check list to the auditees, requisitioning information on their activities and on expenditure well in advance of the actual audit. The advantage of this data was that before proceeding on actual audit, audit parties would be advised, based on the experience of earlier audits and the information received from auditees, about the focus areas where audit should give more attention during the field audit. However, Defence Audit still has to prepare an electronic data base of the auditees.

An EDP Cell was formed in DGADS office in February 2003 with the following mandate:

- Capacity building
- Undertake functions of a nodal office for computerisation
- Constant updation of data and application software
- Development of expertise in Information Technology audit
- Setting up and maintenance of LAN and to ensure data security

Audit of Autonomous Bodies under Defence Department: IDSA was the only autonomous body under the audit jurisdiction of DGADS which was audited under section 14 of the C&AG's (DPC) Act. Blanket sanction of the President of India was obtained in May 2005 to audit 62 Cantonment Boards in the country under section 14(2) as and when they qualify. After much resistance from the Director General Defence Estates (DGDE) and after the intervention of the Raksha Mantri, the audit of Cantonment Boards was taken up from 2006 onwards.

Audit of Border Road Projects in Myanmar was conducted during 1999–2000 & 2000–2001. Audit of BRO project 'Dantak' in Bhutan is being conducted annually since its raising in the year 1960s. Audit of Border Roads Organisation projects in Afganistan and Tazikistan is also proposed to be taken up.

Audit of DPDOs in Nepal: There are about 1.20 lakh Gorkha Pensioners who are being paid in Nepal. The amount paid to them is about Rs. 446 crore per annum (during 2004–05). While the original Pension Payment Order (PPO) details available with Principal Controller of Defence Accounts (PCDA) (Pensions), Allahabad were being audited by DDA, DS, CC, Allahabad, subsequent increases in the pension or changes were done by the Defence Pension Disbursing Officers (DPDOs) who were in Nepal, based on general instructions issued by PCDA (Pensions). It was decided to check in audit the correct application of the instructions issued by PCDA (Pensions) and to ensure that there were no overpayments. Defence Audit Parties went to Nepal for audit of three DPDOs at Kathmandu, Pokhara and Dharan during 2001, 2003 and 2005. The first two audits pointed out overpayments of Rs. 26.19 lakh.

AUDIT SYSTEMS

The Defence Audit follows civil audit system as far as checking of vouchers is concerned. There are CTA sections in all the field offices (Command Offices) who receive the paid vouchers from the Controllers of Defence Accounts offices and these are audited on the basis of a sample selection of one month's vouchers of all varieties. The output of Central Test Audit, however, is not much to boast of and the Audit Report material is generated by local audit parties.

Based on the half yearly programmes of Central Audit (for Central Test Audit staff) and Local Audit (for Local Test Audit parties) prepared by field offices and approved by DG/ PD concerned, the Central Test Audit is conducted in the offices of the Controllers of Defence Accounts (CDA) and Local Test Audits are conducted in local units by audit parties. On completion of audit of a particular section in CDA's office, a Central Test Audit objection statement approved by head of the office is issued to the CDA concerned for comments. Similarly, Local Test Audit parties send a draft LTAR to the head of the office for approval and issue to CDA/ Executive.

After the publication of MSO (Audit)—Second Edition, 2002 and keeping in view Auditing Standards and Manual of Audit Department, Defence Services, DGADS prescribed quality control mechanism for LTARs by introducing the following enclosures to LTARs in the prescribed format in November 2004:

(i) Top sheets
(ii) Auditee profile update
(iii) Work completion certificate and
(iv) Defence Audit Manual amendment proposal.

Command Officer's Conference: A system of calling the Conference of Command Officers (COs) has been in vogue in the Defence Audit for a very long time—even earlier to 1990. But the Conference in the earlier times was exclusively devoting its time to the discussion on Audit Report material. However, the new direction and orientation to these conferences really started from the Conference of 2004 when it was redesigned and restructured as a three day conference for reviewing the last year's performance and audit planning for the future. It was also used for deliberating and brainstorming on issues of defence management and the changes happening in the defence forces. Various think-tanks on defence, senior officers of Army and MOD, and media persons also interacted during the conferences. For example, in the last conference held in April 2007, the themes covered will indicate the scope of the discussions. These were review of previous year performance in terms of Draft Paras and Performance Audits, planning for coming years transaction audit, strengthening of certification audit in Defence, a session by media representatives to highlight issues of concern in defence requiring consideration in audit engagement, strengthening audit of procurement in defence, aid to management and its role in influencing policies in defence and planning for next years Performance Audits. It also discussed new audit of Cantonment Boards and synergising internal and external audit for better results. The Conference had, apart from top departmental officers as the resource persons, Senior Officers of the Defence also acting as key resource persons (Engineer-in-chief conducted the session on audit as an aid to the management and Controller General of Defence Accounts conducted session on synergising internal and external Audit). Besides, the very notable media persons debated on issues in defence that require consideration in audit engagements. This shift of focus has yielded much better results because it has covered all the important issues concerning Defence Audit. The feed back received from the DGDAS was that these restructured conferences have made a much greater impact than the previous ones.

DEFENCE PROCUREMENT PROCEDURE (DPP)

Procurement budget of Defence Ministry is huge by any standards. Nearly 55 percent of the Defence budget[2] is spent on procurement —while nearly Rs. 30,000 crore is on capital acquisition, Rs. 18,000 is spent on revenue procurements including stores, supplies, POL etc. The Defence Ministry formulated a formal procedure for Defence capital acquisitions in 1992. But a proper, comprehensive procedure was laid down first time in 2002. Since then, the procedure has been revised in 2005 and in 2006. In 2006, two DPP were brought out, one called DPP 2006 for Capital Procurement and the other called Defence Procurement Manual for Revenue Procurement. These new procedures are effective from September 2006. DPP 2006 inter-alia laid down procedure for 'Make' decisions relating to development of systems based on indigenous research and design.

The features of the new procedures, as spelt out by Defence Secretary, are to expedite the acquisition process, placing generic requirements of Armed Forces on the website of Ministry of Defence for purpose of vendor registration, increased transparency in the conduct of field trials, provision of level playing field for indigenous vendors vis-à-vis foreign vendors in the evaluation of bids and rate contract for common user items for three years to ensure economy etc.

Most importantly, DPP 2006, according to Ministry, has a separate procedure for the acquisition of defence equipment based on indigenous research and development.

AUDIT OF PROCUREMENT CONTRACTS

Procurement Audit constitutes the most important segment of Defence Audit and therefore, from the very early times, this office has concentrated on developing the skills of the organisation in this branch of audit. The related subject to this is the audit of sanctions. Sanction audit is highly relevant in case of Defence Audit organisation for yet another reason namely building a database for picking up cases for audit. So far, this database is prepared manually and electronic database although contemplated in the perspective plan of the department has so far not been created in the office of DGADS.

C&AG Kaul, speaking about the audit concern in defence procurements had thus to say 'In the context of defence procurements, concern of Audit is to ensure suitability of the system/procedure to the needs of the services and consequential impact on defence preparedness'[3].

Principal Director of Audit (AF&N) was using a computerised contract audit system developed by TCS during 1988 in Dbase III for foreign contracts. In September 2003, an IT systems firm was given a contract by Principal Director of Audit (AF&N) for development of software package on 'Contract Audit System' for high value contracts over Rs. 15 crore concluded by Ministry of Defence, Army, Air Force and Navy. The scope of work also included certain service oriented contracts like consultancy, transfer of technology, etc. The software also covered 'pre-contract events', data relating to contract and 'post contract events'. Software included generation of certain monthly and quarterly reports. Copy of the software was also to be used by the DGADS from July 2004. This system, however, is yet to be put to use in these offices.

A guide for Audit of High Value Defence Contracts was issued by Principal Director of Audit (Air Force & Navy) in April 2005. The guide comprises three sections. Section 'A' provides the summary of Defence Procurement Procedure promulgated by the Ministry of Defence, Section 'B' a check list and Section 'C' identifies certain red flags that would attract attention of an auditor while auditing capital acquisition cases. It was emphasised that the guide would need to be continuously updated. A new comprehensive Procurement Audit Tool Kit for guiding audit of procurements is under preparation by DGADS.

Suo-moto production of high value contracts to Audit: The Ministry of Defence, after a thorough review of the previous procurement procedures and following a series of allegations on gross irregularities and malpractices in procurement system, introduced in September 2000 in consultation with the C&AG and CVC, a standard procedure for a mandatory and time bound scrutiny of all major defence purchase decisions by the C&AG and CVC. This system, which is qualitatively vastly different than any system of scrutiny by C&AG in other departments, has the following main features:

(a) The Ministry will send (on their own) all files of purchases valuing Rs. 75 crore and above to the C&AG within a month of the conclusion of the contract but not later than three months after conclusion of the contract.
(b) In supersession of all prevailing orders, practices, details/ case files etc. of such purchases will not be withheld from Audit on the grounds of sensitiveness of the case except with the prior approval of Secretary concerned.
(c) The C&AG also had an obligation to scrutinize all such referred cases in a time bound manner to render a report thereon to the Government as expeditiously as possible.
(d) Replies to audit will be given within four to six weeks as per the usual practice.
(e) A special feature of this system was the examination by Chief Vigilance Officer of all reports rendered by C&AG to ascertain if there is a case for initiating disciplinary/ vigilance/ legal action.

Further if C&AG recommends further scrutiny of a decision from vigilance angle, the Chief Vigilance Officer of Ministry of Defence will refer such cases to the CVC.

After the introduction of the new procedure, files relating to defence deals exceeding Rs. 75 crore are being received by Defence Audit Wing for audit.

It would be relevant here to describe the audit response to the evolution of a standard procedure for a mandatory and time bound scrutiny by C&AG/CVC.

Even though prior to the issue of standard procedure of September 2000 no special scrutiny of procurement cases was in practice, Defence Audit organisation as part of their statutory responsibilities, was regularly calling for the files on defence purchases for audit scrutiny based on the sanctions/copy of contracts received by them. But the drawback was that all sanctions which are required to be endorsed by Ministry of Defence to Audit were not always endorsed as per the procedure. While agreeing to the new system of procurement audit of high value contracts, ADAI (Defence) in response to the proposal for introduction of the standard procedure wrote to the Defence Secretary in July 2000 about the submission of records which are requisitioned and information that is called for without undue delay. He had cited 57 requisitions for further information called for by one audit group that were still outstanding and had been called for during the years 1990–99. Similarly, 73 files were not produced to Audit during the same period for their scrutiny. In nutshell, the ADAI was impressing upon the Ministry that while streamlining procedures for major contracts was a very correct step but it should be appreciated that audit carried out by the IA&AD was not restricted only to reporting 'major and serious matters to Parliament but also includes Inspection Reports which are issued to various levels within the Ministry of Defence and defence services'.

The ADAI also mentioned about large number of paragraphs which were printed in the Audit reports during the period 1996–2000 without any replies from the Ministry of Defence. These figures indicated that in certain years the non-receipt of replies was as much as 80 per cent. He, therefore, impressed upon the Ministry to follow the existing instructions and implement them in full by producing records to audit in time and also furnish replies to audit queries. In the absence of these, C&AG's Audit Reports were likely to get delayed.

ADAI also, while welcoming the submission of procurement cases of Rs. 75 crore and more to audit within a time frame, clarified that audit scrutiny in no way would be restricted to those cases only. Audit would continue to requisition all procurement files based on its assessment.

An important suggestion made in the letter was that the procedure should include a provision of issue of a certificate at the level of Secretary of the department concerned assuring that all the contracts which were due for audit under the procedure had been sent. This would also incidentally ensure monitoring at the highest level that all the contracts covered by the procedure were produced to Audit in time. This letter was duly responded with a sincere thanks to Audit for bringing out a number of discrepancies/ deficiencies vis-à-vis the existing instructions concerning audit of various transactions relating to Ministry of Defence/service headquarters. It promised that appropriate remedial actions will be taken by the Ministry at the earliest possible to overcome the existing deficiencies. In particular, the Ministry asked for the details of paras/files/queries that were pending action so that these could be expedited.

Audit of course has to return the files promptly after the scrutiny. ADAI also pointed out the huge pendency of statutory audit objections from 1977–78 onwards. Ministry of Defence instructed the three Service Chiefs to review the matter and thereafter nominate a senior officer for coordinating the expeditious liquidation of all pending audit objections in a time bound manner not exceeding three months. However, despite this arrangement, as brought out elsewhere, there still exists huge pendency in outstanding audit objections.

C&AG's Audit Report on Defence Services recently presented to Parliament[4] has analysed, in its Performance Review titled Defence Capital Acquisition (Army), the new defence procurement system introduced by the Ministry of Defence during the period 2000–06. This review appreciated the substantial changes introduced through DPP 2002, 2005 and 2006 in the acquisition procedure by including Integrity Pact, off set provisions, decisions through collegiate process, vendor registration through internet, time frame for procurement process, etc. However, the Report concludes that efficacy of these reforms was still to be seen. These remarks apparently are based on the audit findings which showed that acquisition planning process still suffered from delays—perspective plans were not finalised timely. It cited that the case of Tenth Five Year Plan for the Army for the period 2002–07 was still not approved as of July 2006 which was the last year of the plan. As regards fulfilment of the capital acquisition plans, the Report demonstrates that percentage achievement of five year Army plans for capital acquisition was very low vis-à-vis planned targets. The achievements/successes during last three five year plans varied from 5 to 60 per cent and it revealed that of the 250 items planned for acquisition in the Tenth Plan, only 96 items were acquired upto March 2006 which was the fourth year of the five year plan.

Similarly, on budget allocation and utilisation for such procurement, Audit found that budget allocation which were lower than the projected requirements of the Army could not be utilised fully and there were shortfalls in the expenditure actually incurred vis-à-vis these allocations during all the four years from 2002–06. This may adversely impact on fulfilment of perspective capital acquisition plans. On the contrary, Audit discovered that there was significant amount of unplanned procurement since several items not included in the Tenth Plan were procured each year. Percentage wise unplanned procurements jumped from 2 per cent in 2003–04 to 43 percent in 2005–06 in terms of value. Lack of coordination in procurement of items which was common to the three services namely Army, Air Force and Navy was observed in many cases. Audit also commented on deficiencies in formulation of General Staff Qualitative Requirements (GSQRs) which are actually user requirements. The result was, the procurement were delayed. The process of formulation of GSQRs was also defused because the user directorates were doing this without gathering adequate market intelligence and relying sometimes on the manufacturers' brochures only. Such a system obviously restricted number of potential vendors and additionally reduced the scope of offering alternate innovative solutions by vendors. With regard to vendor response, Audit found this to be too low and it also discovered that the identification of vendors in respect of most of the capital acquisition was inadequate. In a damaging comment, Audit pointed out that the process of technical and trial evaluation did not demonstrate objectivity and fair play. In its study of 16 cases, Audit discovered that in seven cases, trials were not conducted as per the trial directives and many of the parameters could not be tested due to lack of testing facilities as a result of which the quality of procurement could not be ensured. It also found that time taken for trial evaluation was unduly long and, what is worse, time taken for preparation of trial evaluation report was even longer than the trials. This was in fact very strange.

Internal lead time was found to be too high in majority of procurements and even when procurement was through Fast Track Procedure, there were still inordinate delays.

Since there were multiple agencies for procurement with dispersed centres of accountability, the result was lack of coordination, defused accountability and delay in procurement. Audit recommended the integrated defence acquisition organisation to be put in place in order to improve the efficiency and accountability of the acquisition system. Apparently, from the audit review, it would appear that DPP though has made several commendable provisions, in practice the capital acquisition system has a long way to go before it could be given a satisfactory chit.

TRAINING IN DEFENCE AUDIT DEPARTMENT

Training to the Defence Audit staff including supervisory staff is conducted at RTIs, iCISA and inhouse. Data given by the DGADS indicates that induction courses for auditors were held in command offices Meerut and Pune. Four such courses for SOs/AAOs were conducted during 1998–2006 by DGADS in his office in New Delhi. While specialised training on DRDO was held in 2003 on Audit of MES/Public Works at Noida and training on certification of Defence Accounts was held in 2004 at RTI, Pune. Training programme on Central Audit was held in iCISA, Noida in 2004 and in DGADS office in 2005. A course on IT Audit was held at iCISA, Noida during 2006.

Considering that the key audit area of Defence Audit is audit of procurement contracts, it would appear that the training inputs regarding procurement audit and audit of contracts are not commensurate with the key status that it occupies as an activity in the Defence Services. In fact, no special course on procurement audit seems to have been conducted for last many years. A manual on procurement audit is being attempted by DGADS.

An interesting development has been the recognition to sensitize the Defence Services to audit and financial management just as there is a need for sensitizing the auditor to Defence Forces. Towards the former, the Indian Audit and Accounts Department has initiated steps and is organizing training of service officers of the rank of Lieutenant Colonels and Colonels since 2004 at NAAA, Shimla as also iCISA, Noida and the feed back reports are encouraging.

Another redeeming feature receiving attention of late is synergy development between external audit (C&AG's audit) and the internal audit conducted by Defence Accounts Department. Such synergy would ensure the efficient utilisation of audit efforts of both external audit and internal audit. C&AG Kaul had emphasised this aspect while giving the key note address in the International Seminar on defence finance and economics in November 2006.

AUDIT REPORTS

Defence Audit Report is issued in two volumes—a report on Army and Ordnance Factories and other one on Air Force and Navy. Till the Audit Report for the year ended March 1987, there was a single report of C&AG on Defence Audit.

Barring the secretive audit concerning a small portion of expenditure, most of the expenditure of Defence is audited and reported in the normal Audit Reports of the C&AG presented to Parliament. The process leading to the publication of audit paras in the Audit Report is same as for Civil Audit Report. Important paras in the Inspection Reports are culled out for processing as draft para in the case of transaction audit while performance audits are initiated as separate audits and a report on such audit forms the draft report on Performance Audit. Important draft audit paras are discussed generally by the Secretary (Defence) with the ADAI dealing with the Defence Audit Report. However, most of the paragraphs are discussed with the Heads of the auditable units.

Like in Civil Wing, C&AG submits 3 types of Reports to Parliament on Defence Audit:

(1) Report on Certification of Appropriation Accounts
(2) Report on Transaction Audit or Compliance Audit as it is now called
(3) Performance Audit

(1) C&AG certifies Appropriation Accounts of the Defence Services but the comments on Appropriation Accounts are contained in C&AG's Report (Civil) No.1 on Union Government Accounts. This change came in the year 2003—prior to that the comments of C&AG on Appropriation Accounts of Defence Services were part of the Defence Audit Report on Army and Ordnance Factories.

(2) C&AG's report on Transaction audit, as in other wings, is issued (as distinct from Report on Performance Audit) as an exclusive volume since Audit Report for the year ended March 2005 in respect of both the Reports viz. Army and Ordnance Factories and Air Force & Navy.

The floor money value for a transactions audit para to be included in the Audit Report was raised to Rs. 20 lakh in 2006 from the earlier ceiling of Rs10 lakh. In practice, most of the Paras are of much bigger money value. A look at the Audit Reports for the year ended March 2001/ March 2002 reveals this. For example, in Audit Report on Army and Ordnance Factories for the year ended March 2001, out of 62 Paragraphs on transactions audit, the highest value para was of Rs.16. 32 crore and the lowest money value para was Rs. 82.85 lakh. Next year's report had the highest value for audit para at Rs. 607.43 crore while the lowest value para was of Rs. 30.48 lakh.

The consolidated money value of the paras in the Audit Reports of 3 years ending 2006 Report, is given below:

Year	DGADS		PDA (OF)		PDA (OF)	
	No. of paras	Money value (Rs. in crore)	No. of paras	Money value (Rs. in crore)	No. of paras	Money value (Rs. in crore)
2004	19	82.72	16	35.19	18	86.94
2005	24	195.33	9	35.75	23	599.78
2006	18	38.97	11	25.40	18	1115

(3) Defence Audit Reports have traditionally produced very strong Performance Audit Reports which is quite understandable in view of huge expenditure it audits.

Before 2005, when present C&AG demarcated Audit Reports into Transactions Audit Report and Performance Audit Report, Performance Reviews on Defence Audit were included in the single volume of respective Report viz. Army and Ordnance Factories and Air Force & Navy. Occasionally, however, standalone Reports were also brought out. These Reports were always considered of great importance.

FOCUS AREAS IN AUDIT REPORTS[5]

Audit output surveyed over a period of 16–17 years beginning 1990, would reveal the more important focus areas of Performance Audit/ Transaction Audit.

The thrust areas in the Report relating to Army and Ordnance Factories are Defence acquisition and procurements, various aspects of Ordnance Factories like production planning, manufacturing, provisioning of stores and machinery, inter factory demands etc. The other aspects generally covered in this Report either every year or intermittently are manpower, armament & ammunition, research and development, inventory management, quality assurance and inspection , MES dealing with works and contracts, border roads organisation , canteen stores department, cantonment boards .

Comments arising from audit of Border Roads Organisation were brought as part of Defence Audit Reports in early 1990s. Earlier the paras relating to this organisation featured in Civil Reports even though audit was conducted by Defence Audit wing.

The thrust of audit and therefore audit reports is to help the defence forces to always be in a state of preparedness. Audit effort and its reports are geared to achieve help in this objective whether directly or indirectly.

But within the various aspects detailed above, audit is dominated by procurement cases. Every year, paras are there on procurement. This is not surprising since Defence Service spent as much as Rs. 15,000 crore on purchases by Army alone. Some of the important paragraphs/Performance Reports on this theme are briefly described below:

Audit Report 1991–92 brought out a Para on 'Infructuous expenditure on development of radar (Para No. 13 of Report No.

8 of 1993) which was not working satisfactorily but public sector undertaking which developed the same was not willing to undertake modifications to make it usable in low priority areas. The undertaking had been paid Rs. 1.40 crore as advance. Para 20 in the same Report brought out design flaw/manufacturing defect in components of two types of ammunition costing Rs. 10.38 crore for Army/BSF out of which components costing Rs. 78.04 lakh had to be destroyed and ammunition costing Rs. 45.07 crore could not be utilised in the absence of components, affecting operational preparedness. C&AG's Report for 1992–93 brought out an audit para on 'Establishment of an Indigenous Tankodrome' (Para 15) which was to provide operational practice facilities to the personnel of armoured regiments for firing from tank guns on the electronically controlled moving and static targets, etc. Audit findings were taken note of seriously by the Ministry who promised, apart from other things, penalty to the agency responsible for the failure. Another Review of great value was 'An interim Anti-Tank Ammunition Project' (Para 28). In his Report of 1993–94, C&AG had two interesting paras on this subject namely 'Import of Defective Barrels' (Para 24) and 'Abnormal delay in the repair of imported equipments' (Para 26) as well as 'Non utilisation of an imported equipment' (Para 27). In the same Report, C&AG brought out a Review of 'Indian Small Arms System (INSAS)' (Para 40) and two reviews on the Ordnance Factories namely Heavy Alloy Penetrator Factory, Trichy (Para 41) and Ordnance Factory, Itarsi (Para 42). In his Report of 1994–95, there was a performance review on 'Production of Artillery Training Ammunition' (Para 31). A para on 'Computerisation in Ordnance Factory organisation' (Para 32 Report No. 8 of 1996) included in this Report is detailed below:

As a continuation of ongoing process of computerisation, Ministry of Defence sanctioned a project for installing one mainframe computer at OFB and one mini computer in each of its 36 factories and two in one factory. Hardware and software costing Rs. 7.55 crore were installed at OFB and in ordnance factories by March 1991. In addition, large number of personal computers were also purchased. However, 38 mini computers and the mainframe computer were yet to be installed through Remote Area Business Message System as per design. Out of the total package of 17 interconnected modules of software procured at a cost of Rs. 1.69 crore, 15 have not been fully operational more than three and a half years after the period of implementation support by CMC was over in March 1992. As a result, realisation of intended benefits by way of reduction of inventory, work-in-progress and the cost of production remained a far cry.

The Report of 1995–96 had a very good Performance Review on 'Infantry Combat Vehicles' (Para 35). In his Report for 1996–97, a Performance Review that created a good deal of media attention as also Parliament attention was 'Design and Development of Main Battle Tank-ARJUN*'(Para 26) as well as another Review on 'Development of Mini Remotely Piloted Vehicle' (Para 27). In his Report of 1997–98, a Review on 'Development of Multi Barrel Rocket Launcher System*' (Pinaka) (Para 23) was projected by C&AG. In Report of 1998–99, another very effective performance review on 'Overhaul of Infantory Combat Vehicles and Engines' (Para 19) was brought out. This Report also contained a paragraph on 'Indigenous manufacture of 155 mm ammunition' (Para 45 of Report No. 7 of 2000) which is as follows:

Army placed demands between August 1990 and March 1999 on OFB for 2.37 lakh shells (7 types), 1.19 lakh fuses (4 types), 1.29 lakh primers and 2.51 lakh propellants (4 types) of 155 mm ammunition but ordnance factories supplied only 2.23 lakh shells of four types during 1992–99. Three types of shells had not been developed as of March 1999. Similarly 0.38 lakh fuses, 0.59 lakh primers and 1.18 lakh propellants had been supplied during the same period. Delayed and reduced supply was due to delay in development and creation of production facilities at a factory as an imported machine valuing Rs. 29.36 crore had not been commissioned. Even with the supplied components only 0.38 lakh shells could be assembled as complete rounds. The reduced supplies led to import of ammunition valuing Rs. 188.10 crore.

In the Report for 1999–2000, an interesting audit para was 'Loss due to Cavitations/Cracks in High Explosive filling of shell' (Para 23). The Report of 2000–01 had an interesting review on 'Delegation of special financial powers to GOC-in-C to meet the urgent and immediate requirements of counter insurgency operations and internal security duties' (Para 18). Amongst other points brought out in the para on the irregularities committed in the use of special financial powers, there was a case relating to sub-standard stores which had adverse impact on counter insurgency duties because of its implication. This consisted of irregularities in purchase of three items i.e. Bullet Proof Patka, Long Distance Satellite Terminal and Epicoated Barrel. The defects identified in Audit in the case of first item were: there was no protection from top and lateral side, heavy weight of the Patka was the main problem which caused headache and giddiness and the impact was that it failed to provide proper security cover to troops engaged in CIOP duties. The second item was faulty and non-functional while the third one had cracks in pointing and was not fit for second filling. The implication of these two defective items was also grave namely in the absence of equipment at number two, it was not possible to achieve a degree of effective communication system and in the case of third, the implication was in terms of deterioration in condition of ATF stored therein and consequent cancellation of sorties to forward area.

In the Report for 2003–04 (No. 6 of 2005), a Review on 'Working of Army Base Workshops' was brought out. There were several paras on acquisition and the reviews like 'Non utilisation of Radio Receiver sets' (Para 6), Procurement of Defective Transmission Reception Units (Para 23), Delayed Purchase and Insignificant Utilisation of Equipment Procured under Fast Track Procedure (Para 4) which was basically a commentary on the sad state of affairs of the demining equipment supposed to be procured under Fast Track Procedure had several holes. Even though the Fast Track Procedure was meant for a quicker and speedy delivery of the demining equipment, the contractor was not given a specific short term delivery schedule and instead he was generally asked to deliver at the earliest. PAC came heavily on the fact that against the original period of four months, the contractor was given nine months to deliver the equipment. The Committee was of the view that in such circumstances, equipment could very well have been procured under normal procedure itself since the department hardly showed the urgency that ought to have been shown under a Fast Track mechanism. The Committee also found fault with the evaluation of the Technical Evaluation Committee and more surprisingly, the PAC found that the contract executed with the supplier did not contain any provision for life span of the equipment although all demining equipment are stated to have a specified shelf life. The overall effect of all the mismanagement of this contract by the Defence Ministry was that the equipment which were required urgently for demining mine fields were actually received much later than what was contemplated in the contract and even after the delayed delivery by six months over the original schedule, only 50 percent of the ordered equipment was actually delivered. Result, there was hardly any progress in the demining work since out of 2,78,300 mines proposed to be recovered, only 1182 mines which is merely 0.42 per cent of the total work were recovered using the demining equipment and remaining mines were recovered manually. PAC holds that Ministry would learn right lessons from this experience and take adequate care to prevent recurrence of similar lapses.

While new Performance Auditing Guidelines were being drafted, PDA(OF) offered to carry out a Performance Review on 'Performance Audit of the Manufacture of High Calibre Ammunition in Ordnance Factories' (Report No. 15 of 2005) as per new guidelines after risk analysis. In fact, the risk analysis adopted by him was circulated to various field audit offices. The paragraph in brief as per the Audit Report is:

- ❖ Despite significant requirement of ammunition, Army placed insufficient orders on the Ordnance Factory Board (Board). The Board, while allotting production targets to various factories did not include the entire demand. This led to underutilisation of plant and machinery on the one hand and import of ammunition by the Army on the other.
- ❖ The Board failed to monitor the variation in prices of ammunition fixed at the beginning of the financial year with reference to the value of production. Consequently, the prices charged to the Army were less than the actual cost by 11 to 44 per cent during 1999–2004.
- ❖ Army was saddled with three variants of unserviceable 125 mm ammunition valued at Rs. 706 crore awaiting rectification/replacement for four to eight years. This necessitated import of the ammunition worth Rs. 317 crore by the Army during 1999–2003. Besides, various established ammunition and components valued at Rs. 235 crore were rejected by the Quality Assurance Agencies during 1999–2005. This resulted in import of components valued at Rs. 46.89 crore during the same period by the assembling factory.

Audit Report gave six recommendations to streamline the existing system. This Performance Audit also included a comment on fictitious transactions which is mentioned below—this was an often used practice in the Ordnance Factory organisation:

Fictitious transactions to avoid surrender of funds: A wrong practice followed in ordnance factories was showing the items which were still under production as having been issued affecting the accuracy, reliability and completeness of Annual Accounts. The value of such items commented upon in Paragraph 40 of Report No. 7 of 2002 was Rs. 514.60 crore. In the Performance Audit Report No. 15 of 2005 relating to manufacture of high calibre ammunition, value of such item commented upon was Rs. 1746 crore. C&AG Kaul in his key note address in International Seminar on Defence Finance & Economics (November 2006) had mentioned this serious deficiency in the internal control system and pointed out that the system should be made sensitive to manipulations.

Audit Report, Defence Services on Air Force and Navy: It contains, as the name suggests, audit findings on the Air Force and Naval establishments including Coast Guards. The sub themes here also, are, often similar to the other Report viz (in case of Navy) acquisitions, works services, provisioning etc. Research and Development gets a separate chapter in this Report too. Some of the significant paras/ performance reviews in this Report are mentioned below:

Audit Report for the year 1993–94 had a performance review on 'Induction of an aircraft' (Para 4). The review highlighted deficiency in squadron strength due to delay in ferrying of aircraft procured from abroad, significant shortfalls in flying effort, delay in setting up repair facilities, non induction of imported weapon system resulting in aircraft being vulnerable to emerging electronic threat, gross under-utilisation of mission simulator for training of pilot. Para 34 in the same Report on 'Delay in fabrication and supply of a target simulator' brought out use of risky option of utilising real targets for training since the versatile acoustic targets fabricated after a delay of five years by a Research and Development Laboratory had not been handed over. The Audit Report for the year 1994–95 contained a review on 'Development and manufacture of a trainer aircraft' (Para 6) which highlighted not only time and cost overrun in its manufacture by a PSU but also its deficient performance regarding further modifications for imparting proper training. It also contained two other paragraphs on 'Delay in operational deployment of imported systems' (Para 21) and 'Delay in development-cum-production of a system (Para 39) which were examined by PAC. Audit Report for 1997–98 contained two reviews on 'Development of an Airborne system' (Para 27) highlighting deficiencies vis-à-vis project endurance, speed, altitude and detection range of the Airborne Surveillance Platform for early warning (AWACS) programme under development which crashed in flight trials. The programme for indigenous development of the system was not pursued after this crash. The Ministry stated in March 2001 that import of three AWACS had been approved. Another performance review in this Report was on 'Light Combat Air Craft'*. Audit Report for the year 1998–99 contained a review on 'Acquisition of SU-30 aircraft'* (Para 2) and 'Project Seabird' (Para 17). The completion of project sea bird conceived to meet deficiency in infrastructure, congestion in existing naval bases and anticipated naval strategy was rescheduled to 2005 against original date of completion of 1995. First contact for marine works was completed after 14 years of sanction of project. There was huge cost overrun. The project was again reviewed by Audit in Report No. 4 of 2006 (paragraph 3.5). The Navy expects that all facilities will be commissioned by mid 2006. Audit commented that in the present scenario, the base was unlikely to be fully functional until 2006. Further, environment management will need to be accorded high priority to ensure that the adverse impact on the fragile coastal ecosystem is contained to the barest minimum.

Audit Report for the year 2000–01 had some important paragraphs on procurement. These were 'Procurement of Unrealiable fuses' (Para 8) worth Rs. 54.52 crore ignoring problems faced in earlier supply, 'Defective contract leading to fraudulent payment' (Para 10) of US $ 489,970 for which no responsibility had been fixed even after 4 years and 'Delay in development and production of indigenous mines' (Para 22) leading to continued use of vintage mines of doubtful effectiveness by Navy seriously compromising operational preparedness. 2001–02 Audit Report highlighted 'Mismatch in procurement of bombs and components' (Para 8) necessitating alternative arrangements that were relatively less effective and reliable, 'Award of contract in violation of CVC guidelines' (Para 3) and 'Procurement of Unsuitable Vehicles' (Para 12).

Audit Report 2002–03 in Para 4.1 relating to 'Modernisation of a submarine' commented on inadequate planning and tardy procurement for modernisation of SSK submarine (cost : Rs. 800 crore) leading to delay in modernisation rendering the submarine unavailable for two and half years apart from extra expenditure of Rs. 9.39 crore.

Para 2.2 in Audit Report for the year 2003–04 commented on non-acquiring of operational role equipment for Dornier Aircraft (cost: Rs. 188 crore) even after nine years of approval which limited the utilisation of aircraft to mere surveillance as against the envisaged role of maritime reconnaissance and anti submarine warfare.

During the year 2006, Air Force and Navy Report was brought out in two separate volumes for transaction Audit paragraphs and performance audits. The former had a paragraph on 'Procurement of Unmanned Aerial Vehicles' (Para 2.2) at Rs. 567 crore in the wake of the Kargil Review Committee recommendation which remained unutilised since receipt during December 2002 to March 2004 due to injudicious selection of operational sites and non-completion of infrastructure facilities in time. Report No. 4 of 2006 contained three Performance Reviews on i) Licensed manufacture of an aircraft*, ii) Maintenance of an aircraft fleet in Indian Air Force and iii) Project Management in Navy.

Report No. 5 of 2007 relating to transaction audit had an important para on 'Delay in replacement of obsolete radars in Air Force Stations' (Para 2.1). Procurement process in this case did not follow prescribed procedures and ten radars (cost: Rs. 251 crore) received between March 2005 and August 2006 remained uninstalled due to non-completion of work services. Air Bases continued to operate flights with obsolete radars.

The Performance Audit Report (No. 5 of 2007) contained three performance reviews on the following topics:

(i) Operation and Maintenance of an aircraft fleet in the Indian Air Force
(ii) Provisioning and Procurement activities at HQ Maintenance Command, Base Repair Depots and Equipment Depots
(iii) Management of Equipment in Naval Dock Yards, Mumbai and Visakhapatnam

The Audit Report relating to Performance Audit at serial no. (ii) above commented that despite Government sanction of 1995 for transfer of procurement activities to Headquarters Maintenance Command (HMC) and the Depots, the actual transfer had been meagre as only four per cent of the total budget allocations were given to the latter. Headquarters Maintenance Command could not complete the provision review in prescribed time in 73 per cent of cases. It procured items at rates higher than the Director General Supplies and Disposals (DGSD) rate contracts resulting in avoidable expenditure of Rs. 2.33 crore. Only 17 per cent of procurements were based on open tenders and large number of Aircraft on Ground (AOG) demands for spares of aircraft could not be cleared within the due time showing that provisioning for

AOG suffered from shortcomings. Thus, benefit from transfer of procurement responsibilities to Headquarters Maintenance Command and depots remained elusive due to limited and uncoordinated devolution.

AUDIT PARAS WHERE CONSULTANTS' SERVICES WERE USED

In late 1990s and beginning of a new millennium, the emphasis in Audit Reporting in Defence Audit shifted from carrying out individual or part audits of a system/ organisation to a total evaluation of concerned system/organisation to get a much better perspective of outcomes and results. To operationalise this new emphasis, a shift from the previous policy took place. This was engagement of subject experts/consultants for the Defence Audit work. Three examples of such reviews which were carried out with the help of these experts are:

- ❖ Review on Inventory Management in Ordnance Service (Audit Report No. 7A of 2000)
- ❖ Review on Inventory Management in Indian Navy (No. 8A of 2002)
- ❖ Review on the Director General of Quality Assurance (No. 18 of 2005)

For all these reviews which were on the total system/ organisation, the services of experts, well versed in the relevant field, were utilised. The engagement of consultants was for comprehensive services. The scope of work as defined in the agreement included providing assistance in framing audit objectives, audit thrust areas, in preparing guidelines for the review, in selection of units for audit, identification of documents to be studied and audited, framing of audit questionnaire, preparation of audit plans, review of progress of work every six weeks, review on operationisational audit and guide the audit teams and eventually in the finalisation of draft review. These audit reviews, earned a great name, for example the review on Inventory Management in Ordnance Services (Report No. 7A of 2000) had 68 recommendations made by Audit and it is creditable that 51 of these were accepted by Ministry of Defence and Army Headquarters for implementation. Such a system would eventually be much more useful for audit impact than anything else. In 2002, the Principal Director of Audit, Air Force and Navy took the help of a consultant to finalise the Audit Report on Inventory Management in Indian Navy. The report was placed in Parliament in November 2002 and it carried a comprehensive account of predominant range of inventory holdings—naval stores and equipments and spare parts handled by the naval logilistic systems. The standalone report brought out in 2005 (No. 18 of 2005) on Director General of Quality Assurance—Army is yet another example of good use of the services of a consultant. In the case of Performance Audit of DGQA, 23 out of 25 recommendations were accepted by Ministry of Defence/ DGQA.

It is clear that the system of engaging expert consultants in the audit work in Defence Audit has proved quite a success.

RESPONSE OF THE AUDITEE TO LOCAL TEST AUDIT REPORTS

The number of outstanding objections has been steadily increasing over the years since 1991, when it was 7261 to 9225 in 2006. ADAI (Defence) had in July, 2000 written to Defence Secretary, inter-alia, about the pendency of 8779 statutory audit objections for settlement mentioning that the oldest of these objections related to the year 1977–78. Ministry of Defence requested Chiefs of the Staff of the Army, Navy and Air Force to review the matter at their level in the first instance and thereafter nominate a Senior Officer at the Service Headquarters for coordinating the expeditious liquidation of all pending audit objections in a time bound manner not exceeding three months. The Ministry also requested for sending a monthly report regarding the progress made in liquidating pending objections to Financial Adviser, Defence Services with copies to Ministry of Defence and Controller General of Defence Accounts. Nothing much has come off this going by the pendency of such objections in 2006.

EXECUTIVE RESPONSIVENESS

A table depicting year-wise number of audit paragraphs printed in the reports of Army and Ordnance Factories, Air Force & Navy alongwith paragraphs printed without Ministry's reply is given at Annex-I.

As reflected by the table, the response of the MoD to the draft paras during the period 1992–2006 has been very poor in some years while not so in some others. It shows some kind of variation in responsiveness. However, there is no overall trend visible except that while the report on Army and Ordnance Factories received excellent response in some years, and DPs relating to the ordnance factories have received far better response than Army in the year after 2003, the responsiveness in case of Air Force and Navy has been uniformally poor.

FOLLOW UP ON PAC REPORTS

Apart from their recommendations relating to regularisation of excesses over voted grants and paragraphs relating to follow up on Audit Reports, the PAC examined 28 Paragraphs and brought out their Reports containing recommendations. During 1990 to 2005, the Public Accounts Committee placed 31 original/ action taken reports in Parliament as a result of in-depth examination of paragraphs/ performance audits relating to Defence. Based on the Action Taken Notes furnished by the Ministry, Action Taken Reports (ATRs) on original Reports of the Committee were placed in Parliament on all the Paragraphs except on a DRDO paragraph.

IMPORTANT PARAGRAPHS

Some of the important Audit Paragraphs featured in Audit Reports for Army and Ordnance Factories as well as in the Report for Air Force and Navy are discussed below:

ORDNANCE FACTORIES

Engine Factory, Avadi: A project sanctioned for Rs. 166.44 crore in May, 1984 for production of 'A' number of engines annually for Tanks and Infantry Combat Vehicles scheduled for completion by February 1989 had not been fully completed. The scope of civil works was reduced. However, there was cost overrun of Rs. 24.50 crore as compared to the reduced scope of the project due to increase in the cost of plant and machinery because of delay in completion of the project. The delay resulted in continued import of engines / finished materials / complete knocked down kits valued at Rs. 52.48 crore till March 1992. However, due to reduction in the annual requirement of engines by the Army, the facilities created at a cost of Rs. 153.91 crores would be utilised at only 50 per cent of capacity. Although diversification activities were taken up, nothing concrete had materialised till the finalisation of Audit Paragraph.

The accounts prepared by the Controller of Accounts did not yield data to serve as measures of efficiency or for financial control as the Engine Factory was not treated as a separate entity for purposes of accounts but as a section of another factory for preparation of accounts.

(Para 3.5 of Report No. 8 of 1993)

Manufacture of defective parachutes: Parachutes of 8.5 metre dia provided with cotton / nylon loops could not bear the prescribed load at the time of supply dropping from an aircraft. In July 1987, Army Headquarters had, therefore, asked the Ordnance Parachutes Factory (OPF) manufacturing these parachutes to provide metallic 'D' rings in lieu of cotton / nylon loops. However, lack of co-ordination at various levels and lapses in taking timely action to modify the parachutes resulted in manufacture and issue of 2,44,628 defective parachutes costing Rs. 50.15 crore upto August 1991. The actual loss due to failure of these defective parachutes could not be furnished. However, loss due to failure of parachutes in one user unit alone worked out to Rs. 1.39 crore. Ministry of Defence advised Army Headquarters to hold an enquiry into the matter and fix responsibility for the lapse.

(Para 29 of Report No.8 of 1995)

Infantry combat vehicles: 745 Infantry Combat Vehicles (ICV BMP-I) were imported during 1976 to 1982 for induction in Army but facility for production of ammunition for ICV BMP-I had not been established fully and the combined effort of four ordnance factories failed to indigenise the production of ammunition in nine years even after an expenditure of Rs. 9.45 crore.

Indigenous production of the improved version of the Infantry Combat Vehicle (ICV BMP-II) had also not materialised fully due to mismatch in the production/ availability of different components. The ordnance factories were able to supply only 395 ICV BMP-II against the scaled down requirement of Army for 600 vehicles during 1992–96. Similarly, against requirement of 11.69 lakh rounds of ammunition, ordnance factories were able to supply only 6.37 lakh rounds, assembling a large portion out of partially or fully imported completely knocked downs. There was delay in setting up of facility for indigenous production of armament for which an expenditure of Rs. 87 crore was incurred. Only 61 cannons were produced with imported CKDs in four years from 1992–93, which necessitated import of 275 cannons at Rs. 31.59 crore. Even after investment of Rs. 742 crore in setting up of facility for production of ICVs, armament and ammunition, full potential had not been realised affecting adversely the modernisation plan of the Army.

(Para 35 of Report No.7 of 1997)

MANPOWER

Recruitment and training of Army Officers: Despite increasing deficiency in officers cadre in Army from 22 per cent in 1990 to 28 per cent in 1994, no plan was formulated to make good the shortage. The actual induction was not sufficient even to cover the average annual wastage. After incurring an average expenditure of around Rs. 1.36 lakh on each student during their schooling of seven years in Sainik Schools and Military Schools, only 3.66 to 6.81 per cent of students joined National Defence Academy (NDA).

Shortfall in utilisation of designed training slots was 32 and 78 per cent in Officers Training Academy (OTA) and in Army Cadet College (ACC) respectively. Although both NDA and ACC undertake graduation courses, unutilised slots in NDA was adequate to cover the total number of trainees in ACC. Training of ACC cadets in NDA would have improved capacity utilisation of NDA with consequent savings.

Savings of Rs. 3.12 crore per annum were anticipated on merger of OTA with Indian Military Academy (IMA). Even after an expenditure of Rs. 1.75 crore on special repairs and renovations of buildings at IMA for this purpose, OTA had, however, not been merged with IMA .

Repeat graduation of graduate service personnel selected for training in ACC resulted in avoidable expenditure of Rs.1.49 crore besides delay in their induction.

(Para 21 of Report No.8 of 1996)

Recruitment and training of Airmen: Planning weaknesses in Air Headquarters led to persistent excess recruitment of Airmen in a few trades, while there were deficiencies in others. Recruitment of more than authorised strength in some trades involved a financial implication of Rs. 12.92 crore during 1992–94. Moreover, flouting the approved ratio of airmen to civilians in favour of the former entailed an avoidable expenditure of Rs. 3.92 crore in one year alone. Non-availability of firing range for one year compelled four training institutes to complete training of 146 Airmen without any firing practice and 3248 with partial firing practice. The deficiency of training aids in training schools ranged between 5 and 92 per cent, which resulted in compromising the quality of training. One of them imparting training on servicing of aircraft did not possess a serviceable aircraft and another imparting training on five types of air defence radars had only three of them. One of the schools continued to impart limited training on surveillance radar equipment at other unit due to non-installation of the radar because of non-completion of civil works for two years.

(Paragraph 5 of Report No. 9 of 1996)

Infructuous expenditure of Rs. 2.63 crore on invalidation of recruits: Between 1999 and 2004, 1608 recruits declared medically fit at the time of their enrolment by Recruiting Medical Officers (RMOs) were subsequently declared medically unfit during second medical examination. Out of these, 1083 recruits were invalidated on grounds of diseases which existed even before enrolment but could not be detected by RMO. Apart from creating doubt about the quality of medical examination, this resulted in infructuous expenditure of Rs. 2.63 crore on pay, allowances and ration of these recruits till their invalidation.

(Para 3.3 of Report No.6 of 2005)

ARMAMENT AND AMMUNITION

Induction of an Aircraft: In order to fill the gap in the force level of Indian Air Force and to enhance its operational capability certain number of twin engined aircraft alongwith spares, related equipment, weapons and spare engines costing Rs. 1124.72 crore were imported between 1986 and 1990. The aircraft were inducted into the squadron from 1987. A few more aircraft and equipment costing Rs. 721 crore were imported during 1990.

Audit scrutiny revealed that:

❖ The aircraft had intensive problems in operation and maintenance since its induction due to premature failure of engines, components and systems, 74 per cent of the engines costing Rs. 326 crore available in the fleet including those procured as reserves failed prematurely within five years and had been withdrawn till July, 1992. This had reduced the fleet availability by 15 to 20 per cent and had an adverse impact on the operation and maintenance of the aircraft fleet. This led to a decision to restrict the flying efforts and thereby compromising the operational and training commitments.

- ❖ There were significant shortfalls in the performance of the aircraft fleet resulting in shortfalls in operation and training efforts. The shortfall ranged between 20.21 and 64.58 per cent in respect of combat aircraft and 58 and 83.51 per cent for trainers during 1987–91.
- ❖ There was mismatch between induction of the aircraft and establishment of its repair facilities. Though the aircraft was inducted in 1987, the facilities for its repair / overhaul was expected to be set up only by end of 1994. Till that time the engines would continue to be sent to the manufacturers abroad for repair. This resulted not only in outflow of substantial foreign exchange but also excess turn around time and reduced the availability of engines. Also by the time facilities were set up, more than 50 per cent of the total technical life of engines was over. Due to delay in setting up of repair facilities, three repair contracts for repair of 156 engines at a cost of Rs. 180.49 crore had been concluded till January, 1992.
- ❖ Non-availability of radar components resulted in grounding of aircraft fleet. Five aircraft were grounded for a period of over six to twenty months and another two aircraft were lying non-functional since September–October 1991. Unserviceability of computers also affected the operational capabilities of the aircraft fleet. Due to high rate of unserviceability, computers worth Rs. 2.50 crore had to be imported.
- ❖ The data processing unit imported at a cost of Rs. 99.52 lakh was lying unused since its receipt in August 1990.
- ❖ Expenditure of Rs. 75 lakh incurred on import of nose wheel guards that became necessary due to design deficiency or material failures could not be recovered in the absence of contractual provision.

The PAC recommended (1995) that in the light of experience in the induction of aircraft, all possible corrective / remedial steps should be taken to prevent occurrence of such difficulties in future with a view to ensuring that the defence requirements are met timely, effectively and without any compromises and incurring of extra expenditure of sizeable magnitude as in the present case is avoided.

(Para 6 of Report No. 9 of 1993)

Delay in procurement of simulators: Inordinate delay of over eight to ten years in procurement of tank simulators had deprived the Army a cost effective way of imparting training to its tank crew.

Anticipated savings of Rs. 123.52 crore per annum could also not be achieved for want of requisite simulators.

(Para 11 of Report No. 8 of 1996)

Design and development of pilotless target aircraft: The delay in development of pilotless target aircraft (PTA) not only compelled the services to import PTA valuing Rs. 23.42 crore, but also defeated the objectives of providing the services with PTA. PAC emphasised that expedient measures be taken to see that the development of the engine for PTA is completed at the earliest followed by its production so that the service reap the advantage of operating fully indigenous PTA. Ministry stated that PTAE-7 engine fitted with turbine roots were flight cleared by certifying agency and were flown successfully during May 2002. The test established that the engine could meet all the requirements of PTA upto 6.5 km altitude.

(Paragraph 30 of Report no. 8 of 1997)

Aircraft accidents in Indian Air Force: IAF lost a large number of aircraft due to technical defects. Sixty seven per cent of the total aircraft lost in 1996–97 were due to technical defects against 28 per cent in 1991–92. 82 out of 187 accidents occurred due to technical defects.

The PAC noted that even after a lapse of almost 8 years the Ministry was yet to finalise the warranty clause with HAL in respect of the aircraft (Advanced Jet Trainer) and components manufactured/ overhauled by them. The Committee emphasised that necessary steps be taken for the expeditious finalisation of the proposed warranty clause with HAL and the Committee be informed of the outcome within a period of three months.

Recommendation of the PAC had been accepted by the Ministry. The Ministry informed that the terms and conditions governing warranty for HAL's products / services to IAF were finalised and orders had been issued by Ministry of Defence on 11 August, 2006.

(Para 7 of Report No.8 of 1998)

Licensed manufacture of an aircraft: The contract signed in December 2000 between the original equipment manufacturer (OEM) and Hindustan Aeronautics Limited for licensed manufacture of an aircraft 'A' by the latter provided for payment of the entire licence fee in advance though the manufacture of 140 aircraft was envisaged in phases over 14 years.

There was no provision for supply of technical documentation by the OEM duly translated into English which led to expenditure of Rs. 41.64 crore. The contract also did not ensure complete transfer of technology.

There was no cost advantage in manufacturing the aircraft indigenously. The average price per aircraft manufactured by HAL was likely to be Rs. 28.60 crore more than that of the imported aircraft for the first block of 34 aircraft.

Government approval was obtained at the 2000 price level for a total amount of Rs. 22122.78 crore for 140 aircraft. The DPR of 2002 estimated the total cost at Rs. 34755.90 crore which was further revised to Rs. 39224.09 crore in July 2005. Even these estimates were open ended with possibility of further escalation.

The creation of repair and overhaul facilities and dedicated service support centre for aircraft 'A' were behind schedule, necessitating continued dependence on the OEM.

(Chapter I of Report No. 4 of 2006)

RESEARCH & DEVELOPMENT

Design and Development of Advanced Light Helicopter: Government signed a ten-year collaboration agreement with foreign firm 'A' in September, 1970 for design and development of an Armed Light Helicopter as a successor to the Cheetah and Chetak helicopters in the 1980s. The project was assigned to a public sector undertaking (PSU). Air HQ had proposed a change from single to twin engine configuration in August, 1977 and an agreement with firm 'B' was signed in July, 1984 at Rs. 36.04 crore (amended to Rs. 39.19 crore in December, 1985). A naval version of the helicopter was required for use by the Indian Navy. In April, 1980 Army HQ emphasised that they required two types of helicopters, one for attack role and the other for air assault and logistic support role. The helicopter was renamed Advance Light Helicopter (ALH) and was planned to be inducted in service in 1986–87.

Audit Scrutiny of the progress of the project with reference to the requirements projected by the services as also the performance of the collaboration agreements, current status of the project and impact of delays revealed the following:

- Agreement with firm 'A' was allowed to remain operative till September, 1980 even after change in the configuration instead of foreclosing it by invoking provisions to this effect. This resulted in an avoidable payment of Rs. 10.75 lakh to the firm from 1977 onwards.

- ❖ Lapse of nearly four years in conclusion of the second collaboration agreement in July, 1984 after expiry of the first agreement in September, 1980 resulted in revenue expenditure of Rs. 7.56 crore on pay and allowances of technicians and acquiring of tools under the first agreement including collaboration fee of Rs. 61.95 lakh paid to firm 'A' being rendered largely redundant.
- ❖ Development and manufacture of ALH mooted as early as 1970 had not taken off even after a lapse of 20 years. The ALH presently under development was unsuitable for multi role requirements due to its size and weight and led to the decision of developing only utility version. This deviation defeated the very purpose of going in for a single design multirole ALH. The delay in availability of ALH particularly with attack role capability, apart from denying a suitable weapon system to Air Force, led to continued deployment of the available helicopters for roles for which they were not designed.
- ❖ Unsuitability of ALH being developed for attack role, led to formulation of a fresh Air Staff Requirement. However, no work had been started. Feasibility study carried out by PSU was still under discussion between Air HQ and the PSU.
- ❖ Tardy progress of the project resulted in revision of the cost of design and development of ALH from Rs. 27.36 crore in 1976 to Rs. 67.87 crore in 1984 and to Rs. 251.90 crore in 1990. The cost of ALH estimated at Rs. 35 lakh in 1971 was revised to Rs. 70 lakh in 1979 and to Rs. 9 crore in 1991. Its induction was expected to commence only after 1994–95 that too with diluted utility role.
- ❖ Despite clear provisions in the agreement with firm 'B' for payments only on completion of respective milestones, overpayment of Rs. 29.18 crore was made for three additional milestones without their physical completion.
- ❖ Due to delay in development of ALH, Navy had to stretch the existing resources accepting certain degree of reduction in the performance level and Army was unable to deploy the helicopters in all the needy formations.

The Public Accounts Committee (PAC) noted that from the very inception the aim was to develop a multirole helicopter with different equipment fit for attack, utility, air observation post and other roles including training but vital changes in design during development had a bearing on its multipurpose utility. The Committee strongly deprecated (1994) the manner in which the project was allowed to undergo general deviations from its original perception at various stages. The Committee took a serious view (1994) of the manner in which the project developed and recommended that the reasons for the inordinate delay in the execution of this project should be thoroughly analysed at the highest level and remedial steps should be taken to ensure that the deficiencies experienced in the execution of this project are obviated in the future defence projects.

(Para 5 of Report no. 9 of 1992)

Design and Development of Main Battle Tank (MBT)—Arjun: MBT project, sanctioned in May 1974, envisaged bulk production by April 1984 so as to eliminate dependence on foreign countries for Armoured Fighting vehicles. The tanks were to be in service during 1985–2000. Army had, however, not even completed the pre-production trial runs on a fully integrated Pre-Production series tank and clearance for bulk production had not been given by the Army. Though 24 years had passed since commencement of the project, power pack, gun control and fire control system etc. consisting nearly 60 per cent of the cost of the tank were based on imported supplies.

The actual expenditure till the closure of the development project in March 1995 went upto Rs. 307.48 crore against the initial estimated cost of Rs. 15.50 crore only.

Ministry of Defence (MOD) sanctioned two supplementary projects costing Rs. 41.98 crore in September 1995/ January 1997 for product support and modification to MBT without CCPA's approval. Trials of prototypes carried out by Army revealed major deficiencies, yet Ministry gave clearance for production of pre-production series tanks without first sorting out the deficiencies. 15 pre-production series tanks failed to meet even the bottom line parameters of the users during trials. In view of MBT's large size and weight special wagons were being designed. Use of special wagons would entail 150 per cent more charges for transportation. Despite Army's serious reservations about MBT in its present form, MOD sanctioned the manufacture of 15 tanks under limited series production at Rs. 162 crore without obtaining CCPA's approval.

PAC (1988–89) had, inter alia, recommended keeping unremitting vigil on the progress of the project for its expeditious completion and also to ensure that the expenditure was contained within the sanctioned estimate. The Committee (1991–92) were pained to observe that the time by which the bulk production of such an important weapon system would commence could not be anticipated with any degree of certainty. PAC (1999–2000) noted (i) the steep increase in the cost of project from Rs. 15.50 crore to Rs. 307.48 crore, (ii) that the time frame fixed for the project was never adhered to and was revised from time to time and (ii) user evaluation of prototypes and PPS tanks offered for trials by DRDO from time to time were beset with numerous problems. The Committee were informed that the first Regiment was expected to be equipped with MBT from the year 2002 and two Regiments were planned to be equipped by 2007. PAC (2003–04) noted that not a single tank had rolled out from Heavy Vehicle Factory and this would have serious adverse impact on the entire planning in respect of equipping the Army.

This paragraph featured in the prestigious Janes Defence Weekly of 15 July, 1998 highlighting continuing technical deficiencies and poor operational mobility of MBT.

(Para 26 of Report No. 7 of 1998)

Development of Multi Barrel Rocket Launcher System: Multi Barrel Rocket Launcher System 'Pinaka' is a weapon for destroying / neutralizing enemy troops concentration areas, communication centres, etc. and for laying mines by firing rockets from several warheads. Ministry had sanctioned competence build-up projects for the Pinaka in early eighties with the plan to induct regiments equipped with this modern artillery warfare system from 1994. Ministry issued sanction in December 1986 to develop the system at Rs. 26.47 crore excluding the cost of manpower. The Project was to be completed by December 1992. As of 1998, Defence Research and Development Organisation was nowhere near accomplishing this target. The warheads and all the three vehicles necessary for launching the rockets viz. launcher, replenishment and command post vehicles had not been developed even after 11 years of sanction by the Ministry. Against the requirement of eight types of warheads for the rockets, only three were developed, of which one was not acceptable to Army and another was only a dummy.

The development and selection of launcher vehicle had not been completed. The vehicle required to load and replenish two salvos within four-five minutes in the launcher, needed up to 40 minutes to load one salvo. The development of command post vehicle was also delayed due to selection of a chassis, which failed to match the mobility of the launcher.

Out of 29 General Staff Qualitative Requirements set by Army, only seven were met during the trials. Some of the Qualitative Requirements not fulfilled related to critical aspects such as range, area of neutralisation, fire power, loading time of salvo and deployment time. More importantly, since the system was not able to achieve the desired range, it was likely to be vulnerable since it will have to operate within a close range of enemy targets.

The delay in the development compelled the Army to continue to depend upon their existing outdated system whose range was much less compared to that envisaged for 'Pinaka'.

DRDO had not developed various critical components of the system despite an expenditure of Rs. 42.25 crore.

Ministry had intimated to PAC in May 2004 that the case for induction of Pinaka was put up by them to the Cabinet Committee on Security and it would take three years (after approval) to complete production and induct two regiments in the Services. From the replies furnished by the Ministry to PAC, it was noticed that many parameters as per GSQR were not achieved but shown as achieved on the basis of acceptance of Steering Committee. The expenditure incurred on the project was Rs. 55.39 crore including Rs. 11.09 crore on development of propellant by a laboratory.

(Para 23 of Report No. 7 of 1999)

Light Combat Aircraft

- The then existing fleet of combat aircraft in 1980s was expected to deplete significantly during 1990s due to phasing out of the ageing aircraft. Government approved a project for design and development of a Light Combat Aircraft in 1983, which could replace a major portion of the ageing aircraft in the 1990s. Even at the end of 1998, it had not crossed the development stage. Its production and induction into the Air Force remain only a distant possibility. The development project was behind schedule by over eight years.
- The development of the airframe by Aeronautical Development Agency Bangalore and 'Kaveri'engine by Gas Turbine Research Establishment Bangalore had been delayed badly. The technology demonstrator was expected to be flown sometime during 1999 and the final clearance was not expected before

2005. Thereafter, the time taken to establish production facility was likely to take the induction further beyond 2005.

- ❖ Indigenous development of vital sub-systems viz. multimode radar, flight control system and digital engine control system were also behind schedule, despite engagement of foreign consultants.
- ❖ The airframe developed by Aeronautical Development Agency was deficient in vital parameters of aerodynamic configuration, volume and most importantly, the weight.
- ❖ Due to delay in development of Light Combat Aircraft the Air Force was compelled to embark on upgradation of MiG Bis aircraft at Rs. 2135 crore.
- ❖ The estimated cost of Rs. 2188 crore of Phase-I alone had already overshot the initial estimate of Rs. 560 crore by about four times. Full Scale Engineering Development of the aircraft was to be undertaken in a phased manner to demonstrate confidence levels in critical technology areas before making major investments in multiple prototype manufacture. Ministry explained in February, 1999 that delay in conducting first flight of first technology demonstration was the main reason for not seeking sanction of Phase II.

(Para 28 of Report No. 8 of 1999)

Procurement and utilization of plant and equipment in DRDO: Defence Research and Development Organisation (DRDO) provides scientific and technical aid to the Armed Forces through design and development of new and sophisticated equipment to meet operational necessity and achieve self-reliance in defence requirements. A review on the procurement and utilisation of plant and equipment by DRDO was undertaken in 15 out of 50 laboratories/ establishments as they spend 45 per cent of their budget towards procurement of plant, equipment and stores. The review revealed the following:

- ❖ Abnormal delays in installation of six machines valuing Rs.13.78 crore
- ❖ Under utilisation of four equipments valuing Rs.5.60 crore
- ❖ Four equipments valuing Rs. 3.21 crore were lying unutilised
- ❖ Eight machines valuing Rs. 1.75 crore meant for specific projects were received at the fag end/ after closure of the projects
- ❖ An equipment valuing Rs. 1.60 crore was procured beyond the scope of the project

- ❖ Assets valuing Rs. 4.89 crore were installed at Mishra Dhatu Nigam 11 years back but the cost had not been realised

DRDO agreed with the recommendations of Audit made on this performance audit. PAC also reiterated audit's recommendations.

PAC felt that since substantial portion of DRDO fund is spent on purchase of materials, a foolproof procurement planning and effective utilisation of plant and equipment needed to be ensured to derive maximum value for money. Since availability of equipment is critical for completion of projects, this will ensure their timely completion within the projected cost. Identification and disposal of surplus items have to be made a regular and time bound exercise to realise optimum sale value. Machines remaining idle needed to be reviewed on a regular basis to take immediate action for repair. Creation of central data base of prospective suppliers accessible to all laboratories/ establishments needs to be made a prioritised task.

(Para 5.1 of Report No.6 of 2004)

INVENTORY

Review of Inventory Management in Indian Navy: A comprehensive audit review brought out the following:-

(i) There was non-standardisation and large proliferation of equipment and systems which rendered material support to Navy tedious and led to accumulation of larger inventories with associated carrying cost.

(ii) Initial provisioning was beset with inadequate inventory related inputs into the logistics system.

(iii) There was lack of proper feedback and analysis leading to non-availability of timely and accurate equipment / stores. Provisioning Process at NHQ was characterised by gross delays.

(iv) Lack of adequate technical specifications in shipbuilding programmes pose major difficulties and delays in subsequent support by logistics and maintenance agencies.

(v) System for revising and linking Budget for initial provisioning of Base and Depot (B&D)spares to actual cost of ships or their equipment, is tardy with excruciating delays in revision of sanctions.

(vi) Prospective Planning Inputs to provisioning process through Refit Planning Procedure (RPP) have failed to achieve its objective due to poor follow up by the supply chain, inaccuracy of forecasts by Dockyards and lack of systematic post-refit analysis by Material Organisations (MOs) and dockyards.

(vii) Adhoc provisioning at depots and over provisioning at initial stages resulted in overstocking.

(viii) The existing system of identification and segregation of 'Non-Moving' inventory and weeding out 'surplus' items was deficient in that disposal thereof was not planned and monitored in a time bound manner.

(ix) Recent efforts made with the Inventory Management Automation through the ILMS introduced in 1997–98 though a trendsetter have also not yielded the desired results as the system is beset with various deficiencies relating to functional specifications, database design, lack of focus in spare parts management, integration between systems and system response.

(x) There is no concept of management of cost in the Naval Inventory Management System, resulting in lack of 'cost consciousness' amongst store managers. The Inventory Management system is lacking in a trained cadre of Inventory Managers. Service officers endeavour to learn on the job, civilian officers are poorly equipped with insufficient training and motivational inputs. Training upgrades for all categories of personnel are lacking.

Out of 67 recommendations made by Audit, Ministry of Defence accepted 45 fully and 10 partially.

(Report No. 8A of 2002)

INSPECTION

Procurement of Defective sleeping bags: This para concerns the procurement system of Defence Ministry in regard to purchases for troops stationed at Siachin. The para brought out specially the acts of commissions and omissions of the Director General of Quality Assurance of the Ministry of Defence in procuring sub-standard sleeping bags for the use of troops based in Siachin. None of these bags was found usable by them. As a result, all of them were issued for restricted use at lower altitudes.

The various acts of commissions and omissions are briefly listed below:

- ❖ Even though the Ministry was alerted against the quality of sleeping bags before the inspection of first lot of such bags, the Ministry failed to alert inspecting staff in this regard. As a result, the inspector certified the bags and that too without reference to the sample bag which was never produced to the inspecting team. Resultantly, first four-inspections were done without reference to the sample bags. Even after the Master General of Ordnance intimated the Ministry about the inferior specification of the bag, the Ministry did not communicate the rejection of the lots to the suppliers.
- ❖ Despite Army Headquarters and the Ministry being aware of inferior quality of sleeping bags, the letter of credit was renewed on the reasoning that the supplier would be told to rectify the mistake (central stitching of outer bags). The fact, however, was that all the bags had been supplied by the supplier by that time and therefore, the condition mentioned above was meaningless. Surprisingly, despite the user directorate's refusal to accept the consignment, Ministry had extended the letter of credit which facilitated its encashment.
- ❖ Enquiry conducted by the Deputy Secretary of the Ministry castigated the inspectors who cleared the first-three lots and the team which cleared the fourth lot despite availability of sample with them. The enquiry also blamed the concerned officers for not authenticating the sample.
- ❖ The case was further messed up by the Ministry in their failure to challenge the jurisdiction of French Court of Law which had given stay order to the Bank. To make the matter worse, the Ministry appointed an arbitrator for defective supply and the Ministry also did not claim liquidated damages of Rs. 1.80 crore.

The PAC who examined this case and took evidence of the Ministry got further information by scrutiny of some files which they obtained and found that financial irregularities like extension of letter of credit thrice was done without the concurrence of the Finance Division. The PAC found that comparative cost analysis was a hollow exercise without any tangible basis. The Committee was amazed that a vital element like size and specifications of the sleeping bags was not drafted in the tender document. The Committee was very critical of the inspection system which cleared the three lots without comparing the sample while the fourth lot was cleared even though sample was available and did not match the sample. This was not the simple negligence it was a major failure of internal control. The Committee was strongly of the view that functioning of DGQA required a thorough review and revamping to ensure that the quality assurance parameters are not compromised. The Committee was also very unhappy that sealed samples were not authenticated by the designated authority. The Committee was most unhappy for release of payment to the firm despite user Directorate finding the sleeping bags defective and unacceptable. The Committee concluded that the manner in which the contract was executed by the Ministry gave an unmistakable impression that the intention was always to accommodate the foreign supplier under any circumstances regardless of the quality of bags procured and financial loss to the government. The Committee were shocked to find from the records that while the firm gone bankrupt and supplied inferior quality of bags for which the Ministry was seeking cancellation of the contract, at the same time they were negotiating another deal with the firm. The Committee, therefore, concluded that quite clearly the role of the Ministry in the entire deal was questionable and recommended that the issue be entrusted to an independent agency for thorough investigation.

(Para 17 of Report No. 7 of 1999)

ANNEX-I

Year	Report No.	Total No. of Paragraphs in the Report Army + OFs	Paragraphs printed without Ministry's reply Army + OFs	Report No.	Total No. of Paragraphs in the Report forAir Force and Navy	Paragraphs printed without Ministry's reply Air Force and Navy
1990	12	74+46	8 + 34	11	56	9
1991	8	45+50	3 + 21	9	43	8
1992	8	56+34	6 + 14	9	44	1
1993	8	34+34	1 + 3	9	50	nil
1994	8	46+38	5 + 9	9	34	10
1995	8	43+34	14+ 3	9	34	17
1996	8	34+33	14+15	9	38	21
1997	7	40+35	28+27	8	30	15
1998	7	54+22	33+10	8	32	15
1999	7	35+21	24+ 5	8	26	8
2000	7	30+18	25+ 8	8	19	2
2001	7	31+26	25+16	8	23	9
2002	7	24+25	21+18	8	19	10
2003	6	26+14	12+14	7	19	10
2004	6	19+16	9+10	7	18	14
2005	6	24+ 9	18+ 9	7	23	14
2006	4	18+11	11+11	5	18	5

NOTES: CHAPTER-8

[*] These cases are discussed at the end of the chapter.

[1] S. Prabhu

[2] The total Defence Budget for the year 2005-2006 was Rs. 86299 crore

[3] C&AG's Key Note Address in the International Seminar on Defence Finance and Economics held in November, 2006

[4] Chapter 1 of Report for the year ended March 2006 No. 4 of 2007 (Performance Audit) presented in Parliament on 14 May 2007

[5] A more detailed version of Paras of Audit Reports marked* is at the end of the Chapter/ Appendix 'B'.

LIST OF KEY EVENTS

1 January 2000	Agreement concluded by Director (P) of C&AG's office with M/S 'Generals Combine' for study of 'Inventory held by Director General Ordnance Services'.
10 February 2000	Ministry of Defence requested ADAI (Defence) to conduct special audit of emergency procurement of items for Kargil related operations, etc.
22 September 2000	Ministry of Defence issued instructions for mandatory and time bound scrutiny of major defence purchases valuing Rs. 75 crore and above in consultation with C&AG.
27 February 2001	C&AG for the first time sanctioned audit of defence pensions being paid in Nepal.
25 July 2001	Ministry of Defence stated that audit study on 'Inventory management in ordnance' was sharply focused and very useful.
10 January 2003	C&AG decided that audit comments on Appropriation Accounts (Defence Services) would be included in Audit Report No. 1: Union Government—Accounts of the Union Government
25 February 2003	Formation of EDP cell in DGADS office.
3 April 2003	Headquarters office introduced the system of receipt of audit plans from DGADS.
18 July 2003	Chairman Ordnance Factory Board agreed to make a provision for presentation by PDA (OF) before the full Board bringing out key issues at least once a year followed by discussion, if necessary
6 November 2003	Transfer of audit of 116 Military Engineer Services divisions/ formations being audited by DGADS to PDA (AF&N) and 32 Army units being audited by PDA (AF&N) to DGADS.
8 July 2004	PDA (AF&N) developed software for audit of defence contracts valuing Rs. 15 crore and more.
18 November 2004	For achieving quality control, DGADS prescribed an information forwarding Memo containing top sheet, auditee profile update, completion certificate, etc.
31 March 2005	PDA (AFN) issued a guide for audit of High Value Defence contracts.
26 May 2005	Ministry of Defence entrusted audit of 62 Cantonment Boards to DGADS under Section 14(2) of DPC Act.
14 June 2005	Headquarters office intimated DGADS that audit plans should be formulated based on the men in position and not on sanctioned strength.

16 June 2005	DGADS categorized auditee units into High risk, Medium risk and Low risk units.
16 August 2005	C&AG decided that there should be no press notes on Defence Audit Reports in view of security concerns.

DOCUMENTS

1

Copy of Banbit Roy, Joint Secretary (P&C), Ministry of Defence , D.O. No. 734/ JS(P&C)/2000 dated 10 February, 2000 addressed to Shri S. Lakshminarayanan, Addl. Deputy Comptroller and Auditor General (Defence)

Dear Shri Lakshminarayanan,

As you are aware, there have been several allegations of irregularities in the procurement of defence equipment in the recent past in Parliament as well as in the media and other quarters. During the course of the Short Duration Discussion on Defence Procurement Procedures in the Rajya Sabha on December 23,1999 , an allegation was made by an Hon'ble Member of Parliament that Rs. 30,000 crores and more of excessively and wrongly bought spares, including spares for submarines at Cochin, were lying as junk in various Army, Air Force and Navy depots. The Hon'ble Member had further suggested that the C&AG investigate whether the value of these spares was Rs. 30,000 crores or Rs. 40,000 crores. Another Member of Parliament had strongly supported that call for scrutinizing this allegation. Similarly, allegations have been made regarding irregularities in the emergency procurement of items for Kargil related operations. The allegations also merit thorough scrutiny by the C&AG of all these procurements. Allegations have also been made in regard to the transfer of technology aspect in major procurement decisions during the last 15 years where transfer of technology was contracted and paid for but technology did not get actually transferred and indigenous production was therefore not commenced.

2. In light of the above, Ministry of Defence would request that a Review/ Special Audit be conducted on the above three areas in order that the allegations are subjected to a thorough and time bound scrutiny by the Comptroller and Auditor General of India with a view to ascertaining the facts.

3. The Ministry of Defence would greatly appreciate if the C&AG of India could kindly agree to its request to conduct a Review/Special Audit on the above mentioned identified areas where allegations have been made. We would like to assure that the Ministry of Defence would be extending its full cooperation to facilitate this Review/Special Audit.

With kind regards,

Yours sincerely
Sd/-
(BANBIT ROY)

Shri S. Lakshminarayanan,
Addl. Deputy Comptroller and Auditor General (Defence)
LII Block, Brassey Avenue,
North Block,
New Delhi-110001

2

Copy of Government of India, Ministry of Defence, South Block, New Delhi letter No. 3(3)/2000—PO (Def) dated 22 September, 2000

Sub.: Evolution of a Standard Procedure for a mandatory and time bound scrutiny of all major Defence purchase decisions by the C&AG and CVC.

The undersigned is directed to refer to D.O. Letter no. Rep ©/69-2000 dated 21st July 2000 from Shri S Lakshminarayanan, ADAI (Def) and the Ministry of Defence, JS (P&C)'s D.O. letter of even number dated 21st September 2000 on the above mentioned subject and to inform that in accordance with the suggestions received from the C&AG and the CVC, the Government has since issued the revised procedure for mandatory and time bound scrutiny of all major Defence related purchase decisions issued by Ministry of Defence in this regard which is enclosed. Further in pursuance of the observations of ADAI (Def) in his D.O. letter under reference, instructions have been issued by Ministry of Defence for expeditious liquidation of Audit objections. Copies of the instructions issued in this regard are also enclosed.

Sd/-
(K.L. SHARMA)
Deputy Secretary (Def. Plg.)

To
C&AG
(Kind Attn: Shri S. Lakshminarayanan, ADAI (Def)

MINISTRY OF DEFENCE

Sub:Evolution of a Standard Procedure for a mandatory and time bound scrutiny of all major Defence related purchase decisions by the Comptroller and Auditor General of India and the Central Vigilance Commission

In view of the fact that allegations, direct or indirect of irregularities and corruption in procurements for meeting the requirements of the Armed Forces, both in respect of equipment already procured and even in cases where final decisions are yet to be taken, continue to figure from time to time in the debates in the Parliament, the media, the communications received from the Honorable Members of Parliament and other quarters, the Raksha Mantri had on 4th February' 2000 interalia directed that a standard procedure be evolved for a mandatory and time bound scrutiny by the C&AG/CVC of all major defence related purchase decisions to be taken in future.

2. In compliance of the above directions of the Raksha Mantri and after consultation with the C&AG and the CVC, it has since been decided that all decisions taken by the Ministry of Defence/Service Headquarter/ISOs etc. relating to major defence procurement/purchases/award of works etc. of a value of Rs. 75 crore and above would be subjected to a time bound scrutiny/audit by the C&AG in accordance with the following procedure.

a) The Ministry of Defence will furnish details of all purchase/procurement decisions/award of works of a value exceeding Rs. 75 crores taken by Government/Ministry of Defence/Service Headquarters to the C&AG along with relevant files normally within a month but not later than three months after conclusion of the contract for scrutiny/special audit by the C&AG. Cases of delay in submission of the relevant details/files beyond three months will be brought to the notice of the concerned Joint Secretary. In addition, all cases of delay in submission of such details along with relevant files in respect of procurements/purchases/award of works etc. made under the delegated powers by the Service Headquarters would also be brought to the notice of the concerned Service Chief by the PSO concerned.

b) In supersession of all existing order, practices, details/cases files of such cases will not be withheld from audit on the ground of the sensitiveness of the case except with the prior approval of the Secretary concerned.

c) The C&AG will have all such decisions referred to them scrutinized in a time bound manner by their officers and render a Report thereon to the Government as expeditiously as possible. Considering the nature of the transaction and the complexities involved, the Audit authorities may require such further clarifications as considered expedient by them which shall be promptly replied to by the Ministry of Defence. In all cases, such clarifications/replies would be furnished to Audit within a period of four or six weeks positively after approval by the Joint Secretary concerned and concurrence by the Finance Division. In cases, where in view of the sensitivity of the Audit observations/findings and where the concerned Joint Secretary deems it necessary, these observations and replies thereof may also be submitted to other concerned senior officers at the level of Additional Secretary/ Secretary in the Ministry of Defence.

d) Besides examination by the concerned wings, all reports rendered by the C&AG on these cases will be scrutinized by the Chief Vigilance Officer, Ministry of Defence to ascertain if there is any case for initiating further disciplinary/vigilance/legal action in the matter. Within one month of the receipt of the report from the C&AG, the CVC shall submit the highlights of cases in which further inquiries need to be conducted from vigilance/ legal/disciplinary angle for perusal by the Secretary concerned and the Minister.

e) In cases, where the C&AG recommends further scrutiny of any particular decision from the vigilance/legal angle or where the Government considers it necessary to do so, the Chief Vigilance Officer, Ministry of Defence shall make a formal reference to the CVC in the prescribed format for initiating necessary disciplinary/vigilance/legal inquiries/action by the CVC, CBI or other agencies as deemed appropriate by the CVC. Such references to the CVC shall be forwarded within a period of three months from the date the C&AG's Report becomes available to the Government for making references to the CVC, the CVO shall obtain further details, if any required from the concerned wing of Ministry of Defence or the Service Headquarters, as the case may be. Cases of delay in references being made to the CVC would be required to be brought to the notice of the Secretary by the concerned CVO.

f) The Ministry of Defence shall thereafter initiate expeditious legal/disciplinary action in accordance with the existing procedure in all such cases where the CVC after perusal of the cases recommends such action. The Central Vigilance Commission shall be apprised of the action taken by the Government on the advice rendered by the Commission in the individual cases in a time bound manner.

3. The above procedure is in addition to the existing provisions/instructions relating to scrutiny by Audit or pursuance of cases by the CVC and in no manner supersedes the same. Further, the C&AG may at their discretion decide to incorporate their findings on these major transactions in the Audit Report.

Sd/-
(T.R. Prasad)
Defence Secretary

M of D I.D. No.3(3)/2000-P.O.(Def)
dated 21st September 2000

3

Ranjit Issar
Joint Secretary (O)

DO No. 8752/JS(O)/2001
Dated 25th July, 2001

Sub.: Study on the Inventory Control Systems of Ordnance Services and Management of Air Force Inventory

Kindly refer to DO letter dated 13th July, 2001 (copy enclosed) from Shri. S. Lakshminarayanan, Addl. Deputy Comptroller Auditor General (Defence) to Defence Secretary containing therein a proposal to take up a study from 1st August, 2001 on the following two subjects related with the Army:

(i) Management of Ammunition Inventory in the Army
(ii) Management of Inventory of A vehicles and Artillery equipment.

2. You would kindly recall that a study had been conducted by the C&AG on the Inventory Management in Ordnance Depots which was sharply focused and very useful. The present proposal would also be helpful to the Army and it is in this connection that I am requesting you to kindly issue instructions to the concerned officers to extend full cooperation and produce records/books as well as information and replies to the queries raised by the study team during the course of the study.

Yours sincerely,
Sd/-
(Ranjit Issar)

Lt. Gen Vijay Lal, PVSM, AVSM, ADC
DGOS, Army HQrs
New Delhi

Lt. Gen MPS Bhandari, PVSM, AVSM, ADC
DG Artillery, Army HQrs
New Delhi

Copy to Shri.S Lakshminarayanan, Additional Comptroller and Auditor General (Defence)

4

No. 38 Rep(C) 137-2001 (Vol. II)
Dated 10 January 2003

Sub: Merging the Report on the Postal Department with the Report No. 2: Union Government—Transaction Audit Observations.

Comptroller and Auditor General of India has decided that while the audit observations transactions of the Postal Department will be included in Report No. 2: Union Government—Transaction Audit Observations, audit comments on Appropriation Accounts (Postal Services) will feature in Audit Report No. 1: Union Government—Accounts of the Union Government. Accordingly, the office of the DGA-P&T may please send the approved material in respect of transaction audit and comments on Appropriation Accounts to be included in the respective Audit Reports to Report (Central).

2. It has also been decided that the audit comments on Appropriation Accounts (Defence Services) will also be included in the Audit Report No. 1: Union Government—Accounts of the Union Government. The office of the DGA-DS may please send the approved audit comments on Appropriation Accounts for inclusion in Audit Report No. 1 to Report (Central).

Principal Director (RC)

Copy to:
1. Director General of Audit, Central Revenues, New Delhi
2. Director General of Audit, Post and Telecommunications, New Delhi
3. Director General of Audit, Defence Services, New Delhi
4. Principal Director (SCS)
5. Principal Director and Adviser (Report Central and States)
6. Guard File

Copy to PS to ADAI (RC) for information of ADAI (RC)

5

Copy of Comptroller & Auditor General of India, 10, Bahadur Shah Zafar Marg, New Delhi—110002, D.O. No. 196/73-Rep(c)/2002 dated 03 April 2003 addressed to Shri B.K. Chattopadhyay, Director General of Audit, Defence Services, L-11 Block, Brassey Avenue, New Delhi—110 001

Dear

Kindly refer to your office letter No. 4385/ECPA/120/2003/Vol. II dated 25 March 2003 regarding preparation of an Audit Plan for 2003-04. We had discussed this issue on telephone today and you had also opined that an audit plan should be formulated. I would request you to kindly forward the Audit Plan of your office at your earliest convenience. We have already received the Audit Plan from PD (AFN).

Yours sincerely
Sd/-
(H. Pradeep Rao)

6

Copy of D.K. Dutta, D.G.O. F & Chairmain, Ordnance Factory Board , D.O. No. General/BS dated July 18,2003 addressed to Shri T.G. Srinivasan, ADAI (RC)

Dear Shri Srinivasan

Kindly refer to your D.O. Letter No. 146 Rep©/37/2003 dated 2nd July, 2003 on participation of Principal Director of Audit in full Board Meeting.

Ordnance Factory Board was constituted in 1979 based on the recommendation of an Expert and High Powered Committee. The extant rules on the conduct of the business of the Board, approved by the Ministry of Defence, do not permit participation by other than full time nominated Board Members defined in the order of MOD. However, I would made a provision for presentation by Principal Director of Audit before the full Board for brining out the key issues at least once a year and this may be followed by discussion, if necessary

With regards,

Yours sincerely
Sd/-
(D.K. Dutta)

7

Office of the Director General of Audit,
Defence Services
Office Order Part I No. 71
Dated: 18th November 2004

ORDER

The submission of Local Test Audit Reports (LTAR) alongwith an informative forwarding memo for quality control has been examined in the light of issuance of MSO (Audit)—Second Edition 2002 and Auditing Standards and Manual of Audit Department, Defence Services etc. Accordingly, it is ordered that each draft LTAR will have to be accompanied by a Top Sheet in form DGADS-100, Auditee Profile Update in form DGDAS-101, Work Completion Certificate in form DGADS-102 and Defence Audit Manual amendment proposal in Form DGADS-103 whose formats are given as Annexure to this order. It is also ordered that Auditee identity No. and SUS No., if applicable, should be mentioned in all reports and returns like half yearly programme, audit progress quarterly report etc.

This order is effective for all Local Audit undertaken on or after 1st January 2005.

Sd/-
(Pravindra Yadav)
Deputy Director (HQrs)

No. 7597/A. Coord/106/20012002
dated 18th November 2004

Copy to :
1. SPS to DG
2. Performance Audit to DDA (H)/DA®/DDA(A)
3. All Command Officers O/o DGDAS
4. Sr. AO/Admn. (Local)
5. AO /Coordination (Local)
6. All Audit Groups in HQrs. For information
7. Office Order File
8. Guard file

8

Government of India, Ministry of Defence Letter No. 9/1/2004- D (Q&C) dated 26 May, 2005 addressed to Director General of Audit, Defence Services, L-11 Block, Brassey Avenue, New Delhi- 110001 and copy to others

Sir,

Whereas according to the provisions contained in section 14(2) of the Comptroller and Auditor General's (DPC) Act, 1971 as amended in March, 1984, the Audit of Autonomous Bodies can be taken up with the prior approval of the President of India if the assistance received by the Body from the Government is not less than Rupees one crore.

2. I am directed to convey the sanction of the President for entrusting the audit of 62 Cantonment Boards across the country to the Directorate General of Audit permitting them to carry out the audit of Cantonment Boards as and when they attract the aforementioned provisions.

3. This issues with the approval of Finance Division vide ID No. 782/QB/05 dated 28.04.05.

Sd/-
(A.K. Upadhyay)
Joint Secretary to Government of India

9

Copy of C&AG's U.O. No. 492 Rep©/20–2001 dated 16 August 2005 addressed to Director General of Audit, Defence Services, New Delhi-Shri B.K. Chattopadhyay, DG Principal Director of Audit,(Air Force &Navy) New Delhi-Shri S.K. Bahri, PD Principal Director of Audit, Ordnance Factory, Kolkata-Shri S. Prabhu, PD

Sub: Press release for Defence Audit Reports

It has been decided that there should be no press notes on Defence Audit Reports in view of security concerns.

Sd/-
(J.P. Tripathi)
Sr. Administrative Officer(RC)

10

Copy of the Director General of Audit Defence Services, L-11 Block, Brassey Avenue, New Delhi. Letter No. 10487/A. Coord/142/COC-Conf/ 2003–04 dated 16 June 2005 addressed to the field offices and Sr. Audit Officer of the Headquarters.

Sub: Categorization of auditee units based on risk assessment and review of Audit Plan for transaction audit.

The case regarding categorization of auditee units based on risk assessment and proposals received from field offices in this regard was examined in this office. Based on the proposals made by CO's and its further examination in this office, the auditee units have been categorized into High Risk and Medium Risk units as per statement attached. The auditee units which are not covered in the enclosed list will fall under the category of Low Risk units. The list will be reviewed periodically.

The audit plan for the year 2005–06 from July, 2005 to June 2006 may please be drawn up in accordance with classification as per enclosed list.

The audit plan along with following information may please be sent to this office by 27th June positively so that consolidated Audit Plan is got approved before its actual implementation from 1st July 2005:

(i) Actual available mandays.
(ii) Mandays provided for performance audit.
(iii) Mandays provided for certification of Audit
(iv) LTA Party programme

Encl: As above

Sd/-
(D.K. Chopra)
Dy.DirectorofAudit
Defence Services

GLOSSARY OF ABBREVIATIONS

AWACS	Airborne Warning and Control System
CCPA	Cabinet Committee on Political Affairs
CDA	Controller of Defence Accounts
CKD	Complete Knocked Down
CMC	Computer Maintenance Corporation Ltd.
DGQA	Director General of Quality Assurance
DPDO	Defence Pension Disbursing Officer
DPP	Defence Procurement Procedure
HAL	Hindustan Aeronautics Limited
HMC	Headquarters Maintenance Command
ICV	Infantry Combat Vehicle
IDSA	Institute of Defence Studies and Analysis
IMA	Indian Military Academy
INSAS	Indian Small Arms System
LCA	Light Combat Aircraft
LTAR	Local Test Audit Report
MBT	Main Battle Tank
MOD	Ministry of Defence
NDA	National Defence Academy
OEM	Original Equipment Manufacturer
OPF	Ordnance Parachutes Factory
PCDA	Principal Controller of Defence Accounts
PTA	Pilotless Target Aircraft
RMO	Recruiting Medical Officer
RPP	Refit Planning Procedure

9

Post & Telecommunications

ORGANISATION

The Office of the Director General of Audit, Post and Telecommunications has a chequered history and can trace its origin to 1837 when it was known as the Office of the Accountant General, Posts and Telegraphs and continued with this designation till 1978. With the departmentalisation of accounts with effect from April 1976 the designation of AGP&T was changed to Director of Audit, P&T in 1979. From July 1990 onwards it was designated as Director General of Audit, Post and Telecommunications (DGAP&T).

The Central Office which is the Headquarters of DGAP&T was located in Shimla till early 1970 and thereafter it shifted to Delhi. The Director General of Audit is assisted by two Group Officers in Central Office—one in charge of Administration and other in charge of the Report Group. However, there was a difficult period from November 1993 till end of 1996 when there was only one Deputy Director for the Central office.

The P&T Audit Organisation has 16 branch Audit Offices across the country; while 10 of these (located at Chennai, Delhi, Hyderabad, Kapurthala, Lucknow, Mumbai, Nagpur, Patna and Thiruvananthapuram as well as the Stores, Workshop and Telegraph Check Office, Kolkata) were headed by IA&AS Officers of the rank of Director/ Dy. Director. The charges of the remaining branch Audit Offices (located at Ahmedabad, Bangalore, Bhopal, Cuttack, Jaipur and Kolkata) were held by Directors/ Dy. Directors of one of the other branch Audit Offices (as of March 2006) as additional charge.

P&T Audit organisation deals with all the three principal streams of audit viz. Expenditure, Receipt and Commercial.

DGAP&T is entrusted with the audit of Department of Post (DOP) and Department of Telecommunications (DOT) under the Ministry of Communications and Information Technology. Commercial Audit domain extends to 3 PSUs now viz. MTNL, BSNL and Millennium Telecom Limited. DGAP&T conducts Appropriation Audit of DOP and DOT, certification of annual accounts of Telecom Regulatory Authority of India under Section 23(2) of TRAI Act, and audit of Pay and Accounts Offices of IA&AD.

The Branch Audit Offices (BAOs) except the Stores, Workshop and Telegraph Check (SWTC) Audit Office, carry out audit of the accounts of Postal Units and Telecommunication Offices in various Postal & Telecom circles. SWTC Audit Office conducts audit of Telegraph Check Office, Stores and Workshop and Telecom Factories across the country. While the audit role and functions of other BAOs may have somewhat increased, due to technological changes and introduction of Value Added Services in the Telecom Sector, role and functions of SWTC Audit Office have shrunk since technology reduced the role of audit in its case for example, introduction of FAX and other modes of data communications, and better telephone accessibility even in small towns as also villages has reduced drastically role of such communication modes as telegram and telex. As a result, the work in Telegraph Check Office, Kolkata reduced considerably; similarly, with post-liberalisation entry of the private suppliers in the Telecom sector, the department started procuring the material, which was earlier manufactured by Telecom Factories, from private suppliers. This also had impact on audit of Telecom Factories. Further, consequent on formation of Bharat Sanchar Nigam Limited from October 2000, all the five Central Telegraph Stores, which were supplying line and other telecom stores to circles were merged with respective Circle Telecom Stores. As a result of this factor, some staff of SWTC, Kolkata was rendered surplus.

C&AG appointed a Task Force[1] in January 2007 to review the structure of P&T Audit organisation. The review is on and a report is expected soon.

TELECOM SECTOR—PROFILE OF A RAPIDLY CHANGING SECTOR

While 1991 Industrial and Trade Policy is often heralded as a watershed in the economic liberalisation of Indian economy and rightly so, in Telecom Sector, the first wave of liberalisation had started, albeit slowly, from mid–eighties. It witnessed a phase of rapid expansion, innovations and structural reorganisation during late eighties. Telecom services and most of the manufacturing activities that were totally under the domain of Government started opening up to outsiders. Two large corporate entities were created by taking away the related functions from the Department of Telecommunications—Mahanagar Telephone Nigam Limited (MTNL) in February 1986 for telecom operations in Delhi and Mumbai and Videsh Sanchar Nigam Limited (VSNL) in March, 1986 for all international services (erstwhile Overseas Communications Services).

1991 reforms and liberalisation policy resulted in National Telecom Policy, 1994 which marked the entry of the private sector in the field of equipment manufacture as also in providing many new services like basic, cellular mobile telephone services and radio paging. With the introduction of Value Added Services, the onus of auditing these Value Added Services also became a focus area of P&T Audit Organisation.

The entry of private operators brought with it the necessity of an independent regulator. Thus, Telecom Regulatory Authority of India was established in February 1997 by an Act of Parliament. The audit of this regulator is with DGAP&T.

The New Telecom Policy, 1999 aimed at, amongst others, a new environment which encouraged continued attraction of investment in the sector and allowed the private service providers, who were paying fixed licence fee to migrate to revenue sharing regime. As a consequence, in an important development, the Government issued a Gazette Notification in November 2002 allowing audit of the books of accounts and other records of private service providers, which has a bearing on the verification of the revenue.

In 1999, as part of opening of the Sector and in pursuance of New Telecom Policy 1999, two new departments viz. Department of Telecommunications Operations (DTO) and Department of Telecom Services (DTS) (Service Provider) were carved out from DOT for providing telecom services in the country. In September 2000, the functions of DTO and DTS were entrusted to a Public Sector undertaking Bharat Sanchar Nigam Limited (BSNL) which became the biggest telecom service provider company.

As per the New Telecom Policy 1999, the Government committed itself to the Universal Service Obligation (USO). This implied an obligation to provide access to basic telecom services to people in rural and remote areas at reasonable and affordable prices. The resources for meeting the USO were to be raised through a universal access levy, which was to be a percentage of the revenue earned by all the fixed service providers under various licences. The audit of the fund is entrusted to P&T Audit Organisation.

Consequent on corporatisation of Department of Telecom Operations and Department of Telecom Services as BSNL, DOT Cells (subsequently changed as Controllers of Communication Accounts) were created for settlement of retirement/ pensionary benefits, DCRG, CGEIS, GPF final payment, leave encashment etc. of the DOT staff working with BSNL and MTNL, collection of licence fee and spectrum charges from all cellular basic and unified access service licencees, settlement of universal service obligation and subsidy claims, accountal of receipts and expenditure. The onus of audit of Controller of Communication Accounts (CCA) also rests with DGAP&T. The CCA is responsible for budgeting, finance and accounting functions of Field Wireless Monitoring Organisation and Vigilance Monitoring Cells.

Millennium Telecom Ltd. was incorporated in February 2000 under Companies Act, 1956 as a wholly owned subsidiary of MTNL. The company obtained category 'A' licence from the Department of Telecommunications for providing internet services throughout India.

DEVELOPMENTS IN AUDITING

Audit Norms: Consequent to departmentalisation of accounts in 1976, and the subsequent developments, the department, specially due to large scale computerisation in Telecom Department and to some extent in Postal Department, required a new set of norms for audit checks, methodology and techniques to keep pace with fast changing scenario. The task was given to an in-house 'Norms Committee' headed by Director[2] (Reports) of the Office of the DGAP&T in March 1998 and on the basis of its Report submitted in October 1999 the new audit checks were implemented from the financial year 2000–01. Audit checks as per these norms were mainly expenditure oriented. Meanwhile, BSNL was corporatised in October 2000 and that prompted a reassessment of audit functions, specially the focus areas. Another Committee was, therefore, appointed in October 2000, to look into these areas which included a re-look at assessment of the frequency of audit, units to be audited etc. necessitated in the changed scenario of corporatisation. While the Committee concluded that there was no need to change the audit norms 2000, a system of categorization of auditee units on the basis of risk analysis was introduced.

As a result of implementation of new audit norms 2000, additional manpower required worked out to 95 posts of Sr.AOs/ AOs. Out of this, 52 posts of Sr.AOs/ AOs were created in December 2000.

Contract Audit: After the New Telecom Policy 1994 there was a massive increase in procurement of equipment and material by the Department of Telecom. Audit focus on the contracts concluded by the DOT increased from 1994–95 onwards. Today, Contract Audit is one of the most important areas of audit in P&T office and a comprehensive system of Contract Audit has been evolved.

Material and Equipment purchase constituted about 60 per cent of the expenditure of the DOT when the Department was also a service provider. (The position has changed after the separation of this function and its entrustment to BSNL). Till mid 1990s, the procurement of equipment was either from PSUs or from TFs but after the entry of private sector in fields of manufacture of equipment and service provision in telecom sector matters changed drastically. The department started procuring the telecom equipment and other stores from the private suppliers also by open tendering and entering into contracts. Around mid–1990s the key to improved audit results was the realisation that Contract Audit was the real audit to be strengthened. The Director General of Audit, P&T realised this quickly and in a series of moves strengthened this audit by:

(a) posting additional staff to Contract Audit Unit in Sanchar Bhawan;
(b) getting Contract Audit done on concurrent basis;
(c) getting a room for his officers allotted in the Sanchar Bhawan for better supervision of contract audit;
(d) close monitoring of the contract cases personally.

From 1996–97 onwards, in the real sense, concurrent audit of contracts started in a big way. Audit of contracts is done right from planning till utilisation. The contract audit moved along with progress of contracts i.e. audit at NIT stage, tender processing stage, order placement stage, post placement developments etc. This was by use of computerised database by DGAP&T contract audit parties located at DOT HQrs. The methodology adopted by the DGAP&T in 1996 onwards was to get the entire data of contracts that were entered into previous year (the relevant audit cycle) and select the sample in consultation with his team of officers. Each contract after examination is shown to DGAP&T as also cases which are likely to be converted into draft paragraphs. A system of close monitoring of the audit of contracts was introduced and DGAP&T organisation held, if necessary, discussion with the Senior Officers of the Telecom Department. Department of Telecommunications allotted in April, 1997 a room to DGAP&T at Sanchar Bhawan.

The results of these steps were seen very clear and very soon. The quality of audit reports and the depth of audit scrutiny of contracts became very obvious from the Audit Report of 1996–97 itself but more pronounced from 1997–98 onwards. Once the system became stabilised, good results flowed in every year thereafter.

As a result of strengthening of Contract Audit, a number of reviews and paragraphs like procurement of 2GHZ digital microwave system (Para 8.1 of Report No.6 of 1997), Lease finance of switching equipment (Para 8.3 of Report No.6 of 1997) Procurement of 0.5 mm diameter drop wire (Para 12 of Report No.6 of 1998), procurement of PIJF cables (Para 11 of Report No.6 of 1999) and paragraphs like procurement of solar photo voltaic panels (Para 9.1 of Report No.6 of 1997), undue favour to the supplier and loss on procurement of fly away terminals (Para 9.6 of Report No.6 of 1997) etc. were included in the Audit Reports. Some of these paragraphs were selected by the Public Accounts Committee for detailed examination.

DEVELOPMENTS IN RECEIPT AUDIT OF TELECOM SERVICES

Receipt Audit has become a key audit activity on the Telecom side and to a limited extent on Postal side too. This is on account of a qualitative change in the nature and quantum of receipts after the liberalised regime.

Audit of traditional receipts of Telecom comprised rentals, local call charges, trunk call charges, rent and guarantee cases, leased telecom circuits etc. The receipt audit scenario in Telecom Sector underwent a profound change with the entry of private operators in telecom sector first in Value Added Services, and subsequently in the Basic and Cellular Telephony. This change related to the nature of the receipts and the quantum of receipts. Test checks of revenue generated from various Value Added Services became an important part of audit. These value added services were:

(i) Radio paging Service, (ii) Cellular Mobile Telephone Service, (iii) Electronic Mail Service, (iv) Voice Mail Service, (v) Videotext Service, (vi) Video Conferencing, (vii) Morning Alarm Service, and (viii) Mobile Radio Trunked Service

As regards private operators in telecom sector, the collection of licence fee as revenue share from all basic, cellular and unified access service is entrusted to CCA at circle level. Audit examines the records of CCA to ensure that the licence fee as share of revenue due to department is correctly levied and promptly realised and brought to account. An interesting development in this context relates to the C&AG's demand that in order to check the correctness of the figures of gross revenue used for calculating the license fee payable annually, he needed access to those limited records at least, of the private operators which would establish that revenue share of the Government was correctly calculated and credited to Government account. The matter was taken up with Secretary (Telecom) in 1999, and the relevant provision was made in TRAI Service Provider (Maintenance of Books of Accounts or Other Document) Rules 2002, for such an access to Telecom Department and government audit in respect of cellular operators on revenue sharing basis.

The Wireless Planning and Coordination Wing (WPC) allocates the radio frequencies of different bandwidths to wireless system users. Prior to April 2004, these spectrum charges were being collected centrally by WPC wing at DOT HQrs. However, from April 2004 onwards, the work of collection of spectrum charges is entrusted to CCAs. Audit has to ensure the correctness of the collections of spectrum charges from all users of radio frequency.

PRESENT SCENARIO

There is now a growing realisation in the P&T Audit organisation that revenue audit of BSNL/ MTNL needs considerable strengthening. There has been tremendous expansion in BSNL activities both as regards number of connections (up from 281.09 lakh lines in 2000–01 to 551.59 lakh in 2005–06) and revenue generated (up from Rs. 11699.48 crore in 2000–01 to Rs. 40176.58 crore in 2005–06). The real shift in audit focus now is greater attention to audit of revenue receipts. Recognising this fact, P&T

Audit organisation has taken up detailed study of four major revenue streams of BSNL viz. Billing and Collection of Interconnect Usage Charges, Revenue from Bulk users of leased Lines, Revenue from Infrastructure Sharing charges and Revenue through Franchises for the current years' Report (2007).

DEVELOPMENTS IN AUDIT REPORTING

Audit findings in respect of Department of Post and Department of Telecommunications were included in a separate volume titled C&AG's Audit Report on Post and Telecommunications, till 2000–01. Audit findings in respect of MTNL and of VSNL were included in the Audit Report No.3 (Commercial) upto 2000–01. Consequent on formation of Bharat Sanchar Nigam Ltd. in October 2000, its audit findings are included in the Commercial Audit Report while the paragraphs and reviews relating to Department of Post and Department of Telecommunications are included in the Civil Audit Report No.2 (Transactions Audit) along with other ministries which is signed by Director General, Audit (Central Revenues). DGAP&T, however, signs Performance Audit Reports concerning Department of Telecommunications and Postal Department.

Till Audit Report for 1990–91, the reporting style was mostly factual, from 1991–92 Audit Reports onwards; the paragraphs contained audit analysis and also pinpointed the accountability of the authorities responsible for omissions and commissions. The big change in reporting style came from 1996–97 onwards, when audit reporting became accountability centred and investigative type rather than mere pointing out the irregularities. Significant changes also occurred in audit of receipts as detailed below in a separate section.

ADVANCE PLANNING/ WORKSHOP

Every year when the Audit Report is in advanced stage of finalisation, the suggestions of Branch Audit Offices on the topics on Telecommunication and Postal side for conducting detailed reviews for the next audit report are called for in October/ November every year. On receipt of the same from the BAOs the DG holds a review meeting with heads of BAOs to assess the sustainability of the topics along with their topicality and thereafter the topics are finalised. This was started for the first time in 1996 as a two-day exercise. However, from February, 2001 annual seminar of the Heads of Branch Audit Offices is being organised every year for a week. The objective of this type of seminar is to update the officers with rapid developments in Postal and Telecommunication sectors and also to give them an opportunity to interact among themselves and with officers in the auditable entities.

DEVELOPMENTS IN COMMERCIAL AUDIT (TELECOM)

As already described in Chapter-7, commercial audit organisation in IA&AD is a distinct wing where field offices are headed by Principal Directors of Audit, Commercial and Ex-officio Members Audit Board, under the control of Deputy C&AG (Commercial)-cum-Chairman Audit Board. The one exception to this organisational arrangement is that PSUs falling under the jurisdiction of Department of Telecommunication are audited by DGAP&T, through this part of audit he is like MAB under the supervisory control of Dy. C&AG (Commercial).

The DGA P&T has the following PSUs under its ambit.

Mahanagar Telephone Nigam Limited (MTNL) was carved out of the department of Telecommunication in 1986 as a Corporate entity and VSNL (Videsh Sanchar Nigam Limited) was also formed in the same year to take over the functions of departmentally owned entity Overseas Communications Service. The audit of both these companies was entrusted to the DGAP&T. In the initial years, while the transaction audit of these companies could be done in the usual manner by the regular staff of DGAP&T when it came to supplementary audit under section 619 (3) (b) of the Companies Act, 1956 that office was definitely requiring commercial audit knowledge and skills. However, they somehow coped with the work by getting some training in the audit of commercial accounts. The result was that audit under Section 619 (3)(b) definitely lacked depth as would be evident from initial year's reports which indicate that not many important audit comments were issued to the two companies. For 1995–96 accounts for the first time on informal basis, an audit officer from MAB was requisitioned for the supplementary audit of accounts work and the results were immediately revealing. There were several substantial audit comments on the accounts of MTNL. Next year, apart from hiring the Sr.AO (Commercial) from MAB office on a special request made to the HQrs, AO (Commercial) was posted at Central office by transferring one post of AO from AG (Audit) Karnataka to the HQrs of P&T audit. By this time, the lower staff had also got training in the auditing of commercial accounts and thereafter, the supplementary audit of these two companies were always effective containing several comments of the C&AG under section 619(4) of Companies Act 1956. In February 2002, the Government of India sold off VSNL's majority shareholding as part of their disinvestment policy and it is no more a Government Company now.

The burden of auditing commercial PSUs on DGAP&T underwent a drastic change when Bharat Sanchar Nigam Limited (BSNL) was set up as a Government Company by hiving off the functions performed by the DOT in the department of telecom operations and telecom services. BSNL actually took over total operations and services of the department of telecom that were being performed by the telecom circles across the country. All these were merged into a new company and therefore, the work load on commercial audit in the P&T audit became predominant. Apparently, this needed thorough revamping of the organisation to keep pace with the organisational changes in the telecom department and effectively carry out its duties of auditing these companies. On the issue being taken up with C&AG office, sanction for 17 posts of Senior AOs / AOs (Commercial) was issued in February 2005, by surrendering 50 posts of typists. Of these, 15 are in position now.

A third PSU named Millennium Telecom Ltd. wholly owned Subsidiary of MTNL and engaged in the business of providing internet services throughout India, was incorporated in February 2000 under Companies Act.

As may be seen from the foregoing, telecom operations and activities having been corporatised the DGA P&T is now practically more like a Commercial Audit Officer. Taking cognizance of this overwhelming dominance of the commercial audit segment in the work profile of DGAP&T, he was placed administratively under Dy. C&AG (Commercial)-cum-Chairman Audit Board from 2002. In that capacity, he is more an officer of Commercial Audit Organisation than Civil Audit although he has a substantial role as a Civil Department auditor also. Firstly, he carries out appropriation audit of Department of Post and Department of Telecommunications, he is still the Principal Audit Officer of Department of Post and Department of Telecommunication and his Audit Report material pertaining to Department of Post and Department of Telecommunication find a place in the Audit Reports (Civil) of the Union Government.

AUDIT OF THE POSTAL SECTOR

The Department of Post is one of the oldest departments in the country whose audit was entrusted to C&AG. The profile of Postal Department practically remained unchanged till recently as regards its activities viz. providing postal services and carrying out agency functions such as postal banking and postal insurance.

Director General of Audit (P&T) conducts Finance & Appropriation audit, Regularity audit and Performance audit of the DOP. The role of audit has undergone a major transformation in the wake of the changing profile in the Postal Department activities and strategies.

DOP provides universal access to basic postal services in the country divided into 22 circles covering a net work of 1.56 lakh Post Offices. Besides providing postal services it performs agency functions like savings bank, payment of pension, postal life insurance, sale of cash certificates and other small saving schemes on behalf of other ministries/departments of the Government of India and other organisations. In 1990, the department started thinking differently and remodelled its mailing activities for lucrative business within its ambit of functions.

However, the rapid advancement of communication technology, computerisation and entry of private courier operators forced DOP to reorient its strategies. To cope with the challenges, DOP focused on introduction of new business so as to optimise its retailing strength and upgrade traditional services through introduction of new technology. In early nineties, DOP initiated computerisation by installing Multi Purpose Counter Machines and modernisation of post offices and mail offices in order to provide a single window service to customers. It installed two Automated Mail Processing Centres (AMPC) at Mumbai in 1993 and at Chennai in 1996 to mechanize the mail sorting process.

In a major innovation, DOP introduced Rural Postal Life Insurance for the benefit of the rural populace in 1995. In 1996, it set up a Business Department Directorate (BDD) to design and develop market oriented value—added premium products of the department. The BDD was reorganised as Business Development and Marketing Directorate in 2004–05. The value added postal services offered by India Post in recent years include speed post, business post, express parcel post, greetings post, data post, speed post, passport service, bill mail post, e-Post, e-Bill Post, media post, Meghdoot post card and retail post. In the area of financial services new services introduced include facilities for international money transfer, electronic fund transfer, electronic clearance services, warrant payment, sale of mutual funds and bonds etc. Small Savings products that are retailed from the post offices across the country include Savings Account, Recurring Deposit, Time Deposit, Monthly Income Scheme, Public Provident Fund, Senior Citizens Savings Scheme, Kisan Vikas Patras and National Savings Schemes. Presently, the Department is installing two more AMPCs at Kolkata and Delhi so as to mechanize the mail sorting process at all four metro cities and to form a National Mail Grid for the purpose of transmission of mail. It is also establishing a National Data Centre to facilitate networking of all HPOs, Administrative Offices, Accounts Offices, Speed Post Centres, etc.

There has been substantial increase in Departments' revenue receipts due to introduction of new products and upgradation of existing products. The revenue receipt of Rs. 2020.12 crore during 1999–2000 increased to Rs. 5,023.49 crore during the year 2005–06. Out of total revenue of Rs. 5,023.49 crore during 2005–06, Rs. 195.78 crore was on account of agency functions and Rs. 1202.10 crore was on account of premium products. Revenue of Rs. 222.44 crore during 1999–2000 from premium products has increased to Rs. 1202.10 crore during 2005–06. The increase in revenue from premium products was mainly due to exponential growth in Business Post and Speed Post Services. There has also been substantial increase in deposits under the Postal Savings Bank Scheme. The customer base of 11.37 crore account holders with annual deposits of Rs. 63,027.71 crore in March 2000 under various Postal Savings Schemes has grown to 16.22 crore account holders with annual deposits of Rs. 3,23,780.57 crore in March 2006. The number of insurance policies increased from 24,51,587 (aggregate sum assured Rs. 9,231.97 crore) & 6,66,138 (aggregate sum assured Rs. 2,250.69 crore) in March 2000 to 3,098,248 (aggregate sum assured Rs 22,951.60 crore) & 4,702,776 (aggregate sum assured Rs. 25,229.60 crore) in March 2006 in case of PLI & RPLI, respectively.

All these developments have increased the role of audit in respect of units of DOP. In the recent past, DGAP&T carried out performance audits of important areas of operation such as 'mail management', 'cash management', PLI/RPLI and Information Technology audit of 'Meghdoot' software package for front end operation in post offices, computerised PLI software package, VSAT Money Order and 'Sanchay Post' software package for savings bank operation. The quantum of audit in respect of units of DOP is being increased significantly to meet the additional responsibilities.

AUDIT OF REGULATORY AUTHORITIES—TRAI

A regulatory authority, following the entry of private operators in Telecom Sector, was a necessity and the Government promulgated an ordinance to provide for establishment of a Telecom Regulatory Authority of India (TRAI) to regulate telecommunication services and for matters connected therewith or incidental thereto in January 1997. This included fixation/ revision of tariff, earlier set by Department of Telecom, which now became function of TRAI. Apart from fixation/ revision of tariff, the TRAI ensures technical compatibility and effective inter-connection between different service providers, recommends the need and timing for introduction of new service provider and monitors the quality of service etc.

The audit of the accounts of TRAI is entrusted to the DGAP&T. Besides, the certification of the annual accounts, transaction audit in respect of establishment matters of TRAI is being looked into. By an amendment to the Act in 2000, the Government barred Audit to look into the regulatory functions of TRAI including tariff fixation/ recommendations by TRAI. These aspects including C&AG's reaction to amendment are discussed in the Chapter-15 on 'Emerging Audits'.

IT AUDIT

Pre-1989, computerisation in the Department of Telecom was limited to four metros. DOT formulated an integrated computerisation policy known as Computerised Information System. The objectives of the system were computerisation of subscribers, line management system, subscribers metering information system, customer service system, Telephone Revenue Billing and Accounting (TRBA) etc. Though the department planned to computerise the TRBA by 1993, the same was not achieved fully even by 1995. Prior to this, the Telephone billing entrusted to the private agencies on 'Service Bureau Basis' was gradually taken over by the DOT.

With the tremendous growth in telecom network, there was corresponding growth in the revenue of the department. Therefore, the question of appropriate billing and realisation of revenue became a matter of priority. The Department responded to this challenge by taking advantage of Relational Database Management System (RDBMS) to handle the voluminous data base, and for this purpose, developed a telephone billing package known as 'Trichur Package' targeted for implementation by 1995. In September 1998, it developed in-house a telephone billing package known as DOT SOFT consisting of Modules on directory enquiry, Commercial and Telephone revenue billing and accounting and this package was approved for implementation all over the country from 1998 onwards.

The response of audit to Telecom department's computerised billing had a slow build-up. Even though, the Telecom department computerised its billing functions from mid 1990s onwards, the audit of the telephone revenue continued to be done manually. However, DGAP&T, being conscious of this, began by organising training of audit personnel in audit of computerised environment through a special training/ programme in two phases in a three level module viz.:

Level I	:	Basics in Computer, Internet
Level II	:	Oracle, Unix and Idea
Level III	:	Computerised TRA billing in Trichur and DoT Soft packages

A total of 847 officers/ officials were imparted training in Level II and III from all the Branch Audit Offices (BAOs) as well as from Central Office whereas 836 were trained in Level-I.

Similarly, DOP also computerised its activities over the years. To meet the changing challenges some officers/ officials from field offices and from Central Office were imparted training in audit of computerised packages like Sanchay Post, Meghdoot etc. during 2004–05.

Thus, DGAP&T really started its audit of computerised system of Departments of Posts and Telecommunications from April, 2004 when these departments were requested to give audit parties full access to their computerised systems (in particular the server to run SQL query) or alternatively provide database of the last six months for further analysis of transactions on recurring basis. The two departments were also asked to supply the stand-alone packages which were being used alongwith operational manual system, documentation, design control and flow charts covering various financial aspects. Audit also suggested that on long term basis, the auditee PSUs may incorporate audit requirements in the package in use and those under development.

The impact of training and the follow up efforts resulted in production of the following IT Audit reviews in the C&AG's Audit Reports:

(i) IT Audit of DOT Soft package of BSNL: No.5 of 2005
(ii) IT Audit of Chennai Telephone Billing System: No.13 of 2006
(iii) IT Audit of Sanchay Post: A separate Performance Audit Report (No.1 of 2006)
(iv) IT Audit of Meghdoot Package: A separate IT Audit Report (No. 3 of 2005)
(v) IT Audit of Computerised Postal Life Insurance System (No. 3 of 2005)

WORKSHOP ON PROCUREMENT PRACTICES IN PSUs IN TELECOM SECTOR

Though the Department of Telecom Services/ Department of Telecom Operations corporatised as Bharat Sanchar Nigam Ltd. in October 2000 the BSNL/ MTNL continued to follow the procurement policy, procedures and practices of the DTS/ DTO. BSNL introduced an amended Procurement Manual to make its policy and practices quicker and transparent. The Hon'ble Minister of Communications suggested that the auditee and auditor should have a meeting of the minds to identify the possible improvements in procedure to have effective, timely and transparent procurement. After discussion with DOT, MTNL and BSNL the issues/ topics identified were: (i) assessment of requirement, (ii) fixation of price and (iii) decentralised procurement and planning. The services of an experienced consultant Lt. General D.V. Kalra, PVSM, AVSM (Retd.) were obtained as a neutral expert consultant. The workshop was organised on 9 October 2003 in the Narahari Rao Hall of the Office of the C&AG of India and suggested number of recommendations for improving the system of procurement.

SPECIAL AUDIT

The Minister of Communications, Shri Jagmohan requested the C&AG of India in February 1999 to conduct a special audit of Department of Telecommunications. This was an attempt to radically improve the management of finances as part of his fundamental reform and reorganisation attempt of the Telecommunication Department. He especially mentioned that audit should give their special attention to current procedures and practices especially in regard to calling of tenders, taking decisions thereon and enforcing the terms and conditions of licences signed by the operators of Cellular, Basic and Radio Paging Services. He wanted, the Audit Department to have a look into the whole gamut of procurement system i.e. examination of assessment of requirements, procurement and distributions to circles, bidding and evaluation systems and a general study of the conditions of contract including compliance specifications, inspection and quality assurance. The C&AG replied in February itself accepting the request and interalia asking for precise terms of reference.

In the Audit Reports of the previous years, some of the irregularities on the themes included in Minister's letter had already appeared viz Audit Report No.6 of 1998 had paragraphs on Licence Agreement pertaining to Cellular Services. Audit Reports had also commented on other services viz. basic as well as Radio Paging Services (paragraph No.7.4 and 7.5 of Audit Report No.6 of 1997). Similarly, the Audit of Telephone Review Accounting and Billing is a comprehensive audit and there are numerous paragraphs every year in audit report on short billings, non-billing etc. The total amount commented under these categories during the 3 year 1994–95 to 1996–97 was Rs. 926.80 crore which was to be recovered from concerned parties. While the Minister was briefed about all these developments, he was of the view that it would be in public interest to have a special audit of the Telecom department done.

The special audit was completed in November 1999. It covered the following areas:

- Licensing of cellular mobile, basic and radio paging services
- Current system of assessment of requirement, tendering, costanalysis, decision making, monitoring and implementation of contracts.

The outcome of special audit in brief was:

- A review on package concessions to the existing cellular and basic telephone service operators.
- A review on radio paging services.
- A review on material management in telecom stores and circles.
- A review on rural telecommunications network and finally a large number of high value contracts were reviewed resulting

in individual draft audit paragraphs highlighting irregularities and system defects.

The results of special audit were included in the C&AG's Audit Report No. 6 of 2000. The findings are discussed separately in the section under Audit Reports.

RESULTS OF AUDIT

From a relatively mild and non-descript output, the audit of P&T Sector, started producing after 1990s high value analytical paragraphs and reviews. The audit output has been definitely much more in the Telecom sector than Postal for obvious reasons.

It is best to pick up some sample key audit output to amplify what is stated above. The themes that became very relevant in the context of momentous changes and developments in Telecom and to some extent Postal sector can be clubbed under the following:

(i) Audit paragraphs on licenses for Cellular Mobile and Basic services
(ii) Audit paragraphs on Rural Telephony
(iii) Audit Paragraphs on Procurement of Materials and Equipment.

In the postal sector, the following audit output during the period was greatly appreciated and had tremendous impact:

- Theft of stamp papers
- Modernisation of Postal System.

Contract Audit Paragraphs: Some of the more important Audit Paragraphs from P&T Audit Reports as summarized below will testify to the prevailing impression that while post liberalization gave advantage of competitive bidding in procurement of material and equipment, the advantages from such a system could not be fully obtained by the DOT owing, mainly to the negligence, poor information and monitoring by the concerned officers and delays on account of either red tapism and lethargy or deliberate act to benefit the suppliers. The implications of these lapses run into several hundred crores. We will capture some of these in the successive paragraphs.

- The Department purchased defective jelly filled cables and despite the quality assurance test conducted in June 1992, the defective cables could not be replaced because of lack of timely action before the expiry of warranty period. The result, cables worth Rs. 24.59 crore remained unusable and therefore to that extent a total loss to the Department[3].

- Cross bar exchange equipment worth Rs.14.04 crore procured during 1985–93 remained unutilized because of a subsequent decision to set up only electronic exchanges[4].
- In the procurement of solar photo voltaic panel (SPV), the DOT committed a series of misdeeds: In this case, there was a clear evidence of favouritism shown to the suppliers who got an undue benefit of Rs. 24.03 crore in the purchase of 88,000 panels. In the process, it committed such acts of misdeeds as placing commercial orders on ineligible firms after entertaining post bid intervention from them; even though aware of steep reduction in prices of SPV panels, the Department did not shortclose the tender after expiry of delivery schedule and, what is worse, and has an integrity angle, repeat orders were placed even though prices were falling. The case also revealed that private firms were favoured at the cost of proven PSUs[5].
- In a case relating to use of transponders in satellite system, Audit discovered that because of consistent failure of the DOT to optimize the utilization of transponders on the 4 satellites (despite having all the information about their launches etc. and the heavy demand for them) the delay in utilization of these transponders cost the DOT very heavily as it lost at least Rs. 84 crore as revenue foregone[6].
- In the procurement of PIJF cables the DOT's contract performance was deficient on a number of counts mainly defective planning, inept system of financial control which led to procurement on deferred payment basis at heavy interest rates even though the department had sufficient funds which it surrendered eventually and ended up paying Rs.864.66 crore by way of interest which was clearly avoidable[7].
- A glaring case of department's lack of information whether intentional or unintentional caused an excess payment of Rs. 193.82 crore to suppliers in the procurement of telecom equipment like PIJF cables, C-DOT MAX-L exchanges, SBM exchanges etc. just because the DOT failed to take cognizance of substantial reduction in customs duty on import content of PIJF cables in budget of 1995– 96[8].
- In another case of procurement of new technology exchanges the Department (Technical Evaluation Committee) inordinately delayed submission of its Report and by that time the bid

validity period had expired. Eventually, the exchanges were procured at higher rates at an additional cost of Rs. 63.92 crore—all this because of the delay in finalization of tender which was endemic in DOT[9].

- In yet another case of glaring negligence, the BSNL failed to add a clause in the purchase order (of 12 F optical fibre cable) specifying, as is the usual practice, that the prices could be provisional and the lower of the two i.e. price fixed by BSNL HQrs or the one fixed by the Circle would be applicable. Result of this negligence—a clear extra expenditure of Rs. 70.64 crore[10]
- One of the more significant audit paragraphs was on the concessions granted to cellular and basic telephone operations in the 1990s. This is discussed in Appendix 'B' under the heading 'Some Key Case Studies from Audit Reports'.

Rural Telephony Services: Both the National Telecom Policy of 1994 and New Telecom Policy of 1999 laid emphasis on the provision of rural telephony in a big way. Audit carried out a review on three occasions on this subject and projected the results in following Audit Reports:

(i) Audit Report No.6 of 1997
(ii) Audit Report No.6 of 2000 and
(iii) Audit Report No.5 of 2003

The story about the dismal performance of the department in providing rural telephony services is a common thread in all the three reviews. The achievements were far below the targeted goals in physical terms. The main culprit in the initial rural telephony scheme was the basic system for rural telecommunication network called multi access radio relay (MARR) system. This system was grossly deficient in performance and was discarded as a policy in 1997 on that account and yet, rather strangely, was again purchased in 1998–99 at a cost of Rs. 53.57 crore which mostly went as a waste. The net result of these failures was that the objective of national telecom policy 1994 to cover all villages in the country with a Village Public Telephone (VPT) by March 1997 could not be achieve—in fact as of March 1999 such telephone facilities were provided to 3.47 lakh villages out of about 6 lakh in the country. The fact that a significant percentage of VPTs (between 20–24 per cent) were faulty and, therefore, non-working specially in states of Bihar, M.P. and Orissa renders this meagre achievement even more depressing. The good news, however, was that there were states like Kerala and Haryana which provided 100 per cent coverage to the villages. In the audit study done in 2002–03 the progress was still not very encouraging. While the Department revised the target date for provision of VPTs from 1997 to March 2002, only 4.86 lakh villages were provided VPTs as of March 2002. Again the funds were no constraint and in fact sizeable funds ranging between 47 and 57 per cent of the allotment remained unspent.

Basic telecom service providers were a big defaulter because against a committed number of 97,806 VPTs (as per the terms and conditions of agreement) only 846 VPTs were provided by these operators. The department could not even realise any significant amount from them as liquidated damages for non-performance. The surprising element here again was that department procured MARR system costing Rs. 184.56 crore between 1998 to March 2000 despite a directive of Prime Minister's Office not to procure MARR (apparently in view of poor and deficient performance). A large number of these faulty equipments were lying in various circles since 1998–99. The problem of faulty VPTs also continued and the percentage of fault in different circles varied from 24 to 74.

POSTAL DEPARTMENT

Working of Circle Stamp Depots: Circle Stamp Depots are responsible for indenting, storing and distribution of Postal stamps and other postal stationery, National Saving Certificates, Indira Vikas Patras Kisan Vikas Patras etc. The audit scrutiny in May 1997 disclosed that postage stamps and inland letter cards valuing Rs. 3.17 crore were found missing on opening of consignments sent by India Security Press, Nasik. It tantamounts to loss of cash. National Saving Certificates and Kisan Vikas Patras of face value of Rs. 185.25 crore were lost in transit in Assam and Bihar Circles during 1994–97 .Such huge loss of cash certificates involves serious risk of abuse and fraudulent encashment. Twelve cases of fraudulent issue and encashment of missing Kisan Vikas Patras valuing Rs. 1.20 lakh were detected during 1996. There had been a net difference of Rs. 36.30 crore in the accounts furnished by circle stamp depot and those of head office. Circle stamp depots placed excessive indents on the printers resulting in huge accumulation of postal stationery in many circles during 1995–97. Short receipt of postage stamps and inland letter cards valuing Rs. 16.44 lakh and shortage of postal stamps and stationary worth Rs. 6.23 lakh were noticed in CSD, Patna. CSD failed to obtain acknowledgment for remittance of stamps of Rs. 483.93 crore supplied to Head Post offices.

(Paragraph 43 in Report No. 6 of 1998)

Business Post Activity of the Business Development Directorate: Business Development Directorate was set up in 1996 to design, develop and market value added products like Media Post, Speed Post, Speed Net, Satellite Post, Retail Post, Business Post, Express Post, Greeting Post, Data Post, Speed Post Passport Service, E-Post, Customised Pre-paid envelopes, E-Bill Post and Meghdoot Post Card. Test check by Audit in 20 circles disclosed non/ short recovery of charges, outstanding dues, loss of interest on extending non-authorised credit facilities to private parties under Business Post, aggregating Rs. 1.70 crore. Further, the revenue generated under the Business Post was inflated by Rs. 201.29 crore by improper accounting.

(Paragraph 1.10 in Report No. 2 of 2004)

Functioning of Mail Motor Service:The Mail Motor Service introduced in 1944 in some selected cities had progressively expanded and the Service was operating in 94 cities at the end of 2002, with a total fleet strength of 1,135 mail motor vehicles and 486 staff cars and inspection vehicles. Review in Audit of its functioning revealed instances of poor utilisation of vehicles, non adherence to norms prescribed for their optimum utilisation, avoidable expenditure on their empty deployment, failure to achieve prescribed targets of fuel consumption resulting in higher consumption and consequential additional expenditure, absence of norms to enable effective control over the consumption of fuel, tyres and tubes, spares, etc. Cost of operation of the Mail Motor Service vehicles was also considerably higher than the cost at which some units transported mail utilising services of private contractors and was disproportionately high in some of the units. Staff in different categories were employed in excess of the prescribed norms in 10 units in 5 circles.

(Paragraph 3.1 in Report No. 2 of 2003)

NOTES: CHAPTER-9

[1] Task Force included A.N. Chatterjee Chairman with three members viz Nand Kishore, S. Murugiah and Ms. Meera Swarup.

[2] P.K. Kataria

[3] Audit Report 7 of 1994

[4] Audit Report 7 of 1996

[5] Audit Report 6 of 1997

[6] Audit Report 6 of 1998

[7] Audit Report No. 6 of 1999 (paragraph 11)

[8] Audit Report No. 6 of 1999 (para 11,15, 18 and 19)

[9] Audit Report No. 6 of 2000

LIST OF KEY EVENTS

May 1996	One AO (Commercial) was posted to DGA(P&T) for certification of Accounts
October 1996	Orders issued on audit of Contracts
December 1996	Holding of meeting by DG with BAOs for finalization of review topics commenced 1996 onwards.
20 February 1997	Establishment of Telecom Regulatory Authority of India (TRAI). Its audit was entrusted to DGAP&T.
2000	Special Audit of Department of Telecommunication was carried out at the request of Minister of Communication in 1999 and Report was laid in the year 2000.
2000	DGAP&T was entrusted with audit of BSNL (incorporated in September 2000).
March 2000	Revision of audit norms for Telecom and Postal Department.
October 2000	After risk analysis, auditee units were categorized as annual, biennial and triennial audit units.
29 December 2000	Due to revision of Audit norms in October 1999, C&AG sanctioned 42 posts of Sr. AOs and 10 posts of AOs.
February 2002	DGAP&T entrusted with audit of Millennium Telecom Limited.
2002	Provision made in TRAI Service Provider (Maintenance of Books of Accounts or other Document) Rules 2002 for access of Audit to records of private operators on revenue sharing basis.
2002	DGAP&T placed under administrative control of Dy. C&AG (Commercial).
2002	For Commercial audit of BSNL, C&AG sanctioned 17 posts of Sr. AO/AO (Commercial) by abolishing 50 posts of clerk/typists.
9 October 2003	Workshop on procurement practices in PSUs in the Telecom Sector held in Narhari Rao Hall recommended improvements in the system of procurement.

DOCUMENT

No. 2917-BRS/632-2000
Dated 29-12-2000

To
The Director General of Audit,
Post & Telecommunications,
Sham Nath Marg,
Delhi-110 054

Sub.: Temporary staff for the O/o the D.G.AP&T

Reference: Your Office letter No. Admn. I/Staff Proposals/ RE 2000–01/BE 2001–2002/705 dated 8-12-2000

Sir,
I am directed to convey sanction to the creation on usual scale of pay and allowances of the following regular temporary posts in your office for the purpose and period noted against them:-

S.No.	Nature of Posts	Number	Period	Purpose
1.	Sr. Audit Officer	42 (Forty Two)	Date of Entertainment to 28.2.2001.	Due to revised Audit Norms for P&T Services.
2.	Audit Officer	10 (Ten)		

2. The cost involved should be met from the budget allotment of your office for the year 2000–2001.

3. 93 posts of Sr. Ars/Ars. (74 Sr. Ars. And 19 Ars.) have been reduced from the sanctioned strength of your office on this accounts.

4. Distribution of above posts among various Branch Audit Offices may please be intimated.

Yours faithfully
Sd/-
(Jogender Nath)
Sr. Administrative Officer (BRS)

GLOSSARY OF ABBREVIATIONS

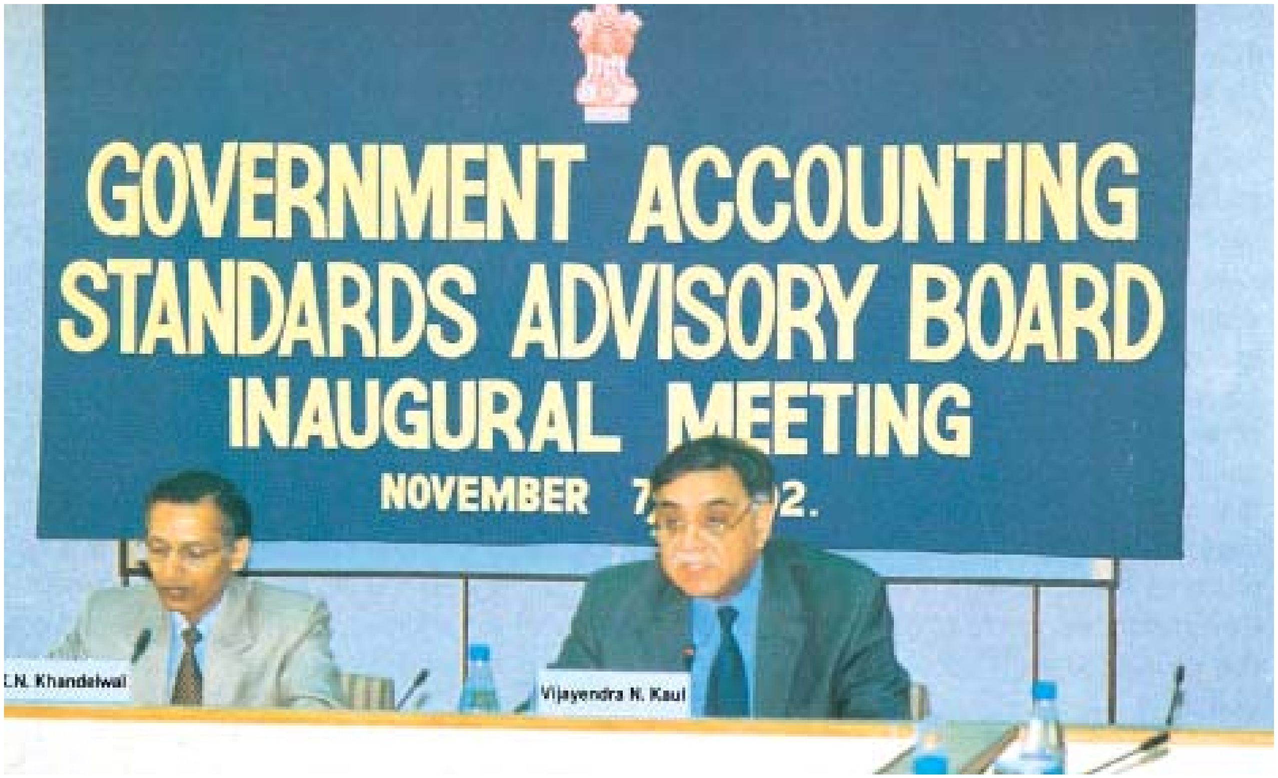
CGEIS	Central Government Employees' Insurance Scheme
DCRG	Death-cum-Retirement Gratuity
DTS	Department of Telecom Services
GPF	General Provident Fund
MTNL	Mahanagar Telephone Nigam Limited
SQL	Structured Query Language

A view of the invitees at the ASOSAI Congress 1994.

Inauguration of 6th Assembly and 5th International Seminar of Asian Organisation of Supreme Audit Institutions by the President K.R. Narayanan (November 1994). CAG Somiah is on extreme right.

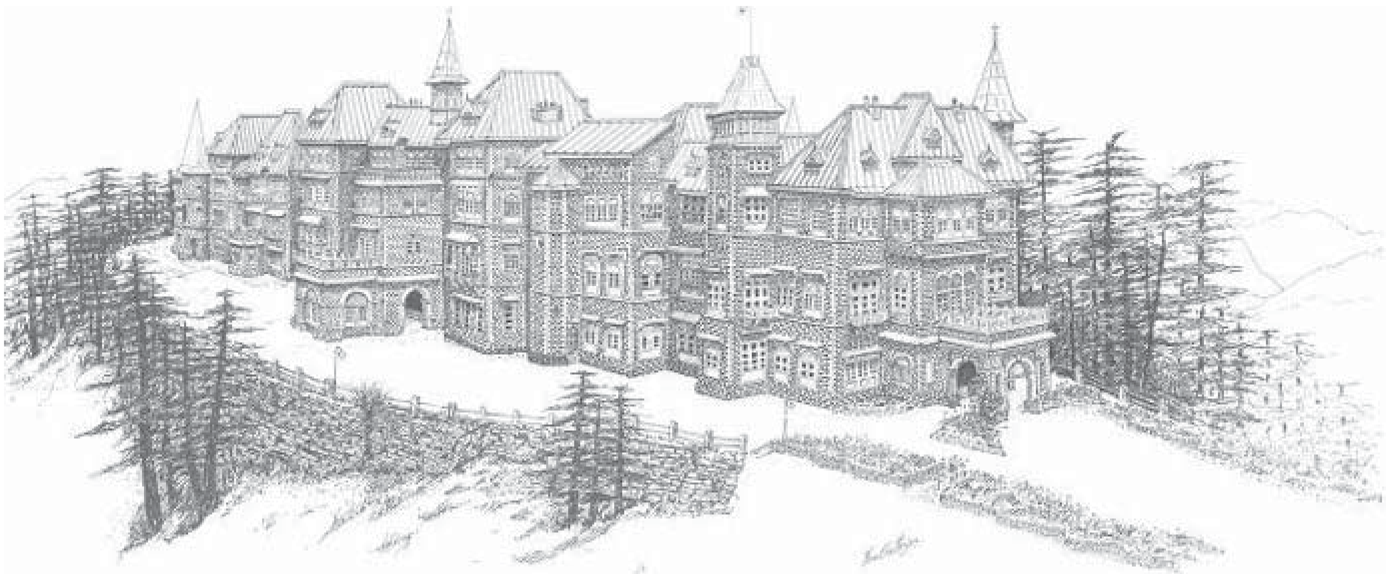
CAG of India V.K. Shunglu receiving Jörg Kandutsch Award from INTOSAI Secretary General Dr. Franz Fieldler

Inauguration of XXI Conference of Accountants General by the Prime Minister Shri. A.B. Vajpayee at Vigyan Bhawan (April 2001).


GOVERNMENT ACCOUNTING
STANDARDS ADVISORY BOARD
INAUGURAL MEETING
NOVEMBER 7
N. Khandelwal
Vijayendra N. Kaul

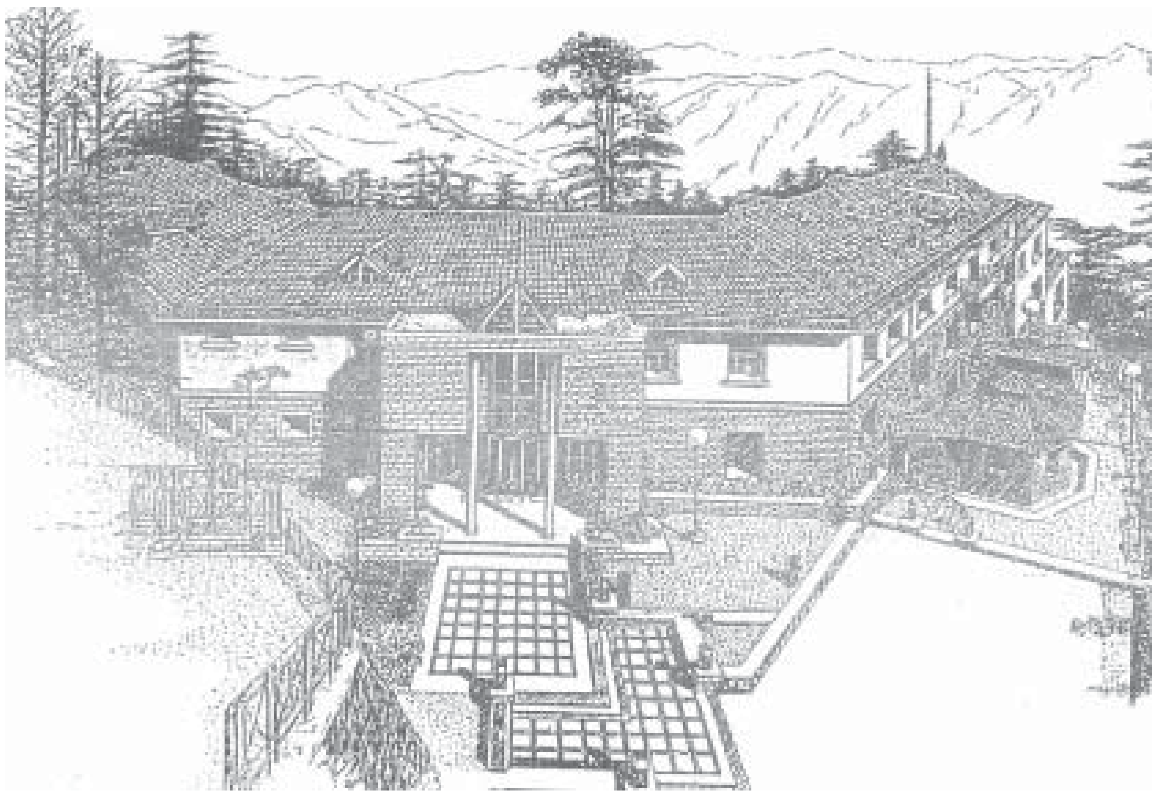
Inauguration of XXIII Conference of Accountants General at Vigyan Bhawan by the President Dr. A.P.J. Abdul Kalam (September 2005).

At the foundation stone laying of the new office building of the Comptroller and Auditor General of India by the President Dr. A.P.J. Abdul Kalam (October 2006). From left, the President, the Finance Minister Shri P. Chidambaram, Comptroller and Auditor General of India Shri V.N. Kaul viewing the office building model.



An artist's sketch of Gorton Castle Building Shimla which houses the office of Accountant General Himachal Pradesh. It housed the Central Secretariat of the British government during summer upto 1942; subsequently, it was the Headquarters of Auditor General of India for sometime.

"YARROWS"—the Indian Audit and Accounts Service Probationers Mess in Shimla—an artist's sketch.



National Academy of Audit and Accounts at Shimla situated in the YARROWS complex.

The present Headquarters of the office Comptroller and Auditor General of India at New Delhi.

The building complex of Centre for Information System and Audit (iCISA) at Noida. International Training Centre also functions from here.