

**THE COMPTROLLER
& AUDITOR GENERAL
OF INDIA**

A THEMATIC HISTORY

1990–2007

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Railway Audit

Indian Railways (IR) is more than 150 years old and is the largest rail network in Asia and World's second largest under one management. It has a network of 63,332 route kms. (2005–06) and moves on an average 1.83 million tonnes of freight and 16 million passengers per day. The Railway network is a multi gauge system, consisting of Broad, Meter and Narrow Gauges. The entire Railway network is managed by Ministry of Railways (Railway Board) who are also responsible for formulation of policy for the Indian Railways. The Railway Board is headed by a Chairman and 6 functional members. IR is further divided into 16 Railway Zones, each headed by a General Manager and 67 Divisions, each headed by a Divisional Railway Manager.

Ministry has also a number of other Organizations like Research Design and Standards Organization (RDSO), Railway Production Units (numbering 6), Metro Railways and Central Organisation for Modernization of Workshops on Railway (COFMOW). It has also under its aegis 10 PSUs and a few autonomous organizations like Centre for Railway Information System (RIS) that deals with computerization of various systems on the Railways. Ministry of Railways is unique amongst all the Ministries in the Government of India in the sense that it controls the business operations of the Indian Railways in the country directly and has a separate budget.

Financial Profile of the Railways: The total receipts of the Railways for 2 years i.e. 2004–05 and 2005–06 were Rs. 48,032.42 crore and Rs. 53,579.40 crore representing a growth of over 15 per cent in 2005–06 over the previous year. Increase in the receipts was reflected both in passenger and commercial traffic. During the last two years, there has been a substantial improvement in operating

ratio of the Railways. The ratio which was 90.98 per cent in 2004–05 improved to 83.72 per cent i.e. by 7.26 per cent in 2005–06 for the Railways. Analysis of the improved operating ratio by Audit revealed that increase in the rates of commodities as a result of upward revision in Classes was the major contributor. Another reason for improved ratio was change in the accounting treatment of the capital component of leasing charges to IRFC which resulted in decrease in working expenses substantially thereby improving the operating ratio by 2.97 per cent. Detailed analysis by Audit revealed that barring Central Railways, Operating Ratio in all zonal railways had improved compared to the previous year. The Railways fund their expenditure on acquisition, construction, replacement and renewal of assets from budgetary support, market borrowings and their own internal resources. The Railways operate a number of funds to meet specific requirement of funds by them. These funds are either fully or partly financed by Railway revenues / surplus and additionally supported by budgetary support from Central Government and market borrowings.

RAILWAY AUDIT ORGANIZATION

Railway Audit Wing was headed by ADAI (Railways) till 1989–90. From 1990, this wing has been headed by the DAI. The first incumbent DAI in charge of Railway Audit was R. Parameswar. The charge remained with DAI Hqrs. till recently when it was shifted to DAI (LB) in March 2007.

The Directors of Audit in Zonal Railways were redesignated as Pr. Directors of Audit in 1990. At the HQrs, under the DAI (Railways) the post of Jt. Director (Railways) was upgraded to Director (Railways) in 1991–92 and from 1997–98 this post was upgraded to Pr. Director (Railways). A separate C&AG audit setup was created in Railway Board for audit of the various directorates. Organizationally, Railway audit is characterized by one important development, which is an outcome of a development in the Indian Railway restructuring. The big restructuring in the Railways saw creation of seven new Railway Zones, two were created from 1 October 2002 (East Central and North Western Railway) and five were created from 1 April 2003 (West Central, South East Central, East Coast, North Central and South Western). As a result, reorganization of Railway Audit was inevitable and seven additional posts of Pr. Directors of Audit were sanctioned in these seven newly created Zonal Railways in 2006. In 2003, as a follow

up of the recommendations of the Railway Audit Norms Committee, a post of Director (Railway Board Directorate Audit Office) was sanctioned in 2003. This was an important move because the officer will supervise audit of tenders/ contracts, finalization of accounts, audit of Railway Board Directorates etc. in the Railway Board where all major tenders are finalized.

RAILWAY AUDIT MANUAL

The current Railway Audit Manual of May, 2001 is the fifth edition of the Manual. From the Preface to the previous editions of the Manual, it is noted that the first edition was brought out in July 1932. It was signed by B.N. Mitra Director of Railway Audit. The Railway Audit Code which also defines the functions of Audit Staff in respect of Railway transactions after the separation of Accounts and Audit was also reprinted in April, 1931 and was signed by E. Burdon. The Code clarifies that detailed instructions relating to audit procedure etc. will form the subject of Railway Audit Manual. The approach to Railway Audit is detailed in the latest Railway Audit Manual and also in the departmental records. The extent and procedure of audit, selection of documents for audit and the system of review of Audit are described in separate chapters. The Manual also discusses specific areas of Railway Audit like Audit of Earnings, Establishment Audit and Works Audit. The Works Audit is specially focused on the works and projects of railways. Stores Audit, a very prominent area for audit in the railways is also covered in the Manual as also audit of workshops. There are instructions about appropriation audit as also ECPA Audit. A new chapter on 'Audit of computerized systems' has been added to the Manual.

AUDIT PLANNING

Audit plans were prepared by the Railway Audit wing since early 1990s. After the issue of the new circular of December 1994 on audit plans by Headquarters, audit plans prepared by Railway Audit wing also incorporated some of the salient points of that circular. The annual audit plans are generally discussed in the workshop of Principal Directors of Audit presided over by the DAI, Railways. For example, the proceedings of February 1995 Conference of Principal Directors throws light on the prevailing thinking on Audit plans. The objective of the audit plan was to ensure a high quality audit in a timely, economic, efficient and

effective manner. The Audit plans were supposed to indicate how the available mandays would be optimally utilized. A significant point which DAI made in that context was that allocating 70 percent of available mandays to Central Audit (as was the case in those annual plans) was not a wise thing because Central Audit was generally the least result oriented area. He therefore desired that within a framework of new audit plan, as a rule, a reorientation of audit priorities was possible and should be done. The whole idea was to optimize the results of audit by gearing up audit planning towards this objective. Audit plan was to be framed in accordance with pre determined audit priorities and available resources allocated accordingly. This was just in tune with the December 1994 orders.

In May 2002, following a Conference of Principal Directors of Audit, Zonal Railways which discussed the subject of audit planning, a circular was issued to all Principal Directors of Railway Audit setting out instructions for preparing audit plan of Railway Audit as approved by DAI¹. The instructions inter-alia emphasized that to 'make audit plan a scientific and pragmatic exercise, it is necessary to have master data available at all times of all the auditee units under the jurisdiction of PDA'. The circular also made a provision for quarterly monitoring of audit plan implementation by Headquarters. The Conference also decided to constitute a Committee to go into the norms and come out with recommendations which should be adopted across the Board by all the Principal Directors of audit. The Committee called 'Norms Committee' gave its recommendations in March 2003 for improving quality of audit through a more comprehensive integrated approach. As a result of their recommendations, the following changes were made:

- (i) Shifting of certain items from Central Audit to Local Audit
- (ii) Increase in monetary limits for selection of samples
- (iii) Simplification of system of records selection
- (iv) Enhancing the level of audit scrutiny
- (v) Changes in quantum of checks on the basis of risk perception

In addition, the Committee added some new areas for audit coverage which included computerization in Railways. The method of reporting results of audit were also suitably revised. The staff requirements were reassessed. Costing cells were constituted in Zonal Railways.

The Railway Audit still follows 2002 instructions on audit planning. The risk based approach is being used for audit process and procedures. Scientific statistical sampling is also being applied in auditing. An EDP package called 'Audit Plan Monitoring System' basically catering for Annual Inspection programming for a specific year along with the 'User Manual' was circulated to all Zonal Railway Audit offices for implementation.

DEVELOPMENTS IN AUDIT SYSTEMS AND PROCEDURES

C&AG has three distinct functions with regard to Indian Railways. These are:

- ❖ Certification of Accounts
- ❖ Audit of Transactions of the Railways
- ❖ Performance Audit of Projects, Schemes, Programmes, etc. of Indian Railways

Certification of Accounts: Indian Railways prepare several accounts which require certification of Audit from different authorities. C&AG issues the audit certificate over his signatures for the Appropriation Accounts including Balance Sheet of the Railways as compiled by the Railway Board. Occasionally, he may also be required to certify the net proceeds of several taxes payable by the Railways for which a separate Form of Audit certificate has been prescribed. The Deputy Comptroller & Auditor General signs the Audit Certificates concerning two Balance Sheets namely, Balance Sheet of the Railways (Commercial) and Balance Sheet of the Railways (Strategic) after they are signed by the Chairman, Railway Board and Financial Commissioner (Railways). Apart from these two Audit Certificates, DAI also signs the Audit Certificate of Annual accounts of the Railways as compiled by the Railway Board for incorporation in the Finance Accounts of the Union Government and he also issues the Audit Certificate over his signature of the Reviews of Balances prepared by the Railway Board. Apart from these, the Zonal Railway Principal Directors of Audit sign the Appropriation Accounts and balance sheet of the individual railways. They also sign the Capital and Revenues Account, Finance Account, Review of Balances and other Accounts of Indian Railways concerning their respective zones. Additionally, the Zonal Principal Directors also issue the certificate on the pilgrim tax concerning his railway and before the March account of individual Railway is submitted to the Railway Board, the

concerned Principal Director of the Zonal Railway gives the certificate to the effect 'compared with office copy and found to be a true copy'. Railways being such a mammoth organization, the presence of a large number of accounts and statements is understandable. Since Railways has a specialized Finance and Accounts cadre, expectation always is that Railway Accounts would be prepared better qualitatively. Occasionally, however, Audit has found certain discrepancies despite this advantage to the Railways.

Revision in the format of Appropriation Accounts: The format of appropriation accounts of Railways was revised as a result of the recommendations² of the PAC, which suggested such a change so that these accounts have the same format as the Union Government appropriation accounts (Civil) which had been restructured with effect from the accounts for the year 1993–94 onwards.

The PAC made this recommendation in April 1995 and the Appropriation Accounts of Railways were revised with effect from the accounts for the period 1996–97. In fact PAC recommended that all those authorities who prepare separate Appropriation Accounts viz. Defence, Railways, P&T, take suitable steps to ensure that their Appropriation Accounts fall in line with Appropriation Accounts format of Union Government (Civil).

Audit of Transactions: The Transaction Audit of Railways is carried out in accordance with the instructions laid down in the Railway Audit Manual in its latest Edition of May 2001. The Manual prescribes general instructions regarding selection of documents for Audit of Earnings, Catering Audit, Audit of Expenditure, Works Audit, Stores Audit, Workshop Audit and Appropriation Audit. It also carries instructions on audit of computerized systems. The Perspective Plan 2003–08 laid down that the quality of transaction audit be improved by according greater attention to high risk and high value items and placing emphasis on identifying causes of deviation/non-compliance. The Railway Audit stated in their reply to mid term appraisal that efforts were in place to streamline audit based on risk perception. This was in early 2005. Since then Railway Audit has taken steps towards focusing on high risk areas. A system of sharing of information amongst various railway zones was established by setting up database of audit reports and special letters. The thrust areas are covered on this perception.

The basic principles and procedures applicable to audit of transaction in other branches of the audit dealing with expenditure audit are also applicable to the Railways. Railway Audit Manual deals with this subject in Part IV—Audit of Expenditure.

Besides the introduction of theme based transaction audit from the year 2006, another new trend introduced from the year 2007 is the decision to have combined audit of Railway Public Sector Undertakings by Railway Audit wing and parties consisting of Commercial Audit Wings under whose audit purview these Railway PSUs fall. Their combined effort, it is expected, will produce much better audit results.

Performance Audit: Railway Audit has a long tradition of Performance Audit on the various areas concerning working of the Indian Railways. Performance audit in Railways started in the time of C&AG Baksi. With the overhauling of the Performance Audit system by the C&AG in 2005, the Railway Audit also adopted the new Performance Auditing Guidelines.

The Central Reviews are coordinated from Headquarters from the very beginning and currently this job is entrusted to Director posted in the Railway Board Directorate Audit. The background papers for these topics that include audit objectives, materiality, significance and relevance of the topics, expected audit outcomes and value addition are circulated to the field audit offices for their views and inputs. Based on the inputs, the background paper is further refined specially the issue analysis. Some field officers are nominated for conducting pilot studies on the selected topics. As regards local audit reviews, each field office suggests to Headquarters the local reviews they want to conduct. The interaction on these topics are held with Railways also. For example, such interaction with the Railway Board was held for subjects chosen for the Audit Report 2006–07 and suggestions were also obtained from non Railway stakeholders. The background paper specially the issue analysis were firmed up after these interactions for use by the field offices. The pilot study results received in the Headquarters are scrutinized and with further inputs from Headquarters, detailed guidelines are prepared for these audits which are sent out to all the concerned field offices.

Prior to the new Performance Audit system that was applied to Railway Audit from 2005, the procedure for carrying out the Central Reviews was streamlined in 1997, when based on the discussions held in a meeting convened by DAI Railways³ with the

Principal Directors of the Railway Audit offices, some important decisions were taken. DAI emphasized that the main thrust in a Central Review should be that 'global picture' of the audited scheme/function/programme etc. should emerge. The other purpose is that 'audit should project in the reviews the degree of reliability of the system arrangements' in the Railways.

After selection of the topic for Central Review, a pilot study was undertaken by identified field offices and its feed back communicated to Headquarters. This feedback formed the basis of detailed guidelines which were issued in close co-ordination with the field offices. The Guidelines were prepared by the Headquarters.

The special feature of the procedure formulated in 1997, was that the Guidelines were in the skeleton form of the final draft review. The sample to be test checked and exact nature of data tabulation needed was specified. The field offices were to apply the test check in the selected sample on the basis of the data requirement as per the skeleton. A word of caution was given about the sample: the details of sample were to be identified carefully by the Headquarters in coordination with the field offices with reference to the global data. In case the field office detected a point not included in the guidelines (skeleton) the same was to be communicated simultaneously to the Headquarters as also to the other field offices; the essential requirement was however that such new items were within the identified sample and for the same period as prescribed for the review.

The merit of this approach, which was somewhat novel, was that aggregation of data at the Headquarters at the finalization stage would be easier and it would also result in brevity of presentation with better readability of the Audit Reports as claimed by the Conference proceedings.

Two years earlier in 1995, another review was done on the procedure for conducting central reviews by the then DAI (Dharam Vir) in a conference with his Principal Directors of Audit in February 1995. The emphasis in this conference was that Central Reviews were like All India reviews which demanded high quality audit in a timely, economic, efficient and effective way. The efforts should be directed towards a comprehensive review of projects and programmes in terms of their goals, objectives and extent of results achieved vis-à-vis use of resources namely money, men and material. The emphasis was that conclusion should be logically drawn with accountability centers clearly brought out. Amongst

other points mentioned were: the review should give an overall macro picture for the railways as a whole which should be followed by result of test check and the scope of test check should be clearly stated in the review in terms of number and description of unit actually subjected to detailed scrutiny.

Audit Reports: Till the Audit Report for the year 1999–2000 (presented in the year 2001), Railway Audit Reports were printed in just one volume, comprising results of Transaction Audit and Central Reviews (or what is now called Performance Audit). From the Audit Report for the year 2000–01 (Report presented in 2002), separate volumes of Audit Reports were brought out on Transaction Audit⁴ and Performance Audit⁵ i.e. central and local reviews. This position continued till Audit Report 2003–04 (8 of 2005 and 9 of 2005).

The Railway Audit Reports are now produced in three volumes for the last two years that is for the Audit Report 2004–05 and 2005–06. For the next year also, three reports are likely to be signed by C&AG for Railway Audit. These three reports are:

- (i) Transaction Audit Reports
- (ii) Performance Audit Reports
- (iii) IT Audit Reports

Two important circulars/minutes of the meeting containing decisions on Audit Reports amongst others were issued in 1995 and 1997. The 1995 circular issued after a conference of all the Pr. Directors of Railway Audit with the DAI Railways had the following important instructions:

- ❖ Audit reports should be fully documented
- ❖ Audit report paras must be accompanied by a list of items on which information could not be obtained from the Railways. This was necessary to enable the Headquarters to take a view about the prima-facie acceptance of DP or not .
- ❖ Field offices would refer to headquarters any information/clarification required to be had from the records of the Railway Board and the headquarters would ensure that the necessary information etc. is supplied to the field office. This provision has also been manualised now.
- ❖ The DAI directed that piecemeal observations from the Headquarters on the draft paras/audit reviews must be avoided. He laid down the procedure that a draft para received from the field will be returned to them with all the objections

and observations in one go after the DAI Railways has seen the case. In other words, no communication or comment would be passed on the draft para by a lower functionary except after the case has been seen by the DAI.

The circular of May 1997 was also the outcome of a conference held by DAI Railways with the Pr. Directors of Railway Audit in the field. This circular outlined the focus and presentation of draft paragraphs. In nutshell, the instructions said that conventionally audit paragraphs were loss oriented and in that shape they presented only the symptoms rather than the specific action or the lack of which resulted in loss etc. The Audit paragraph should therefore, focus on reasons for the losses which meant that the line of audit scrutiny and investigation would be finalized at the Inspection report stage itself for all the part II A paragraphs. The gaps if any, in such an analysis would need to be plugged at that stage itself.

Regarding drafting, there was a small advice from the DAI that the first paragraph of the DP should give broadly an indication to the audit conclusion that would emerge at the end.

Another interesting point in the circular was that in the Transaction Audit, the audit results should be presented subject wise rather than individual case wise. Accordingly, all similar cases on a given subject should be grouped together in one draft para rather than narrating them individually in several draft paragraphs. This grouping could be undertaken even in a tabular form. The details of the individual cases included in the table should be listed out separately in an Annexure since these would be required by the Ministries for their response.

Finally, the circular asked the field offices to specify the authority which concluded the relevant contract or took the relevant decision that were under reference in a DP. It also desired that the names of the officers whose actions led to the lapses should be indicated in the key documents. This instruction was inline with the prevailing philosophy of making draft paras accountability focused.

A significant development in Transaction Audit in Railway Audit Reports is that from the year 2006, theme based Transaction Audit is being conducted for the Transaction Audit Report. These audits cover one particular theme on which audit is conducted across all the zonal railways and the results are produced as long paragraphs in the Audit Report. This gives a tremendous advantage

to the stake holder that is Railways in that they get an independent objective view on common themes or activities across all the railway zones.

Money value for Draft Paras: Prior to 1989–90 Audit Reports, no monetary ceilings had been prescribed for issuing draft paras. In 1991, monetary limits were prescribed for various categories of Railway Audit Report Paras; for example Rs. 5 lakh and above for paras relating to earnings and Rs. 10 lakh and above for works and stores paragraphs—this was raised to Rs. 20 lakh in 1992–93.

For the Audit Report 1997–98 these limits were again reviewed and raised to Rs. 50 lakh for earnings and Rs. One crore for works, stores and establishment paragraphs.

The subject was again discussed in the conference of Principal Directors of Zonal Railways in February 2002 in view of the difficulties expressed by some Zonal Railway Pr. Directors and the money value for floating audit paragraphs was fixed in 2002 as below:

- (i) Paragraphs relating to Earnings: Rs. one crore and above
- (ii) Paragraphs relating to Works and Construction: Rs. 50 lakh and above
- (iii) Paragraphs relating to Stores and Establishment: Rs. 25 lakh and above

From the Audit Report 1996–97, an important decision was taken in the meeting with the Principal Directors of Railways that overall financial impact of the audit efforts should have some correlation with the overall earnings of the Railways. The specific decision in this context was that ‘magnitude of DPs finally included in the Audit Report should not be less than 1.5 percent of the total earnings of the Indian Railways.’ This decision was on the suggestion of C&AG.

The system of sending provisional paragraphs to the Chairman, Railway Board and Financial Commissioner (Railways) demi officially by the DAI after the same were issued to the Railway Board i.e. to Joint Director, Finance Budget Committee was started in 2005 for facility of better response and action by the Railway Administration. The system has worked well.

The Performance Audit Reports on Railways as indicated earlier was brought out for the first time in the Audit Report for the year 1972–73. Since then practically every year one or the other theme

is chosen on Railways working for C&AG's Performance Audit Reports.

The selection of topics for the Performance Audit in the Railway Audit side is done through an interactive process with the field offices but the final decision is taken by DAI (Headquarters). Generally, the Performance Audit topics are divided into two categories (1) Central Reviews which are of common relevance to all the Zonal Railways and, therefore, each Zonal Railway sends material on this topic. (2) Local Reviews which are specific to each Principal Director Railway charge. Generally, there are two to three Central Reviews and normally one to two zone specific Local Reviews.

An excellent system of wider participatory approach in getting inputs for Audit Reviews was witnessed when for the Audit Reports 2004–05 (that is Reports brought out in 2006) Railway Audit held a workshop on the three topics that were selected for the Central Review for inclusion in the Report. These were:

- (i) Track renewal works on Indian Railways
- (ii) Freight management on Indian Railways
- (iii) Cleanliness on Indian Railways.

All these Reports were brought out in 2006.

A mention of this workshop to deliberate on the issues involved in these three reviews and also to decide the scope of these reviews is necessary because it was a workshop of a unique kind which yielded very good results. Its uniqueness consisted in the composition of 'stakeholders' who attended the workshop to deliberate on the issues. These stakeholders were not only the top officers of the Ministry of Railways (e.g. Chairman Railway Board, FC, etc.) but also included representatives of Consumer Coordination Council, Member Governing Council, Institute of Rail Transport, General Manager (Movement), Food Corporation of India and Executive Engineer, Municipal Corporation of Delhi. The non-railway stakeholders presented the user's perspective and viewpoints as well as their expectations from railways—the service provider.

The inputs of the workshop were utilized in revising the guidelines and in determining the scope of the review (at least in the case of 'Freight Management' review).

In order to upgrade the quality of Railway Audit Reports, the C&AG, amongst other steps, nominated following 5 Railway Audit

Offices in March 2006 as Centres of Specialization on selected subjects:

PDA, Western Railway	Traffic related issues
PDA, Southern Railway	Stores and establishment
PDA, Central Railway	Costing and Stores
PDA, Northern Railway	Works and construction activities
PDA, South Central Railway	Workshop activities

A survey of the last ten years audit reports bring out that performance audit reviews were carried out on 43 topics/subjects and printed in the Railway Audit Reports. The broad areas of the railways working which were covered by these audit reviews in Railway Audit Reports can be clubbed into following categories (year of the Report in brackets):

- (1) Freight operations: Under this subject reviews that were brought out included Utilization of wagons (1996), Goods trains movements on Indian Railways (1998), Siding management in Indian Railways (2000), Working of Marshalling yards over Indian Railways (2001) and Coal movement on Indian Railways (2004)
- (2) Passenger services: This broad subject had some interesting audit reviews like Passenger amenities on Indian Railways (2002), Coach maintenance (1999), EMU Suburban services (2001) and Passenger revenue management (2005)
- (3) Asset maintenance and resource utilization: This subject had important audit reviews like Track renewal works including maintenance (1997), Land Management on Indian Railways (1999), Modernization of Signaling and Telecommunication system(2002), Procurement, utilization and maintenance of track machines over Indian Railways (2004).
- (4) Safety and security aspects: Amongst the topics in Audit Report were Safety Performance of Indian Railways (1999) and Security management in Indian Railways (2000).
- (5) Project, contract and material management: Under this broad subject, following reviews were brought out—Gauge Conversion on Indian Railways (1996), Ongoing projects/works on Indian Railways (1998), Procurement of wagons on Indian Railways(2002), Assessment, procurement/production , utilization and maintenance of locomotive on Indian Railways (2003) and Construction and maintenance of road over bridges and road under bridges in SR and SWR (2005)

(6) On Human Resource Management, Audit has brought out only one major review viz. Man power management in Indian Railway (2004).

Comprehensive review has also been brought out in the Audit Report on functioning of Research Design and Standards Organization (RDSO) in 2004 and performance appraisal of Medical and Health Services in 2006.

A resume of some of the Performance Audit Reviews is given at the end of this Chapter.

IT Audit Reports: Computerization in the Railways is necessitated by its size and volume of operations. As a result, extensive use of computers has been resorted to by the Railways in its functioning. Railway Audit, alive to the situation, has conducted a number of Information Technology Audits to evaluate whether the IT system adopted 'safeguard assets, maintains data integrity, helps to achieve the objectives effectively and performs its functions efficiently and economically.' Based on these, C&AG brought out some IT Audit Reports also on Railways. In the Audit Report for the year ended March 2004, Information Technology Audit of Material Management Information System on Central Railway was brought out. For the year ended March 2005, C&AG brought out, in his standalone Audit Report four Information Technology Reviews namely:

- ❖ Information Technology Audit of Pay Roll and Independent Modules (PRIME) which is a computerized application for pay and related systems. These audits were conducted across several railway zones.
- ❖ Audit of IT governance with reference to implementation of Pay Roll and Independent Modules (PRIME) and Advanced Financial and Railway Expenditure Management System (AFRES) in Eastern Railway, Kolkata
- ❖ Information Technology audit of the Transaction Accounting System (TAS) of Metro Railway, Kolkata and
- ❖ Information Technology audit of Material Management Systems in two production units (Rail Coach Factory, Kapurthala and Chittaranjan Locomotive Works) and Western railway.

In his report for the year ended March 2006, C&AG again brought out a stand alone report on IT Audit containing two IT Audit Reports namely on (i) Computerized Passenger Reservation System of the Indian Railways and (ii) Computerized applications

over Indian Railways. Both these reviews were on very significant projects and yielded wealth of information and findings. Additionally, the report contained about ten recommendations for implementation by railways to improve the matters regarding (i) and five recommendations on (ii).

DISCUSSIONS ON DRAFT AUDIT PARAGRAPHS/ PERFORMANCE AUDIT REPORTS

Discussions between DAI and Railway Board were held every year on selected Provisional Draft Paragraphs (which are issued by HQrs.). But from 1997 onwards these did not take place. There is no indication in records as to why these discussions did not take place after 1996. To the query on this topic put to some of the officers of that period, the inference drawn is that Railway Board disengaged themselves from these discussions. As to the question why should it be, the answer really lies with Railways but the reasons can be analysed. An analysis by the author of the discussion results from 1990 to 1997 reveals that in the earlier years specially in the tenure of A.C. Tiwari (June 1991–June 1992) and in P.K. Sarkar's time (July 1992–May 1993), the number of Draft Paras dropped after discussion was significant (16 and 38 respectively). Subsequently, N. Sivasubramanian (June 1993–April 1994) dropped 9 paras. Dharam Vir (May 1994–December 1995) discussed provisional paragraphs on two occasions but practically no para was dropped. Lahiri (January 1996–May 2000) had just one discussion in 1996 and no para was dropped. In Dharam Vir's words the DPs were all 'cast iron' and there was no way these could be dropped and since these were transaction audit cases, involving not only huge losses, wastages etc. but also, alongside someone was responsible for this, it was all the more difficult to drop the Paras. The Board, of course, would have very much liked such a thing. In the end, perhaps the sheer frustration of not being able to clinch any Draft Para for dropping made the Railway Board disinterested in these meetings.

Instructions regarding discussion of draft audit paragraphs at the Zonal Railway level are more clearly and formally laid down. A tripartite structure for such discussion exists where the Principal Director of Railway Audit, the Financial Advisor & Chief Accounts Officer and the concerned Principal HOD meet. Discussions are also held sometimes between Principal Directors of Railway Audit with the General Manager concerned alongwith his Financial

Advisor & Chief Accounts Officer and HOD. As regards Performance Audit, with the introduction of new Performance Audit Guidelines the Entry Conference and Exit Conference are held by the Principal Director with the concerned Railway General Manager in terms of these guidelines. As far as the system followed in C&AG office is concerned, generally the Exit Conference on Performance Audit does take place between the Chairman Railway Board, Financial Commissioner and the Member concerned and the DAI (Railways) and his team. As regards discussions on provisional paragraphs issued by the Railway Audit Wing to the Railway Board, despite an understanding reached in February 2002 on such discussions, no regular meetings with the Chairman, Railway Board and Members have taken place since 2002. However, interaction between the Railway Board and DAI (Railways) has taken place off and on during this period.

Interaction with the Railway Board also takes place sometimes when C&AG office organizes special workshops. For example a Railway Audit workshop was held in March 2006 where, besides Chairman Railway Board and Financial Commissioner (Railways), several other senior officers (Additional members/advisor/executive director) participated.

The general responsiveness of the Railways to draft audit paras has been good at the Zonal Railway level—there the discussions are also held regularly on DPs but the responsiveness to provisional draft paras by Railway Board shows a somewhat poor picture as revealed by the data in respect of three years namely 2005, 2006 and 2007:

Year	No. of Provisional Paragraphs issued	No. of Provisional Paragraphs responded
2005	114	27
2006	95	13
2007	126	27

NEW TECHNIQUES AND SYSTEMS IN AUDITING

Two Audit Reports on Performance Audit brought out in 2006 (for the year 2004–05) and 2007 (for the year 2005–06) demonstrate the new systems and techniques used by Railway Audit in their auditing and reporting functions. In the Performance Audit Report on railways for the year ending March 2006, one of the themes on which Audit carried out a Performance Audit was Cleanliness and Sanitation on Indian Railways. In this audit, certain new techniques

and methodologies were introduced by the Railway Audit Wing in line with the Performance Auditing guidelines of 2004. Besides defining the scope of the audit study very clearly and explaining the sample selection, the Audit Report itself has pointed out to the new techniques which was used in this audit. Firstly, a survey questionnaire was developed by Railway Audit in consultation with Consumer Coordination Council, Noida and this questionnaire was administered to traveling passengers on various railways. The travelers were selected on random basis. The questionnaire was designed to assess the passengers' perception on various aspects of cleanliness and their views on the 'level of cleanliness' on stations and in the trains over Indian Railways. It was a detailed questionnaire which required perception of the traveler on state of cleanliness in the railways over the years [the overall general perception in terms of (a) improved significantly (b) improving (c) worsening (d) can't say]. The questionnaire then asked them to give their views in terms of three parameters namely 'generally clean', 'not so clean', 'generally dirty' with regard to about nine facilities which the railways provide like approach to railway station, approach to platform, booking area, platforms, staircases (Foot over bridges), subways, seating areas on platforms, waiting rooms etc. Questionnaire also sought answers to several other questions clubbed into various heads like toilets in stations, dustbin in stations, toilets in coaches, bed rolls/ linen, users feedback and passenger awareness.

Audit also made an attempt to grade the stations based on the existence of few identified parameters and their standard of maintenance.

Apart from questionnaire, the other methodology or technique adopted was a joint inspection of selected railway stations and trains by the Inspection Team. There was one member of the Railway Administration and one member of Audit and these inspections were surprise inspections. After inspections, minutes were also drawn so that no confusion prevails in future about what the inspection team observed.

Another hallmark of this Review was that the audit plan and methodology including audit objectives were discussed by the Principal Directors of Audit of zonal railways with the respective General Managers and concerned departmental heads in the entry and exist conferences as provided in the Performance Audit guidelines. During these interactions, suggestions came from the railways regarding sample selection and other inputs. Audit has

in its Report acknowledged the cooperation extended by the Railway Board and all zonal railways. The draft review report was discussed finally by the Deputy Comptroller & Auditor General with the Chairman, Railway Board, and other members in the exit conference (November 2006) after issue of the draft report to the Ministry of Railways.

C&AG's Audit Report for the year ending March 2005 projected a Performance Audit Report on Project Management practices in Gauge Conversion and New Line Projects. In this also Audit spelt out its objectives very clearly, which was discussed alongwith other features of Report with the management, in the entry and exit conferences and finally the draft report was discussed including the recommendations made in the Report by the Deputy Comptroller & Auditor General with the Chairman, Railway Board and other Board Members.

In both the reviews mentioned above a number of recommendations were made by Audit—ten recommendations were made in the Performance Audit Report on 'Cleanliness and Sanitation on Indian Railways' and seven in the Report on 'Project Management Practices in Gauge Conversion and New Line Projects'. This is a kind of new approach to Performance Audit that has been adopted post 2004 guidelines and as acknowledged by the audit itself, this approach has proved very productive with one of the biggest advantages being the enhanced executive responsiveness which has improved the quality of audit findings and the practicability of its recommendations for use by the administration.

Measuring Audit Effectiveness: Just like in other branches of the Department, a system of measuring audit effectiveness exists in the Railway Audit Wing also subsequent to C&AG's directions in May 2003 on the subject. In the Railway Audit side, the system of measuring audit effectiveness was introduced on the basis of the Report of the Committee constituted for the purpose but in the case of Railway Audit Wing since one of its functions is also certification of various finance Accounts and related statements, a parameter for this became necessary to make a proper assessment. Therefore, these were suitably introduced in the parameters for measuring audit effectiveness alongwith other parameters.

Some of the important transaction audit paragraphs of the Railways are discussed below:

Passenger Amenities on Indian Railways: Indian Railways are one of the biggest transporters of passenger traffic in the world. Indian Railways run nearly 7500 passenger trains daily carrying on an average 12 million passengers per day.

A review of the Inspection Reports of Railway Officers on their inspection of stations in respect of 32 divisions test checked on nine Zonal Railways during the period 1996–97 to 2000–01 revealed that the maintenance of the passenger amenities was not being carried out effectively. In respect of the following facilities/amenities, there were 7639 adverse comments in the inspection reports test checked during the period of review:

1. Drinking water facility (1520)
2. Cleanliness (2446)
3. Urinals (621)
4. Toilets (1121)
5. Retiring rooms (732)
6. Booking counters (1199)

Audit scrutiny revealed that:

- ❖ Six Zonal Railways had more than 30 percent of stations having deficiencies in the provision of booking counters, five Zonal Railways in the provision of urinals
- ❖ The percentage of deficient stations in the provision of drinking water in eight Zonal Railways ranged between 14.20 and 42.84.
- ❖ Southern Railways were having more than 30 per cent of stations deficient in five Minimum Essential Amenities, followed by Western Railways in four and Northern Railway in three.
- ❖ On two Zonal Railways more than 50 per cent of retiring rooms had occupancy of less than 40 per cent.
- ❖ There was no perceptible decrease in the number of complaints (catering) received during the 1996–2001. The maximum complaints were received by four Railways (Central—1703, Western—1079, Northern—673 and Southern—556).
- ❖ The complaints against the departmental catering units were more than the complaints against the contractor operated units.
- ❖ The complaints against the departmental catering units increased from 563 (1996–97) to 709 (2000–2001) i.e. an increase of 26 per cent.

Zonal Railways were not conducting the six monthly review of the working of halt stations effectively. There was an urgent

need to review the position by the Railways to avoid recurring losses in the operation of un-remunerative halt stations.

As a result of audit review, Railways increased budget allotment for passenger amenities related works. Various improvements such as provision of clean water in the trains, stations etc. were made. Moreover, Railways were constantly improving the various facilities on trains as well as on stations. Regarding continued operations of halts inspite of incurring losses the position had been reviewed as per Railway Board's orders wherein it was stated that Zonal Railways should consider the closure of halts where the average number of passenger utilizing the halt was less than 10 per day. The review of the performance of halt station is being done and based on the outcome of the study, closure of such halts will be processed if found unremunerative.

(Chapter 2 of Report No. 9A of 2002)

Loss of Revenue due to Haulage of Empty Wagons with Loaded Rakes: Haulage of empty wagons with loaded rakes over long distances resulted in loss of Rs. 2.51 crore in respect of traffic booked from four loading points test checked. Instructions had been issued to all Zonal Railways to examine all wagons closely and supply only fit wagons. The wagons which could not be loaded should be stencilled and the rake sent for immediate repair.

(Para No. 2.1.7 Report No. 9 of 2002)

Loss to the Railway Administration Due to Non-Recovery of Shunting Charges: There had been a loss of revenue of Rs. 17.58 crore during the period 15 June 1997 to 21 December 1997 as a result of non—levy of Engine Detention Charges for use of engines for unloading of coal from BOBR wagons under the 'Merry Go Round' system in the siding of New Thermal Power Station, Chandarpur of Central Railway. In order to bring about improvements in the system and in the working of sidings, Railways introduced the concept of placing wagons with the train engine. This system is called 'Engine on Load Scheme' under which the engine remains attached with the load and freight is charged by taking into account the entire distance from serving station to the farthest point of the sidings. With this the levy of siding/shunting charges had been abolished on these notified sidings.

(Para no. 2.1.2 Report No. 9 of 2002)

Loss of Revenue Due to Non-Revision of Minimum Weight Condition (MWC): Failure to revise the minimum weight condition (MWC) of commodity 'Potato' resulted in the loss of revenue of Rs. 3.75 crore.

(Para no. 2.1.6 of Report No. 8 of 2003 Northeast frontier Railway)

Loss of Revenue Due to Non-Revision of Minimum Weight Condition (MWC) of Rock Phosphate: The Railway Administration failed to revise the MWC of Rock Phosphate although the actual loadability of this commodity was more than its MWC (320 quintals) prescribed for MG wagons. This resulted in loss of revenue to the tune of Rs. 2.32 crore for the period April 1996 to March 2002.

(Para 2.1.9 of Report No. 8 of 2003-Western Railway)

A few more audit paragraphs having impact on government policies, rules, etc. are mentioned in Appendix 'A'.

NOTES: CHAPTER-10

¹ T.S. Narsimhan

² Hundredth Report of the PAC (1994–95) (10th Lok Sabha)

³ P.K. Lahiri. Meeting was held in April 1997. It was called to discuss Audit Planning for Audit Report 1996–97

⁴ Audit Report No.9 of 2002

⁴ Audit Report No.9A of 2002

LIST OF KEY EVENTS

1990	Directors of Audit in Zonal Railways were redesignated as Principal Directors
1991	Monetary limits were prescribed for various categories of Railway Audit Paragraphs. The limits were revised in 1992-93 and again in 1997-98.
February 1995	Important decisions were taken in a Workshop of Principal Directors regarding Audit Plans, Quality of Audit Reports etc.
1995-96	Format of Appropriation Accounts for Railways revised in line with Civil Appropriation Accounts as per recommendations of PAC in their 100 th Report (Tenth Lok Sabha)
1 May 1997	Important decisions regarding audit plan subject wise rather than individualwise transaction audit paras, skeleton form of guidelines for reviews, overall financial impact of audit efforts as a percentage of earnings of Railways, were taken.
May 2001	Fifth edition of Railway Audit Manual was issued.
February 2002	Railway Board agreed to have review meetings for discussion of Draft Paragraphs.
January 2003	DAI (Railways) set up 'Norms Committee' which gave recommendations in March 2003 regarding comprehensive and integrated audit approach resulting in introduction of changes in quantum based on risk perception, enhancing level of audit scrutiny etc.
May 2003	A Committee was constituted in May 2003 to develop criteria for evaluation of Audit Report and efforts put in certification of accounts. This resulted in introduction of weight matrix, measurement of audit effectiveness, etc.
2006	Theme based transaction audit was introduced.
2007	Decision to audit Railway PSUs with Commercial Audit Wing.

DOCUMENTS

1

Important decisions taken at the Workshop of Principal Directors of Audit (Railways) held from 13 February 1995 to 15 February 1995

1. The deficiencies in the material for Review on Procurement and Utilization of Wagons will be supplied and revised material, duly updated for macro level statistical data upto 1993–94, will be sent to Headquarters Office by 30 April 1995 for preparation of a separate volume of Audit Report to be presented in the Monsoon Session of the Parliament.
2. Only three Central Reviews, namely, Passenger Amenities, Gauge Conversion and Working of Scrap Depots and Disposal of Scrap will be attempted for the Audit Report 1994–95.
3. The guidelines for preparing the Review on Passenger Amenities will be revised by the Principal Director of Audit, Western Railway in the light of discussions and revised guidelines will be issued to all the Zonal Railway Audit Offices by 24 February 1995 with a copy to Headquarters Office.
4. The guidelines for Review on Gauge Conversion, as revised and presented during the Workshop, by the Principal Director of Audit, Southern Railway, will be further refined and fresh guidelines will be sent by the Principal Director of Audit to all Zonal Railway Audit Offices by 24 February 1995 with a copy to Headquarters Office. Two works of Gauge Conversion will be examined in depth on each Railway except North Eastern Railway which will examine execution of three such works. The names of the works will be intimated to Headquarters Office by 15 March 1995.
5. Principal Directors of Audit will conduct pilot studies for Review on Performance of Scrap Depots and disposal of scrap as per the guidelines prepared by the Principal Director of Audit, Central Railway and as modified during discussions which will be issued by Principal Director of Audit, Central Railway to the Principal Directors (with a copy to Headquarters) by 24 February 1995. Principal Directors of Audit will send copies of the results of pilot studies to Headquarters office by 20 March 1995 for further orders. The decision of the Headquarters Office for further work on the Review will be communicated by 31 March 1995.
6. Only one local review will be attempted by each Principal Director of Audit except Principal Director of Audit, North Eastern Railway, who will instead review one additional project (i.e. three instead of two) for Central Review on Gauge Conversion.
7. The Reviews should contain a macro level picture of the Railway as a whole as well as results of Audit at the test checked points. Audit coverage should clearly indicate the total population and size of the sample as well as the details of units/works/stations etc. selected for test check.
8. Draft paragraphs proposed for inclusion in the Audit Report shall be complete, concise and self contained and fully supported by relevant Key Documents. It will be ensured that the copies of Key Documents are clear and legible. Copies of inspection memos, reports, statements etc. issued/

prepared by Audit Officers are not to be treated as key documents unless these are verified and confirmed by the Railways. Principal Directors of Audit will adopt the approach of comprehensive auditing in proposing Draft Paragraphs and ensure that the need for further observations of Headquarters office is minimized. It will be ensured that all gaps in narration, sequencing, time and causation are fully explained/plugged. Principal Directors of Audit may enclose notes alongwith the Draft Paragraphs indicating (i) additional aspects examined by them but not found worthy of comment in the paragraph and (ii) additional aspects for which information has been called for and is still awaited. The latter category of cases will arise only in rare circumstances if comprehensive paragraphs cannot be sent in the first instance. The notes may also give such additional information as may facilitate comprehension of the paragraph but the inclusion of which in the paragraphs is not considered necessary.

9. Principal Directors of Audit may write to Headquarters Office separately if any aspect of a case requires reference to or verification from the files of the Railway Board. This can be done as soon as the need for such reference/verification is felt and need not await the despatch of the draft paragraphs to the Headquarters office.
10. The observations of Headquarters Office on the Draft Paragraphs will be issued after the paragraphs have been seen by the Deputy Comptroller and Auditor General of India and need for multi-stage observations shall be avoided as far as possible.
11. While sending replies to and compliance with the observations of Headquarters office, the Principal Directors of Audit shall carefully re-examine the paragraph and ensure that any additional aspect(s) arising from the additional information or modification suggested is properly tackled.
12. Each Draft Paragraph shall be accompanied by a Memorandum of Important Points indicating in broad terms, the various issues involved. Principal Directors of Audit will also send a draft Overview on the paragraph while sending report of verification of facts and figures included in the Provisional Paragraphs.
13. Principal Directors of Audit should hold monthly meetings of Group Officers/Branch Officers to discuss and plan a strategy for Central Reviews, local reviews and Draft Paragraphs. They should discuss the Headquarters observations on the material for the Audit Report with the Group Officers and Branch Officers.
14. There shall be greater involvement of Directors of Audit and Deputy Directors of Audit with the work of preparation of material for the Audit Report.

2

Issued vide letter No. 453-RAI/17-3/91 KW Pt. I dated 1/5/1997

MINUTES OF THE MEETING OF DAI WITH PRINCIPAL DIRECTORS OF
RAILWAY AUDIT ON 25 APRIL 1997

1. Venue—DGACR Building, New Delhi
2. Time—11.00 A.M. To 16.30 P.M.
3. Agenda—Audit Planning for Audit Report 1996–97
4. The meeting was chaired by the Deputy Comptroller and Auditor General of India (Rlys). The following were present:

(a) Headquarters

- (i) Smt. Rekha Gupta, PDA (Rlys.) (U.O.P)
- (ii) Shri S.C.S. Gopalkrishnan Dir (Rlys) (U.O.T.)
- (iii) Sr. AOs and AAOs at the Headquarters.

(b) Field offices

- (i) Shri A. Krishna Rao, PDA, W Rly
- (ii) Smt. Revathy Iyer, PDA, C.Rly
- (iii) Shri Sunil Verma, PDA, E Rly & RPU & Metro Rly
- (iv) Shri Gautam Guha, PDA, E Rly & RPU & Metro Rly (U.O.P.)
- (v) Shri B.S. Gill, PDA, N Rly
- (vi) Shri H.R. Bihagara, PDA, NE Rly
- (vii) Shri Rajib Sharma, PDA, NF Rly
- (viii) Smt. Subhashini Srinivasan, Dir, S Rly
- (ix) Shri M.V. S Pardhasardhy, Dy. Dir, SC Rly
- (x) Shri B.S. Upadhyaya, Dy. Dir, SE Rly

5. The following decisions were arrived at

5.1 Enhancement of Financial Limits for Draft Paragraphs The minimum financial limits for floating a Draft Paragraph, (DP) for Audit Report 1996–97 onwards have been enhanced as follows:

- (a) Earnings—Rs. 10 lakhs
- (b) Other than Earnings—Rs. 20 lakhs

In the following cases, the field offices could float DPs below the revised financial limits:

- (a) Small Railways such as North Eastern and Northeast Frontier
- (b) Cases of clear malafide.
- (c) Cases of continuing nature, as also those which could be widely prevalent.

DAI advised that the field offices should indicate specifically the nature of the exception in cases where the financial impact was below the increased threshold levels.

While sending the DPs to Headquarters, the field offices should simultaneously forward to all other PDAs copies of DPs containing lapses which could be prevalent in other Railways. The fact of having done so should be mentioned in the covering letter of the DP.

5.2 Financial magnitude of cases to be included in Audit Report 1996–97

DAI has mentioned that C&AG of India had desired that overall financial impact of the Audit efforts should have some correlation with the overall earnings of the All Indian Railways. Accordingly it was decided that efforts would be made to ensure that the financial magnitude of DPs finally included in the Audit Report should not be less than 1.5 per cent of the total earnings of the Indian Railways. The field offices would keep this aspect in mind.

5.3 Old Draft Paragraphs to be considered for Audit Report 1996–97

A list containing 209 old DPs (prior to 1995–96–84 and 1995–96–125) which were under correspondence between the field offices and the Headquarters was circulated. DAI advised the field offices to reconcile the position with reference to their records. The field offices had earlier informed the Headquarters the latest lists of potential DPs for consideration for Audit Report 1996–97, from out of the above cases carried forward, as follows:

Sl. No.	Railway	No. of potential DPs for Audit Report 1996–97
1.	Central	16
2.	Eastern	16
3.	Northern	25 (Tentative)
4.	North Eastern	to be received
5.	Northern Frontier	To be received
6.	Southern	10
7.	South Central	18
8.	South Eastern	05 (Tentative)
9.	Western	To be specified
10.	RPU & Metro	18

DAI advised the Principal Directors of Audit to indicate within a week the details of cases that should be considered for Audit Report 1996–97, keeping in view the enhanced financial limits as at paragraphs 5.1 and 5.2 above.

5.4 Feedback on Provisional Paragraphs not included in Audit Report

For Audit Report 1995–96, 128 DPs were converted into 114 Provisional Paragraphs (PPs); however only 77 PPs (87 DPs) were finally included in the Audit Report. DAI desired that the Headquarters decision on the balance 41 DPs should be communicated immediately to the field offices.

5.5 Target for new DPs

The following target in respect of new DPs for Audit Report 1996–97 were agreed to by the field offices:

1.	Central	20
2.	Eastern	30
3.	Northern	25
4.	North Eastern	12
5.	Northern Fronteir	10
6.	Southern	20
7.	South Central	25
8.	South Eastern	25
9.	Western	25
10.	RPU & Metro	15
		207

5.6 Schedule of receipt of DPs at Headquarters

It was agreed that all DPs would be despatched to Headquarters by 15 July 1997 in batches (about 20 per cent of the total number in each batch) every fortnight beginning with the first fortnight of May 1997.

5.7 Focus and presentation of DPs

DAI mentioned that conventionally Audit Paragraphs were loss oriented. As such, these were incomplete and portrayed only the symptoms rather than the specific action, or the lack of it, that resulted in the loss. He advised the field offices to focus the Audit Paragraphs on reasons for the loss. This could not be done at the final stage of editing. If one were to look for the root cause, the line of audit scrutiny/investigation would be different, its scope could also get wider. Such shortcomings in audit scrutiny would not be remedied even by strenuous effort at the final editing stage. Every PDA and Group Officer would have to ensure at the Inspection Report stage itself that at least all the Part II A Paragraphs [vide para no. 6.1.16 of MSO (Audit), first Edition] were focused correctly. Where needed, more effort should be put immediately to plug the gaps.

DAI also observed that the first paragraphs of the Draft Paragraph itself should give an indication to the Audit conclusion that would emerge at the end. The DPs should be drafted accordingly.

DAI also mentioned that while transaction audit was unavoidable, presentation of audit results of the transaction audit should be subject-wise rather than individual case-wise. Accordingly, care should be taken to group together all similar cases on a given subject in one DP, rather than narrating cases individually in several DPs.

Grouping together of similar cases could be undertaken in a tabular form. However, the details of the individual cases included in the table should be listed out separately in the Annexure since these are required to be furnished to the Ministry for their response.

5.8 Focus on Accountability

DAI asked the field offices to specify the authority which concluded various contracts or took the relevant decisions that were under reference in a DP. Further, the names of the officers whose actions led to the lapses should also be indicated in the key documents.

5.9 Local Reviews

Local Reviews would be counted against the new DPs. Local Reviews proposed by the field offices and approved by DAI for Audit Report 1996–97 are listed out in Annexure to the Minutes.

5.10 Central Reviews

It was agreed that the following Central Reviews would be undertaken for Audit Report 1996–97.

- (a) Goods Trains Movement including procurement and maintenance of wagons.
- (b) Review on old incomplete works (paragraph no. 1.7 of chapter 1 of Audit Report 1995–96)
- (c) working of electronic weigh bridges. It was decided that acquisition of assets through market borrowings (i.e. I.R. F.C) would be scrutinized by Headquarters office.

5.11 Pilot Study for Central Reviews

The following Railways were identified for undertaking pilot study and provide feedback to the Headquarters for finalization of the guidelines:

- (a) Goods Train Movement—central Railway (Draft guidelines already received at the Headquarters for finalization).
- (b) Review on old incomplete works-Northern Railway.
- (c) Working of electronic weigh bridges-Eastern Railway.

5.12 Procedure for carrying out Central Reviews

DAI emphasized that the global picture should emerge from the Reviews. Further, Audit should project in the reviews the degree of reliability of the system arrangements.

After selection of the topic, a pilot study would be undertaken by the identified field office and the feedback communicated to the Headquarters.

On this basis and in close co-ordination with the identified field offices, detailed guidelines and format of the review would be prepared by the Headquarters. It would be ensured that the guidelines would be in the skeleton form of the final draft review and the sample to be test-checked and the exact nature of data tabulation needed would be specified.

The details of sample would be identified carefully by the Headquarters in co-ordination with the field offices with reference to global data. There would be specific articulation by the Headquarters about the selection of samples.

Various audit comments highlighting the lapses have to be confined within the sample population specified.

(This is to ensure that audit comments could project the reliability of the system arrangements). For this purpose, tabulation of total number of cases seen by Audit would have to be meticulously made out by the field offices. If any point not included in the guidelines was noticed by any field offices, the same should be communicated simultaneously to the Headquarters as also to the other field offices. However, it should be ensured that such new items were within the identified sample and for the same period prescribed earlier.

On audit efforts being directed as above, aggregation of the data at the Headquarters at the finalization stage would be easier. It would also result in brevity of presentation with better readability of the Audit Reports.

5.13 Schedule for Central Reviews

Finalization of specific guidelines and of the format by Headquarters, after getting the feedback from the identified field offices, would be as follows:

- (a) working of weigh bridges and incomplete works—31 May 1997
- (b) goods train movement and procurement and maintenance of wagons—30 June 1997

In respect of (a) above, the field offices would dispatch the draft review to Headquarters by 30 September 1997 and on (b) by 31 October 1997.

5.14 Appropriation Accounts

Audit observations in respect of the format of Railway Appropriation Accounts since Audit Report 1993–94, consequent to the PAC's recommendations calling for parity in all Appropriation Accounts of the Union Government.

He explained that the issue to be resolved was whether the Ministry should be advised to explain the variations at the Minor Head level or at the sub Head level. While explaining the variations at the Sub Head level would subsequently increase the volume of work but ensure parity, the objectives that are proposed to be achieved should be examined in depth. Principal Directors of Audit requested DAI to allow three to four days of time so that they could examine the matter and give their feed back for further consideration. DAI urged that this had to be done immediately since the views of Audit needed to be communicated to the PAC urgently.

6. The meeting ended with a vote of thanks to the Chair.

GLOSSARY OF ABBREVIATIONS

AFRES	Advanced Financial and Railway Expenditure Management System
ATN	Action Taken Note
BOBR wagons	Bogie Open Rapid Bottom Discharge Coal Hopper
COFMOW	Central Organization for Modernization of Workshops
CONCOR	Container Corporation of India
DP	Draft Paragraphs
ECPA	Efficiency-cum-Performance Audit
EDP	Electronic Data Processing
FC	Financial Commissioner
HOD	Head of Department
MWC	Minimum Weight Condition
P&T	Post & Telecommunications
PRIME	Pay Roll and Independent Modules
PSU	Public Sector Undertaking
RDSO	Research Design and Standards Organization
ROB	Railway overbridges
RUB	Railway underbridges

Audit of Scientific Departments

The suggestion¹ for creating a separate audit office for the Scientific Departments had come from the Science Advisory Committee to the Cabinet who recommended a unified audit set up for audit of all scientific departments/ bodies/ authorities. This was agreed to by the Government of India when Department of Science and Technology OM of 28 December 1983 stated that C&AG of India had been requested that audit of all Science and Technology Agencies and Departments be brought under one single agency under the C&AG of India. The reasons for this were apparent. Normal audit norms will not work for science audit and, therefore, approach of audit would need to be different. C&AG T.N. Chaturvedi agreed to the suggestion and intimated Ministry of Finance in March 1986 the decision to create a separate office for Science and Technology Audit w.e.f. 1 April 1986, styled as the office of the Director of Audit, Commerce, Works and Miscellaneous-II. This was set up as a unified organization for science audit with the responsibility for the audit of the Scientific Departments/ Autonomous Organizations/ Institutions/ Laboratories, etc. of the Government of India. The office was created by restructuring of the office of the existing Director of Audit, Commerce, Works and Miscellaneous. The designation of the office was changed in 1989 as office of the Director of Audit (Scientific Departments), New Delhi and in the following year to office of the Principal Director of Audit (Scientific Departments). This office was declared as Nodal Office for Environment Audit in December 2002. The 2002 edition of C&AG's MSO (Audit) contained for the first time a Chapter on Audit of Scientific Departments. The office has brought out a separate Manual of Scientific Departments in 2007.

This office conducts the audit of Scientific Departments covering four Central Ministries and three Departments and is the sole auditor of nine autonomous bodies under the Scientific Departments. The Audit Reports of these autonomous bodies are prepared under section 19(2) and 20(1) of the C&AG's (DPC) Act, 1971. The office is responsible for preparation of the report of the Comptroller and Auditor General of India, Union Government (Scientific Departments). The office of the Pr. Director of Audit (Scientific Departments) is functioning from Delhi with three branch offices headed by Dy. Directors/ Directors, for the audit of Department of Atomic Energy at Mumbai, Department of Space at Bangalore and Kolkata.

The Ministries/ Departments and major autonomous bodies under the audit control of Pr. Director of Audit (Scientific Departments) are given below:

- (i) Ministry of Science and Technology, including Department of Science and Technology, Department of Scientific and Industrial Research and Department of Biotechnology.
- (ii) Ministry of New and Renewable Energy.
- (iii) Ministry of Earth Sciences including India Meteorological Department.
- (iv) Ministry of Environment and Forests.
- (v) Department of Atomic Energy.
- (vi) Department of Space.
- (vii) Department of Information Technology.
- (viii) Indian Council of Agricultural Research and its laboratories.
- (ix) Council of Scientific and Industrial Research and its laboratories.

Besides undertaking audit of these Ministries/ Departments/ Autonomous Bodies dealing with Science & Technology, this office deals with more than 500 units functioning under these Ministries that includes some of the most prestigious and prominent scientific institutions of the country.

Some of the important developments during the period 1990 onwards concerning Science and Technology audit are given below.

AUDIT APPROACH—THE GUIDING PRINCIPLES

To stress the special approach and emphasis that Audit should adopt in the case of Scientific Departments, C&AG has laid down the following guiding principles for Scientific Audit².

- (i) Audit should not be perceived as an agency oriented towards finding fault, but as a mission directed towards pointing out system deficiencies with a view to assisting the scientific community.
- (ii) The role of audit should be complementary to the efforts of the Executive and aim at improving managerial practices in scientific administration.
- (iii) Audit should recognize the uncertainties involved in scientific research. Therefore, while evaluating systems of planning, programming, funding, monitoring or execution of a scientific or research project, audit should endeavour to segregate what is foreseeable from what cannot be anticipated. This, of course, does not reduce the significance of data availability on time and cost overruns in overall planning, establishment of priorities and resources allocation for audit comments.
- (iv) In auditing the functioning of scientific departments, the effort should be to evaluate the projects and programmes with reference to known parameters and a *priori* assumptions made by the departments, such as the Departments of Space and Atomic Energy.
- (v) In judging performance, audit should further be guided by the performance parameters prescribed by the organization itself, in case these have not been prescribed, audit will be well within its rights to point out the omission. It is also the function of audit to examine whether proper monitoring machinery is available for securing the timely and cost-effective fulfillment of the objectives envisaged.
- (vi) While evaluating scientific departments, the approach adopted by various Committees such as the Abid Hussain Committee on the Council of Scientific and Industrial Research and the Rao Committee on the Indian Council of Agricultural Research and their recommendations should be gone into and kept in view. Audit can also play a role in ascertaining the extent to which implementation of these recommendations had progressed.

- (vii) Scientific research is of two kinds, basic research aimed at expanding the frontiers of human knowledge and applied research for bringing the fruits of such knowledge to the service of mankind. It will be necessary for audit to be very careful and discreet in commenting on areas of basic research, particularly when its comprehension and knowledge of basic scientific research is inadequate. Nevertheless, it has an important role to play in examining the programmes and projects of applied research in the context of economy, efficiency and effectiveness of the utilization of resources.
- (viii) Similarly, different criteria will need to be applied and higher levels of personnel deployed for the audit of highly sensitive organizations such as the Departments of Atomic Energy and Space compared to other scientific and research organizations. This distinction is of paramount importance.
- (ix) Audit should examine whether there is an effective linkage between applied research and the user industries. The fruits of knowledge generated by the scientists should be available to the industry and society in full measure.
- (x) Having due regard to the complexities involved in the audit of scientific endeavour and the maturity required, specialized training programmes have to be organized periodically for personnel engaged in the audit of scientific departments.

Risk based approach to audit is prominent in Science Audit. The risk based approach is adopted for both audit planning as well as selection of units for audit. The office has recently drawn up a strategic Plan. Complete profile of auditable entities is maintained in an electronic data base. This data base also helps the office in deciding upon the periodicity and time frame for audit of concerned units for Performance Audit as well as Transaction Audit on the basis of risk perception. The rule of the thumb is that high risk units with high expenditure are chosen for carrying out Performance audits and for Transaction audit, units having high risk even with low expenditure are selected.

About 50 per cent of the auditee units of the Principal Director of Audit, Scientific Audit are small units, with expenditure less than Rs. 20 crore. From transaction audit view point these are not significant units—they have poor potential for transaction audit paras.

The Audit approach is shaped by these two considerations described above and hence a dominant role for Performance Audit in the Science Audit.

While Performance Auditing guidelines of 2004 are applicable to science and technology (S&T) audit also, Principal Director of Audit, Scientific Departments has prescribed certain criteria that are specific to Scientific Departments, for application in the performance evaluation (audit) of these entities. These are: (i) project success in terms of achievement of objectives set out by the organizations themselves, (ii) transfer and commercialization of technology developed, (iii) patents obtained, (iv) publication of papers alongwith impact factor of these papers, and (v) finally internal revenue generation from research on sponsored projects etc.

The office uses the statistical sampling techniques for selection of samples in Performance Audits. In their recently conducted Performance Audits, the office used random sampling, stratified sampling and other sampling techniques for Performance Audit on 'Management of Wastes in India' as well as 'Working of Krishi Vikas Kendras'.

AUDIT REPORTS

Audit Reports brought out by Principal Director of Audit, Scientific Departments have one distinguishing feature. There is a preponderance of value for money or performance audit paras mostly long reviews. This is just as it should be because in the audit of Science & Technology departments, the auditor is more concerned with the outcome of the research and development efforts and how the institutions and laboratories are fulfilling their mandates. The emphasis on performance audit in Science Audit is prevalent from 1991 onwards. For example, in 1991, the Report had four Reviews. In the following years, there were 7 (1992), 8(1993), 11 (1994), 7 (1995), 5 (1996), 4 (1997), 8 (1998), 4 (1999). Number of performance audit reviews in S&T, dropped sharply in 2003(2), 2004(2), 2005(1). But things have since improved substantially and in 2005-06 Audit Report, there were four Performance Audit reviews. Audit Plan for 2006-07 contemplates bringing out eight Performance Audit reviews in its Audit Report for fiscal 2006-07 (Audit Report 2008).

Audit Reports on Scientific Departments have brought out very fine results of audit of these highly technical entities. Some of

the more important performance audit reviews brought out during the period 1990 onwards are listed below:

- (i) Central Drug Research Institute (Audit Report No.2 of 1991—para 28)
- (ii) Working of Department of Biotechnology (Audit Report No. 2 of 1992—para 4.2)
- (iii) Central Pollution Control Board (Audit Report No. 2 of 1993—para 4.1)
- (iv) Ganga Action Plan (Audit Report No 6 of 1995—para 5.1) and No. 5A of 2000
- (v) National Programme on Improved Chullahas (Audit Report No. 6 of 1996—para 3.1)
- (vi) Management of Intellectual Property Rights and Technology Transfer (Audit Report No.5 of 1997—para 6.3)
- (vii) Manpower Audit in CSIR (Audit Report No.5 of 1998—para 2.1)
- (viii) Nuclear Power Profile (Audit Report No.5 of 1999—para 2.1)
- (ix) Utilization of Lab Reserve Fund (Audit Report No.5 of 2000—para 3.1)
- (x) IARI, New Delhi (Audit Report No.5 of 2002-para 2.1)
- (xi) Technology Transfer in CSIR (Audit Report No.5 of 2003-para 2.1)
- (xii) National Bureau of Plant Genetic Resources (Audit Report No.5 of 2004—para 2)
- (xiii) Management of Projects relating to utilization and conservation of soil, water (undertaken by various Institutes of ICAR) (Audit Report No.5 of 2005—para 2)
- (xiv) Conservation and Protection of Tigers in Tiger Reserves (Audit Report No. 18 of 2006)
- (xv) Performance Audit on Development of Telecommunication Technology by Centre for Development of Telematics and transfer thereof for manufacturing and commercialization (Audit Report No. 2 of 2007 (performance audit) -para 1)

A brief synopsis of some of the Reviews is given below:

Windmill Demonstration Project: In his Report of 1991, C&AG reviewed the Windmill Demonstration Project³ of the Department of Non-Conventional Energy Sources. The programme was

undertaken in 1987 to run through the Seventh Plan period in the State of Andhra Pradesh for the purpose of obtaining more extensive user response and create awareness in new areas to provide inputs for subsequent extensive programmes. Against 150 windmills to be set up for demonstration programme, only 77 were procured and of these only 29 were in working order. As regards the user response and awareness in these new areas of energy sources, apparently, due to large scale failure of the windmill in the demonstration project, their response would have been quite adverse. In summary, the entire concept was a failure.

Polymetallic Nodules Programme: The Project to develop a mining system to explore Polymetallic Nodules (PMN)⁴ lying on the ocean floor was commissioned during the Seventh Plan. This was to be preceded by commissioning of the pilot plant. Amongst other things, a Hydrosweep equipment system was procured in July 1990 (after delay of more than one year at a cost of about Rs. 7.04 crore) but its performance did not match the expectations. Audit also contented that this system was probably not even required because before the installation of this system 4.10 lakh line kms of echo sounding data (single beam bathymetric) had already been collected and depth contour maps prepared, whereas the hydrosweep system had carried out only 0.185 lakh line kms of bathymetry. While the department contested this point, a note for discussion in Planning Commission on Eighth Plan indicated that no headway had been made in the development of mining system during the entire Seventh Plan due to non availability of viable projects. The department accepted this fact. The department was responding to these problems by identifying proper mine sites etc and prerequisite R&D work on mining had been taken up by Central Mechanical Engineering Research Institute at the instance of department (January 1992).

The short point of audit in this review was that department unnecessarily procured a costly system which proved of no use when the same work had already been completed by the department. In the circumstances, the installation and deployment of sea beam hydrosweep system would tantamount to infructuous expenditure of more than Rs. 7 crore and that also in foreign exchange those days when India was in a crisis as far as foreign exchange was concerned.

Fast Breeder Test Reactor: In his Report of 1993 on Scientific Department, C&AG mentioned about the huge delay in commissioning of Fast Breeder Test Reactor⁵ of the Department of Atomic Energy at Indira Gandhi Centre for Atomic Research Kalpakkam. The delay would, in turn, delay the commissioning of 500 MW Prototype Fast Breeder Reactor programme of the department on which an expenditure of Rs. 34.28 crore had already been incurred during 1985–92.

Indian Agricultural Research Institute (IARI): In a review on Indian Agricultural Research Institute (IARI)⁶ in his Report of 1996, C&AG brought out that various councils namely Research, Academic, Executive and Extension Councils, which provide assistance to the Board of Management in proper and effective discharge of duties and responsibilities did not meet as prescribed every quarter. The Research Council did not meet even once during 1990–95. The result of this gross negligence of their functions was obvious on the research activities since, on the one hand no new projects were undertaken during 1990–94, 230 ongoing projects were closed in March 1994 without Research Council carrying out a review of any of them. In any case, no review of such closed projects could be done because no research project files (RPF) were prepared and maintained separately for each project and no RPF was sent to ICAR during the entire period of the Audit review. Audit was informed that while RPF-I containing basic information was maintained, RPF-II which gives annual progress of the research and RPF-III which is the final report of the project were not maintained in major divisions.

Nuclear Power Profile: In his Report of 1999, C&AG produced the results of his audit on Nuclear Power Profile⁷ of the Department of Atomic Energy. As envisaged in 1984, the profile projected addition of 7880 MW of Nuclear Power by the end of year 2000 which would increase total nuclear power generation in the country to nearly 10000 MW. However, audit found sluggish execution of the project by the Department of Atomic Energy and Nuclear Power Corporation which made it impossible to achieve the target. In fact the results were absolutely bad since not a single plant was complete till the end of March 1998 and therefore, no additional capacity to the nuclear power was added till 1997–98 vis-à-vis a target of 2645 MW. Four plants with capacity of 940 MW were sanctioned in 1986–87 to be commissioned by 1995–96, were not

completed till March 1998. Two others with 500 MW each were sanctioned in 1991 while remaining 14 plants with a combined capacity of 5940 MW had not even been sanctioned as of March 1998.

Funds allocated for the project till March 1998 were Rs. 2617 crore against projected cost of about Rs.15000 crore. Audit noted several execution defects which led to a mismatch between the procurement of material and other important inputs like civil works, equipment and infrastructure. Resultantly, material procured rather hurriedly for Rs. 1069.61 crore was lying unused for the past 9 years (up to 1998). This included material worth Rs. 523.86 crore for plants which had not even been sanctioned.

*Ganga Action Plan:*In the year 2000,⁸ C&AG brought out a Report on Ganga Action Plan, the flagship scheme of the Ministry of Environment and Forest whose purpose was to immediately reduce the pollution load on the river Ganga. To oversee the implementation of the Ganga Action Plan and lay down the policies and programmes, Government of India constituted the Central Ganga Authority (CGA) under the Chairmanship of the Prime Minister in February 1985. The scheme approved by the Cabinet in 1985 was 100% centrally sponsored schemes. It was being executed by the Ganga Project Directorate subsequently, renamed as National River Conservation Directorate as a wing of the Ministry of Environment and Forest. The actual implementation of the programme was being done by the various agencies in the concerned States like Public Health Engineering Department, Water and Sewage Boards, Pollution Control Boards, Development Authorities, Local Bodies etc.

The initial objective of the Project was improvement of the water quality of river Ganga to acceptable standards by preventing the load reaching the river. However, in 1987, the quality of the water in the river was downgraded to 'Bathing class' because Ganga Action Plan phase-I did not cover pollution load of Ganga fully. The GAP phase-II was launched in stages between 1993-1996 and in 1996, other polluting towns left out and three tributaries of river Ganga i.e., Yamuna, Damodar and Gomati were also included. States that were involved in the implementation of the project GAP-II were Uttaranchal, Haryana, Delhi, Uttar Pradesh, Bihar and West Bengal. The total fund released for the project since inception was Rs.987.88 crore till March 2000.

This was the third review by C&AG on Ganga Action Plan⁹, one of the most important subjects which affected a large population of the country. The Audit findings on this project were very revealing:

- (i) the delay in completion of GAP-I was extraordinarily big —against the completion date of March 1990, later on extended to March 2000, it was incomplete till 2003. Similarly, for GAP-II which was to be completed in 2001, the date was extended till December 2008. The PAC was very much concerned with this extremely slow pace of development for the last 18 years under GAP-I and II¹⁰.
- (ii) Audit Report pointed out a number of cases of financial mismanagement by the State level implementing agencies including diversion of funds to the tune of Rs. 36.07 crore on unauthorized activities. The PAC came down heavily on these and asked the Ministry to seek information from the concerned states and give correct and up-to-date position of the cases. The Ministry in their action taken note was silent on the financial irregularities in states other than West Bengal and Bihar. These were the only two states who gave a reply to the Ministry. The PAC in their Action Taken Report¹¹ directed the Ministry to take suitable remedial measures and fix responsibility in the matter.
- (iii) Regarding core schemes, Bihar was unable to obtain any sanction from the Ministry in interception and diversion schemes in phase-II of the plan because of its failure to submit any detailed project reports. Similarly, for sewage treatment plant, Bihar and West Bengal could not obtain sanction of the Ministry for the sewage treatment plant in phase-II of the scheme due to various reasons and the results of all these , there were delays leading to cost and time escalation, idling of the plants, mismatch with interception and diversion schemes, technical flaws etc. There were delays in completion of non core schemes of the Ganga Action Plan having bearing on the river pollution. Audit test check in the states revealed instances of impairment of assets created at great public expense because of neglect and lack of maintenance, besides delays in their setting up.

- (iv) Audit pointed out absence of a mechanism to evaluate the estimation of sewage by the states and it had found instances of incorrect estimations in the test check. Additionally, there was no time schedule for submission of Detailed Project Reports which were found to have been delayed abnormally. Audit did not find much evidence of a well-defined monitoring mechanism at the Ministry to ensure adherence by the States of the time-schedule prescribed at the instance of the Supreme Court. The Apex body for this purpose headed by the Prime Minister met only twice in 1994 and 1997.

This para was discussed in PAC who gave their Report in February 2004.

The PAC pointed out to a World Bank sponsored study which had concluded that inspite of the 'massive Rs. 1500 crore plan launched in 1980s to clean up the Ganga, its pollution levels continued to be alarmingly high and were contributing to about 9 to 12 per cent of total disease burden in Uttar Pradesh'.

The Committee also expressed grave concern over throwing of dead bodies and carcasses in Ganga river.

National Bureau of Plant Genetic Resources: National Bureau of Plant Genetic Resources (NBPGR) a constituent unit of Indian Council of Agricultural Research (ICAR) and established in 1976 has the mandate of collection, introduction, evaluation, conservation, documentation and pest free exchange of Plant Genetic Resources (PGR). An audit review¹² that focused on issues concerned with management of plant genetic resources by NBPGR disclosed that NBPGR was yet to complete the evaluation, conservation and documentation of germplasm samples collected during the period 1997-03: Coordination between NBPGR and its regional stations, National Active Germplasm Sites and indenters in obtaining feedback on germplasm samples sent to them for evaluation also needed improvement. It is the sole authority for issuing permits for import of agri-horticultural plant germplasm samples for research purposes. The responsibility of carrying out quarantine tests to ensure that imported plant germplasm samples as well as germplasm samples to be exported are free from diseases and pests, also rests with NBPGR. The National Containment Facility established in September 2001 at a total cost of Rs.3.67 crore to conduct quarantine tests for transgenic germplasm samples remained unused. The objectives of the projects of establishment

of Gene Bank for Medicinal and Aromatic Plants (Rs. 90.35 lakh), National Facility for Plant Tissue Culture Repository (Rs. 75.04 lakh) and Regeneration of Agri-biodiversity (Rs. 51.92 lakh) were not achieved.

National Programme on Improved Chullahas: An interesting scheme called 'National Programme on Improved Chullahas' was reviewed in C&AG's Audit Report¹³ on Scientific Departments of 1996. The case brought out the usual contradiction in our scheme formulation and execution. A very efficient, smokeless environment was promised by these Improved Chullahas. In practice, as audit review found out, the programme design and implementation was highly defective. It also reflected on quality of scrutiny of the scheme by all concerned. The audit review covered performance of the programme for the period 1990–95 (The National Programme was running from April 1985). The modus operandi was that the Ministry of Non-Conventional Energy Sources would subsidise for providing improved Chullahas to 112 lakh households through State Governments and other nodal agencies under the scheme.

Audit review showed that upto the year 1994–95, during the 10 years of operation of the programme only 16 per cent of the targeted households were supplied 'Chullahas'. At this rate, the Report reckoned, it would take another 40 to 50 years to cover the targeted households under the programme. Bulk of the Chullahas installed in various states were non-functional for one reason or the other. Many of them had been dismantled. Above all, technical efficiency of the Chullahas was also in doubt. The programme had no core organizational support and there was hardly any public awareness or publicity. A big failure was of Technical Back up Unit (TBU) established in each state to aid, advise and extend a technical support to nodal implementing agencies and to carry out research and development. TBU was also to impart training to self employed workers. But TBU failed on this count miserably. Feed back through independent evaluation and surveys pointed out that intended benefits were far from being realized. In nutshell, Rs. 79 crore spent as subsidy and other incidental expenditure on the programme mainly proved unproductive. In many states heavy inventory of unsold Chullahas was lying. The scheme was closed down thereafter.

Manpower Audit of Council of Scientific and Industrial Research: In his Audit Report for the year ended March 1997¹⁴, C&AG reviewed the functioning of Council of Scientific and Industrial Research

(CSIR) which is the premier institution in the field and under whose umbrella there were at that time 41 National Laboratories and Institutions spread all over the country carrying out Research and Development (R&D) in diverse disciplines. This review on CSIR focused on manpower resources, specially issues concerning manpower planning, recruitment, employment and promotion. It covered six laboratories of CSIR and the HQrs.

Council of Scientific and Industrial Research (CSIR) did not have a proper mechanism in place for any systematic assessment of its manpower requirement; it did not comply with Government's instructions regarding constitution of internal work study units or internal staff inspection units for laying down norms etc. Ratio of scientific and non-scientific staff in the six test checked laboratories was much higher than the ratio of 1:1.5 recommended by a Committee to review the functions and structure of the CSIR—the recommendations of the Committee had been approved by the Science Advisory Council (SAC) to the Prime Minister as well as the General Body (GB) of the Council. It was also found that 14 laboratories had 122 scientists and 500 technicians over and above the sanctioned strength as of July 1995. The Council did not follow Government's directives for 10 per cent reduction in posts on the administrative side. A peculiar situation that existed was that 49 scientists and 155 technicians in six laboratories were performing functions not related to R&D.

The situation in CSIR HQrs was no better with 83 scientists and 222 technicians doing work without any R&D contents. The Institute in Bhubaneswar (Central Salt and Marine Chemical Research) had engaged 32 to 45 security personnel for 4 years (cost: Rs. 32.1 lakh) against shortage of only 3 to 5 security personnel. There were cases of persons appointed on regular basis for sponsored programme causing administrative problems subsequently. More than 1100 people were engaged as casual workers for work of regular nature—all these were appointed against orders of the DG.

A serious point brought out was that persons not possessing academic/ technical qualifications prescribed for entry level posts were appointed/ promoted to scientific or technical posts. Most of them were actually deployed on non-R&D work. Time bound assessment promotion scheme meant for scientific personnel was by and by extended to non-technical posts also including Compounders, Nursing Sisters, Malis, Artists, etc. Cadre Review to provide promotional avenues to its administrative staff was

done without approval of the Finance Minister even though it was so required. It was also noted that promotions out of cadre review were made retrospectively ignoring the advice of Member (Finance). Several cases were noted where administrative staff were inducted into technical scheme to provide them benefits of faster promotion and higher retirement age. A large number of them did not possess the prescribed technical qualifications.

Commenting on the Research activities of the laboratories Audit pointed out that scientists of six laboratories during 1992–97 developed just one technology by a laboratory (ITRC) which has a strength of 108 scientists on an average basis during 1992–97. There was no effective management system for efficient functioning of manpower operation.

Conservation and Protection of Tigers in Tiger Reserves: This report, brought out by C&AG in 2006,¹⁵ dealt with one of the most discussed subjects viz. the declining population of tigers in the habitats. Audit study laid bare the tall claims of Project Tiger, launched with such great fanfare and expectation in 1973 'to protect tigers and to ensure a viable population of tigers in India'.

The total number of tiger population in 1984 was 3623 in the country of which 1121 were in 15 tiger reserves created upto 1984. In 2001–02, while the overall population of tigers in the country declined to 2906, that in the tiger reserves went up from 1121 to 1141 in 2001–02—an increase that speaks more of the ineffectiveness of measures taken under the Project Tiger.

Of the several observations of Audit, some more important were:

- (i) Against the declared norm of average area of 1500 sq. kms for tiger reserve, the actual area was mostly much less—15 out of 28 tiger reserves had an area of less than half the prescribed area. In six out of these 15, even the core area was less than the prescribed 300 kms. Human settlements existed on 14 of these and what was more alarming such settlements were there in core areas in two of the six tiger reserves.
- (ii) There was no system of any monitoring of implementation of the project by the Project Tiger Directorate. It had just 7 people on staff.
- (iii) With such depleted strength it was unable to do any worthwhile monitoring. Relocation of families living

within the tiger reserve was not successful for want of resources.

- (iv) Approved Management Plans were not prepared in all projects and the central assistance was released without these.

There was some impact of the para on the Ministry. It stated (March 2006) that the core areas of tiger reserves can be increased once the buffer zone are free from disturbances and a National Tiger Conservation Authority (NTCA) with statutory powers was being established to address such issues. NTCA has since been constituted w.e.f. September 2006 as a statutory body after amendment to Wild Life (Protection) Act 2006.

Regarding the annual operational plan on the basis of management plan for each tiger reserve, the Government stated in March 2006 that a Bill had been introduced in Parliament for amending the Wildlife (Protection) Act 1972 for according statutory authority to Project Tiger Directorate and to have a say in the planning process of the State projects.

NOTES: CHAPTER-11

¹ Government of India, Department of Science and Technology OM No. DST/JSF/17(3) (1)/83 dated 28th December, 1983

² C&AG's Manual of Standing Orders (Audit)

³ C&AG's Report for the year ended 31 March 1990 Union Government (Scientific Departments) No. 2 of 1991

⁴ Para 10.2 of C&AG's Audit Report (Scientific Departments) for the year ended 31 March 1991

⁵ Para 2.1 of C&AG's Report for the year ended March 1992 Union Government (Scientific Departments) No. 2 of 1993

⁶ C&AG's Report for the year ended 31 March 1995 Union Government (Scientific Departments) No.6 of 1996

⁷ Para 2.1 of C&AG's Report for the year ended March 1998 Union Government (Scientific Departments) No.5 of 1999

⁸ C&AG's Audit Report No. 5A of 2000, Union Government (Scientific Departments) Audit Report No.5 of 2004

⁹ The other two reviews appeared in C&AG's Audit Report on Scientific Departments for the year ended 31 March 1989, 12 of 1990 (in C&AG T.N. Chaturvedi's time) and Report of the C&AG for the year 31 March 1994, Union Government Scientific Department mentioned in Report No. 5A of 2000 (in C&AG V.K. Shunglu's time)

¹⁰ 26th Report, Public Accounts Committee 2005-06

¹¹ 26th Report, Public Accounts Committee 2005-06

¹² Para 2 of Audit Report for the year ended March 2003, No.5 of 2004, Union Government (Scientific Departments)

¹³ Para 3 of C&AG's Audit Report for the year ended 31 March 1995 No.6 of 1996 Union Government (Scientific Departments)

¹⁴ Para 2 of C&AG's Audit Report for the year ended March 1997 No.5 of 1998 Union Government (Scientific Departments)

¹⁵ C&AG's Audit Report No. 18 of Performance Audit of the year 2006

GLOSSARY OF ABBREVIATIONS

GAP	Ganga Action Plan
GB	General Body
IARI	Indian Agricultural Research Institute
ICAR	Indian Council of Agricultural Research
ITRC	Industrial Toxicology Research Centre
NBPGR	National Bureau of Plant Genetic Resources
NTCA	National Tiger Conservation Authority
PGR	Plant Genetic Resources
PMN	Polymetallic Nodules Programme
R&D	Research and Development

Performance Audit

The development of Performance Auditing in India is closely related to the advent of planning which involved huge capital outlays and expenditure on plan programmes for socio-economic development. It is best to understand it in that context as the audit response to these momentous developments.

If one were to give a date to the introduction of performance audit concept in India, the safest bet would be to put it in early sixties. This was the time of initial Five Year Plans. Investments by Government on such a huge scale in five year plans and in building a very strong Public Sector required a new audit approach, which would look beyond regularity and financial audit and which could cope with the intricate questions of measuring the performance and results of these huge investments and expenditure. While the concept of propriety audit had already entered the lexicon of audit terminology, the overwhelming audit emphasis was still on compliance and regularity audit. The system of Receipt Audit had just started. It was necessary that Audit developed tools and skills to use them to study and understand the implementation and results of this vastly expanded role of Government and the huge Government expenditure in terms of value for money.

There is nothing better to understand the Audit thinking in early sixties on this subject than reading the following extract of the then C&AG A.K. Roy's speech in Shimla on 28th October 1961—this gives an idea of C&AG's comprehension of the concept at that point of time:

'The statutory audit which the Audit Department conducts is limited in scope and serves a limited purpose. It certifies that the accounts are arithmetically correct and within the appropriations made and also certifies about the legality and formality of the

expenditure. But under modern conditions with the rapid increase in the functions of the State this limited purpose is not enough. Parliament is more interested to know that the money has been wisely spent with due regard to economy, that accepted plans and programmes are being efficiently executed and their purposes achieved. This broader aspect of discretionary audit is being gradually evolved and in modern context has assumed considerable importance...’ And he went on further:

‘This leads to another important aspect of our duties, which is in reality a facet of the discretionary audit that we now conduct. This is performance audit. With the change in the pattern of governmental expenditure it is necessary that expenditure on different schemes should be examined in Audit to ascertain whether (i) such schemes are being executed and their operations conducted economically, and (ii) they are producing the results expected of them.’¹

EARLY DEVELOPMENTS IN PERFORMANCE AUDIT

In December 1962, the C&AG issued a set of instructions relating to the broad lines on which audit should be conducted for schemes selected for efficiency-cum-performance audit (ECPA), the term used those days to denote Performance Audit.

Meticulous planning was reflected in operationalising the concept of Performance Audit, when the C&AG decided in 1961–62 that a task force, consisting of hand picked persons, who showed special aptitude for such audit, be created, under the direct charge of the Accountant General. These persons formed, what was called Efficiency-cum-Performance Audit Sections.

In the Manual of Standing Orders (MSO) Vol-I, released by A.K. Roy in August 1962, the concept of Efficiency Audit found a place for the first time—one long paragraph was devoted to this which interalia, stressed upon the two broad objectives of such audit as enunciated by CAG in his speech cited above. The instructions also laid down the broad lines of audit examination.

The Manual also prescribed that at the end of each year, an overall appraisal of progress and efficiency of the plan expenditure upto the end of the year, be conducted, and suitably reported in the Audit Reports.

The period from 1962 (A.K. Roy) to 1972 (S. Ranganathan) was a period of consolidation of the systems and practices in Performance Audit. Initially, bulk of the audit studies on

Performance Audit related to schemes and projects in Power, Irrigation, Health and Agriculture sectors where quantification of results achieved was possible.

A look at the audit output as contained in the Audit Reports of this period would indicate that while bulk of auditing was still on regularity aspects, Performance Audit was mostly being used to assess the efficiency and effectiveness of Programmes/ Projects/ Schemes that had definite targets in quantitative terms to be achieved within a time frame, which made a commentary on achievements/ results possible. Mention may be made of the review entitled 'Purchase of foodgrains' which was included in the C&AG's Audit Report (Civil) of 1963, and covered the scheme of State trading in foodgrains which had started in 1943-44 and still continued with several changes.

The Union Government (Civil) Report for the year 1971-72 contained reviews of two public health programmes, namely, smallpox erradiation and filaria control, two village industry programmes (leather and palm gur) and a review on important social welfare institutions run by Delhi Administration. The 1972-73 Audit Report contained a review of expenditure on relief of Bangladesh Refugees which was funded by the Government of India. A supplementary report of C&AG for the year 1972-73 was brought out containing reviews of Emergency Agricultural Production undertaken in 1972-73 and Crash Scheme for Rural Employment implemented from 1971-72.

PERFORMANCE AUDIT OF PSUs

The Administrative Reforms Commission recommendation of appraisal of Public Sector Undertakings through the mechanism of an Audit Board, constitutes a big push in the march towards Performance Auditing. The Assistant C&AG (Commercial) at that time (A.N. Mukhophadhyay) meticulously built up a portfolio of PSUs whose Performance Audit (Comprehensive Appraisals) was conducted by the Commerical Audit wing of the department. These appraisals started in 1970—in this year there were 10 Performance Audit Reports presented to Parliament in separate volumes.

Similarly in Receipts Audit, Performance Audit was introduced early in the shape of system Appraisals and Reviews on Direct Taxes, Indirect Taxes .

ALL INDIA REVIEWS (A. BAKSI'S PERIOD AS C&AG 1972-78)

During the tenure of C&AG A. Baksi a new dimension was added to Performance Audit when he introduced the concept of All India Reviews on various programmes, schemes of the Government for socio-economic development, for infrastructure developments and other Central or Centrally sponsored schemes executed under the five year plans. The concept of All India Review was unique in the sense it would involve Audit department carrying out a simultaneous study and examination of records across various States in the country who were beneficiaries of the concerned centrally sponsored scheme relating to these development programmes. Such a horizontal study was of immense benefit to all the stake holders because it would convey a comparable picture of the programme implementation and success across all the States and at the same time it would afford the Union Government a kind of status report of the nature which a comprehensive monitoring mechanism would provide.

In the preparation of All India Reviews, C&AG inducted two very senior and experienced IA&AS officers to draw up the shelf of the schemes and prepare the guidelines to be followed by all the Accountants General involved in the review-these two officers were D.N. Ghosh and A.C. Bose. Their designations conveyed exactly what they were doing 'officer on special duty (reviews)'.

The initial All India Reviews presented to Parliament during the period provided a very wide coverage across various sectors.

In his report for the year ending 1973-74 Union Government (Civil) the C&AG brought out a separate volume containing reviews on (i) Relief of distress caused by natural calamities and (ii) Road Development. This report, signed by the C&AG (A. Baksi) in January 1976, contains an account of the expenditure incurred on relief works in States affected by natural calamities. The Report carried an analysis in respect of nine States who spent the largest amount on relief measures. Apart from the Central Report each concerned State AG also prepared a report which contained detailed findings regarding the State relief works and these reports were submitted to the Governors of the concerned States by the C&AG in the usual manner.

The above separate report also contained C&AG's Review on two other programmes namely, Drought Prone Area Programme in respect of 13 States and Drought Relief Production Programme

in the State of Uttar Pradesh (the review covered the implementation of the programme for the year 1973–74).

In the Audit Report 1974–75 of the Union Government, C&AG brought out reviews on central schemes like Haldia Dock Project and Delhi Milk Scheme. A Supplementary Audit Report on Union Government for the year 1975–76 (presented to Parliament in December 1977) contained a review on Irrigation² Potential in 20 Irrigation Projects in the country including 12 selected command area projects. This review brought out, probably for the first time in the public domain, the information that while on paper these gigantic projects were creating big irrigation potential in the concerned command areas of the projects, in practice the utilization of this potential was far below the potential created. The Audit Review analysed the reasons for these shortfalls which were indicative of the deficiencies in the planning, designing and suggested cropping pattern in the concerned command areas. As a middle level officer in the Ministry of Irrigation at that time, the author had seen the tremendous impact which this Review produced on the top officials of the Ministry and the Secretary took extensive meetings with the Secretaries of the concerned State Governments along with their technical officers on how to get over the problems and increase the irrigation potential utilization. While it is true that a lot of such preparation was done with a view to sending replies to the PAC, there was also a genuine effort produced by the Audit Reports to improve matters in light of the very informative analysis of the C&AG's Review.

While some of the above mentioned reports containing the Performance Reviews of these schemes/ programmes were confined to a time frame to the year relevant to the Audit Report, the merit of All India Reviews was that these covered generally a time frame of five years or thereabout conforming to the relevant plan period. As mentioned by R.K. Chandrasekharan in the 'history', C&AG held discussions with the AGCR and AGCWM and other principal AsG for selection of schemes for reviews—like crash scheme for rural employment, emergency agricultural production programme, scarcity or drought relief, irrigation projects and road development.

1990s AND THEREAFTER

New approach to performance audit: 1990s mark qualitative changes and a paradigm shift in C&AG's approach to Performance Audit. Here, a closely related area of application was performance analysis of macro level management of finances by Government and an analysis of financial health indicators with their impact on national economy. The trend was set by C&AG C. G. Somiah when in 1994 he brought out a standalone Report containing results of Audit of Public Debt and it was rated as a significant contribution to Audit Literature on performance analysis of finances. As the Preface to this Report stated 'This Review of the Public Debt offers a perspective view of the overall position of Public Finance highlighting the trends in and linkages between receipts, expenditure, borrowings, exports and budgetary measures of the Government of India.' However, significant changes first in the format of Chapter-I and II of Audit Report and later bringing out a separate volume on the accounts of Union Government that included a comprehensive appraisal of Government's Financial Management was one of the most important developments in C&AG V.K. Shunglu's time. This document underwent a thorough revision in 2001³ which enhanced enormously its quality of analysis and with a new orientation. In State Audit Reports too, performance analysis of State finances and measuring their vulnerability, sustainability and flexibility was essentially setting up a performance index of State Government finances. It presented a picture of States' financial health in macro economic terms and also their financial management practices.

Apart from giving a new orientation to audit analysis of finance accounts and appropriation accounts and bringing out a separate volume on accounts of Union Government, the Performance Audit Reviews, both All India Reviews and the State Reviews or Central Sector Reviews, acquired a new approach. The All India Reviews were brought out as a separate volume from the Audit Report for the year 1995-96.

Performance Audit Reports produced in C&AG Shunglu's period had following special features:

- (i) Beneficiary Surveys through reputed agencies in some Reviews to assess the impact of the programme through beneficiary perception.

- (ii) Engaging experts—for specific Performance Audit Reports—these yielded wonderful results in Defence Audit and Civil Audit Reports⁴.
- (iii) The system of All India and regional workshops for better quality of Report—these workshops generated a good deal of guidance for improving quality and content of All India Reviews and other performance audit reviews.
- (iv) Beginings were made in application of techniques like Risk based approach in Planning and selection of auditee units

Some Performance Audit Reports brought out during this period will rank as some of the best produced by C&AG in terms of impact they made. These would include the Performance Audit Reports on Member of Parliament Local Area Development Scheme (MPLADS), National Drinking Water Mission, Public Distribution System, Rural and Urban Employment Generation Programme, Integrated Child Development Scheme, Family Welfare Scheme, Implementation of Environment Act relating to Water Pollution, Administration of Prevention of Food Adulteration, National Disease Control Programme and Animal Husbandry Scam case in Bihar.

On Receipt Audit, several trend setting Reviews were brought out like on PAK-Indo –Lanka joint Management Committee (PILCOM) to conduct World Cup for Cricket, Summary Assessment Scheme, Functioning of Investigation Circles, Assessment of Lottery Business, Voluntary Disclosure of Income Scheme 1997, Kar Vivad Samadhan Scheme and Implementation of Selected judgments of Supreme Court etc. In respect of Indirect Taxes, important ones were Invoice based system, System Review on Modvat Scheme, Provisional Assessment, System Appraisal on Service Tax, Valuation of excisable products etc.

It is noteworthy that in C&AG Shunglu's time apart from All India Reviews and Revenue Audit Reviews some very forceful Performance Audit Reviews were brought out on Central Sector programmes. Notable amongst these were, Growth Centre Scheme, Border Security Force, Modernisation of Prison Administration, National Renewal Fund, Issuance of Photo Identity Card to Electors, Calamity Relief Fund, Functioning of Land and Development Office and Infrastructure Development in Mega cities etc.

In Performance Audit Reports, there was a renewed emphasis on sharpening the audit techniques—some unorthodox methods

were used in National Disease Control Programme. The Chapter on Audit Reports describes some other important Performance Audit Reports of the 1990s.

Provision in the Manuals: According to Manual of Standing Orders issued in 1991 ECPA was directed to examination of the systems, procedures, planning, implementation and operational performance of programmes, activities, etc. bringing out among other things weaknesses and deficiencies as also lapses of various types. The standing orders stated that selection of the projects/ schemes to review should be done with utmost care after a preliminary study taking into account various factors apart from financial outlays involved. Active Cooperation of concerned Department and their proper appreciation of the review undertaken by audit was stated as essential for a meaningful review. Mention was made of pre-review discussion with departmental authorities regarding areas to be taken up for study and assistance in making available records and data. Preparation of an Audit plan indicating guidelines for investigation, offices/ field units to be visited, strategy for collecting data and time frame to review, adequate and fair sample selection for detailed checking, formats and Questionnaire for collection of data for ease of consolidating and processing the review report were also covered in the Manual.

Manual of Standing orders issued in 2002 reiterated the active co-operation of the Departments concerned and holding of not only Entry conference but also Exit Conference to discuss audit findings and obtain further clarifications, if any, from the Department. It was brought out that as many criteria as possible should be developed for each component of audit and where there was no agreement between audit and the Department regarding criteria evolved by audit, audit should clearly mention this fact. It was further stated that review is not a narration of instances of aberrations/ shortcomings in the execution of the programme but an 'appraisal' intended for expressing an opinion on the quality of internal control, information system, achievement of objectives, quality of execution and realisation of value for money. A specific pattern of shortcoming should lead to the audit opinion. Sample should be defined in the scope of audit and all observations should relate to the sample and it should not be necessary to use expressions like 'test check revealed', 'test check disclosed', etc. 2002 Manual laid emphasis on Recommendations stating that any observation or opinion not strengthened by appropriate

recommendations would render a review incomplete to a reader in general and to the ministries, departments and PAC in particular. The drafting was to be done after detailed and analytical discussion of the results of preliminary study, consolidated data, mid course appraisals of the schemes/ programme and remedial measures taken as a sequel. A suggested layout for reviews was also mentioned in the Manual.

The foregoing instructions which constituted a big leap forward in the Performance Audit area, were applied in patches, since a structured integrated Performance Audit System was not prescribed. This task was fulfilled by the present C&AG V. N. Kaul.

2004—A PARADIGM SHIFT IN IA&AD APPROACH TO PERFORMANCE AUDIT

C&AG, V.N. Kaul made an assessment of the existing Performance Auditing Practices and systems in the IA &AD in the context of the recommendations made by the NAO Consultants who, in their Report (2003) had stated that:

‘The IA&AD should reexamine its current audit methodology and, in particular, consider merging the various audits it undertakes into two categories—Financial and Performance Audit. Clear objectives for each should be established which reflect the new vision and mission of the organisation’.

The Consultants, further, advocated undertaking a series of pilot studies and development of training courses to introduce the new approaches—and to test their practicality across different parts of the organisation. They also advised for making greater use of risk based and statistical sampling techniques and develop additional approaches to gathering audit evidence. Also, pilot study results were to be evaluated to ensure that the new approach provided real benefits before any changes were fully introduced.

The Consultants desired that ‘IA&AD should establish Finance and Performance Audit methodology teams to assist in the development of the new approach.’

Apart from the above, C&AG was also guided by his desire to align the Performance Auditing Practices and systems of IA&AD with the best global practices—this has been in fact his objective in other facets of auditing also.

He, therefore, decided to get the prevailing performance audit systems overhauled and put in place a completely revamped system

which was in line with internationally accepted best practices. For this purpose, he entrusted the job of preparing a new set of guidelines for Performance Audit which should reflect the current best practices globally to an officer of the rank of Principal Accountant General⁵ incharge of newly created Performance Audit Wing. This led to a set of Performance Auditing guidelines which was released by the C&AG in May 2004. These Guidelines were shared with auditable entities in May 2004. The highlights of the new guidelines, as the C&AG has stated in his prologue to the publication, is that these clearly distinguish between Performance Audit and Financial Audit and further, had been formulated keeping in mind international best practices. These guidelines replaced all existing instructions in so far as they related to the principles and procedures of Performance Audit.

There was a plan to bring out a series of supplementary guidelines—in fact 17 subjects were approved by the Coordination Committee on Performance Audit Management and Review in September 2004. The Accountants General Conference held in September 2005 also recommended the issue of Supplementary Guidelines to facilitate due implementation of Performance Auditing Guidelines. The Co-ordination Committee decided (December 2005) that the supplementary guidelines should be developed in phases. Five subjects were selected for development in the first phase. In 2007 a Supplementary Guideline was issued on 'Evidence Gathering, Analysis and Evaluation Techniques in Performance Audit' to help Audit teams to collect evidence and analyse and evaluate the same in a manner that meets the prescribed standards laid down namely, competent, relevant and reasonable evidence to be obtained in support of auditors' judgment and conclusions.

A second Supplementary Guideline was issued in October 2007 on 'Development of Audit Conclusions and Recommendations Arising out of Performance Audits'. This provides detailed instructions about the manner in which professional judgement is to be applied in framing audit conclusions from facts and how recommendations are to be framed in the light of these findings.

Apart from this, the Performance Audit Wing at Headquarters also brought out a series of practice guides on specific subjects of audit. Four practice guides have so far been issued under this series. Three practice guides have been issued for framing audit objectives and sub-objectives on some common auditing topics useful for all field offices. Another practice guide covers the process of planning individual performance audits. These were also to

'provide a framework to ensure that audits conducted across the country follow the same methodology'.

The 2004 Performance Auditing Guidelines and the subsequent build up of the Performance Audit system has meant a paradigm shift in the approach of the IA&AD towards Performance Audit. Before discussing its main features, it will be appropriate to deal with a question of C&AG's mandate on Performance Audit that arose during the period.

AUDIT MANDATE FOR PERFORMANCE AUDIT

As already brought out elsewhere, the C&AG's mandate for Audit is derived from the Constitution and the C&AG's (Duties, Powers and Conditions of service) Act, 1971. The scope, extent and nature of audit is again the prerogative of the C&AG and has been established over the years. Performance Audit which started in early 1960s also derives its authority from the above and C&AG's unfettered right to determine the nature and scope of his audit.

The instructions to the State Accountants General were issued as early as December 1962 to take up Efficiency-cum-Performance Audit of schemes and this probably marked the beginning of the Performance Audit in the Department. The right of C&AG to conduct Performance Audit since then has not been questioned by any State/ Union Government, leaving aside the infamous instructions of 1976 when Government issued instructions to bar certain records to the C&AG. Only one instance has been found in old records which points to initial doubts being raised by one State Government, namely Rajasthan, about C&AG's jurisdiction in the realm of Performance Audit. The State Government put it thus 'Indian Audit Department has no legal status to audit Efficiency and Performance of the Government' (1969). As a result the concerned department started withholding production of records relating to the projects on the plea that these could not be furnished for Performance-cum-Efficiency Audit. In this case, however, after 'vigorous pursuance' with the Government and discussions held between the Chief Secretary and the Accountant General, Government accepted the position that Accountant General can carry out Efficiency-cum-Performance Audit of schemes undertaken by various departments of the Government 'according to the instructions issued by the C&AG of India in this regard'. The Finance Department of the State Government issued an office memorandum on 6 June 1969 on the above mentioned lines to clarify the position.

The Performance Audit, conducted by Audit Department since those days has undergone a sea change in its approach and reach—it started evaluating performance of various socio-economic development programmes of the Government of India and State Governments, it undertook performance appraisals of public sector enterprises, it conducted system studies on various exemption schemes, etc of the Central Excise and Customs Department and similar notification on the Income Tax side. It carried out comprehensive review on the management of taxes—both at Central level and State level. All these were well received, appreciated and, most of all, never questioned as regards C&AG's power to do this till a couple of years back when the Ministry of Urban Development questioned C&AG's right to carry out Performance Audit of 'out of turn allotment of Government quarters' on the plea that the subject did not have any financial aspect and hence was beyond the scope of C&AG's Audit; similarly, recently, about two years back, the Ministry of External Affairs also raised the issue of C&AG's power to conduct Performance Audit of Economic and Commercial Wings of the Indian Missions abroad on the plea that an Inter Ministerial Group which was set up by foreign Secretary was looking into the aspect of Performance Audit and Ministry of External Affairs would like both the Performance Audits to be postponed till recommendations of the Inter Ministerial Group and till a view was taken based on the recommendations of Inter Ministerial Group and the likely introduction of outcome budgeting (the details of these cases are included in Chapter-4—Developments in Auditing). Eventually in both these cases the matter was settled when the incumbent C&AGs C.G. Somiah and V.N. Kaul addressed the Prime Minister on the subject. An outcome of the Ministry of External Affairs case was that the Ministry of Finance issued clarificatory instructions in June 2006 reiterating beyond any doubts the power of C&AG to conduct the Performance Audits and secure all the records and documents required by him in connection with such audits. Through this clarification, the Finance Ministry has acted, as often in the past, as a 'natural ally' of the C&AG to reiterate the position always taken by the C&AG in regard to his powers to carry out the performance audits.

Provision in Regulations: Regulations on Audit and Accounts issued by C&AG in November 2007 have now made the position absolutely clear by providing that Audit 'includes performance audit or any other type of audit determined by the Comptroller and Auditor General of India'.

PERFORMANCE AUDITING GUIDELINES

Performance Auditing Guidelines lay considerable emphasis on Strategic Planning, in planning for such audits, the selection of the subject for Performance Audit is based on risk perception of the entity. A more scientific system of sampling is to be used for selection of auditee units. The new guidelines place considerable importance on interactions with the auditee and in that context entry and exit conferences assume significance. The new guidelines also emphasise a lot on documentation at every stage of auditing and quality assurance measures. Outsourcing and consultancies are now part of formal guidelines subject to the conditions laid down.

One of the highlights of the new system is that recommendations are now mandatory requirements in the Performance Audit Reports of the C&AG. The guidelines have prescribed how the recommendations emerge i.e. a recommendation development process has been explained and, more important, the recommendations are to be shared with the head of the auditable entity. Further, recommendation should be practical and add value to the objective of the audit i.e, economy, efficiency, effectiveness, governance or accountability. In case the entity disagrees with recommendations and Accountant General is unable to secure the acceptance for his recommendations, the recommendations that have not been accepted by the entity could be retained in the Audit Report along with the reasons for disagreement by the entity and further, giving reasons for retaining them despite reservations of the entity.

The new performance audit system has enabled audit to do an objective assessment of the programmes, entities or schemes of Government by framing clearly the objectives of Performance Audit as also sub-objectives for each objective. Then the performance criteria for these are drawn up with the help of reliable data. A detailed issue analysis is also prepared followed by a design matrix which provides criteria, source of evidence and methods of analysis while dealing with detailed audit questions. The guidelines prescribe risk based approach to planning and use of sampling techniques. These are further fortified by the Beneficiary Surveys wherever necessary thereby enabling Audit to form definitive conclusions about the outcome of a programme or scheme.

In the audit process also, there are now substantial changes. The involvement of subject specialist or experts has been brought

on formal footing by not only clearly stipulating that they can be associated whenever there is a need for them, but also by issuing detailed instructions regarding the manner of their selection and the criteria for their selection. Evidence gathering has been strengthened by allowing certain new techniques like physical inspection, photographic evidence and interviews with the auditee organisations- there are safeguards built into all these techniques to eliminate any accusation/ bias on the part of audit while gathering such evidence.

In a nutshell, the new system of Performance Audit is a self-contained well integrated structured system that ensures that no part of the system is neglected. It culminates in framing a suitable design matrix from which other audit processes follow.

The new Performance Audit methodology is very clearly explained by the practice guide⁶ as below:

'The Performance Audit methodology adopted by us has underlined logical flow commencing with the selection of a topic by each Performance Audit which is primarily on the basis of a risk analysis but also dependent upon other factors that go into the framing of strategic and annual audit plans. Once a topic is selected it is necessary to determine its scope not only in terms of the period and locations to be covered but also in terms of the segments of an entity or programme that we seek to cover. This is followed by framing of audit objectives, the identification of issues and the subsequent analysis of the issue leading to the framing of a study design matrix that leads to framing of questions that form the basis of the audit process as also the identification of criteria and the corresponding evidence, the identity comparison of which leads to an audit finding.'⁷

PERFORMANCE AUDIT AND PROGRAMME EVALUATION

A question often raised is about the relationship between the Performance Audit and Programme Evaluation. Essentially, programme evaluation is a part of Performance Audit. The one basic difference would be that while performance audit addresses many issues which are also detailed within evaluation, the Performance Audit should stop short of questioning the policy or embarking on suggesting policy alternatives. This limitation, however, is observed more because of the institutional constraints of the C&AG since he is to act within the contour of the Constitutional and legal mandate he has. The normal programme

evaluation which had been done by agencies' evaluators would have no such constraints unless they are barred for that by the terms of reference of the agency engaging the evaluator.

PERFORMANCE AUDIT DEFINITIONAL ISSUES

The new guidelines endorse the definition of Performance Audit as laid down in the INTOSAI Auditing Standards which has the three essential characteristics namely: Performance Audit is concerned with the audit of economy, efficiency and effectiveness of a programme or activity or investment/ expenditure or resources. The guidelines have explained the three Es i.e. economy, efficiency and effectiveness. However, while this traditional definition of Performance Audit is retained, the new guidelines have added two more attributes namely equity and ethics while assessing the effectiveness of a programme or activity. The guidelines stipulate that Audit findings on ethics and equity should be included in the Performance Audit Report only when the infringement of the standards of equity and ethics impacts the Performance adversely. It goes on to explain that equity and ethics issues in Performance Audits add value only if audit findings against these two standards affect one or more of the three that is economy, efficiency and effectiveness.

The scope of Performance Audit does not normally include policy evaluations. Some notable exceptions however there have been particularly in the Receipt Audit where questions of policy were analysed in Audit Review from the revenue generation aspect. Refer to C&AG's Review on Service Tax (Report No.11 of 2000) which is discussed in Chapter 6.

Over the past 40–45 years since the Performance Audit was introduced in IA&AD, it has covered a wide range of themes, schemes/ projects/ programmes. Often Performance Audit Reports are in the nature of follow up of earlier such Reports. C&AG has done this in several cases. For example, he reviewed MPLADS in the year 1998 and again in 2001. Similarly, C&AG had reviewed Employment Generation Programmes (by whatever names) about 7 times since 1990; same applies for the Performance Audit Reports on Primary Education (in his Reports for the years 2000 and 2001) and Drinking Water Scheme (1998). The one common thread that runs across all these Reports is the number of repetitive points concerning deficiencies, etc. One obvious conclusion this would give is that executive is not sensitive to Audit findings.

SELECTION OF THEMES: GUIDELINES REGARDING

The Comptroller and Auditor General's MSO (Audit) had laid down the criteria⁸ for selection of subjects for the audit reviews or performance audit. Subjects for All India reviews as also other reviews were selected on the criteria of materiality, coverage and impact on the life of the people. To this were also added factors like topicality from the contemporary public policy angle and its relevance for the policy makers. The selection process actually was to be preceded by a thorough scrutiny of data bank of major government programmes, activities, schemes and projects. The Performance Audit guidelines have identified factors that would guide the selection of subjects. While risk perception is an important constituent of topic selection exercise, the guidelines detail the further risk areas and issues within the topic to focus on key issues. The sourcing of the material for selection of topics would be, amongst others, from the five-year plan and annual plan documents, budget for the concerned years, and related performance budgets of departments/ ministries. The audit plan containing the proposals of the concerned Pr.AG/ AG (Audit) would be examined at HQrs by the DG (PA)/ ADAI (Report Central) for Union Government reports.

In the case of All India Reviews which normally used to number about 3 or 4 each year, the subjects were suggested by the Report Central Wing to the Additional Dy. C&AG/ Dy. C&AG (Report Central) who would then finalize the selection of topics after deliberations with his counter parts in Report groups at HQrs. This used to be a broad based meeting where the concerned field Principal Directors (Audit) as well as Principal Director (Report Central) and Principal Director (Report State) from HQrs participated. On the basis of these discussions, a consensus was arrived at for number of topics to be attempted for Audit Report for All India Reviews and also the specific themes or topics on which these reviews will be done. Till the year 2004-05 when the new systems bifurcating the Audit Report into two streams namely Transaction Audit and Performance Audit was not in vogue (this system came into being from Audit Report for the year 2004-05), the selection of Central Reviews was mostly done along with the concerned Audit Plan discussion. Most of the Central/ Civil Audit Offices would send the topics for Central Reviews as part of their Audit Plan. These were often discussed in the HQrs by the ADAI (RC) with concerned PD and on the basis of decisions taken in that

meeting the final plan which will include the list of topics/ schemes on which the reviews will be conducted were decided. The final approval thus was from the ADAI/ DAI (Report Central). The audit plan would also contain the number of Draft Paragraphs which the concerned Principal Director of Audit proposed for the Audit Report concerned in respect of Civil Report as well as for Report on Autonomous Bodies. However, this system was more or less thoroughly overhauled in the year 2006 and presently the selection of topics is made at the HQrs by a detailed Budget and Plan document analysis specially of the flagship programmes (mostly CSS schemes) and on the basis of this analysis, programmes have been identified for Performance Review for the next three or four years in the Perspective Plan. Other than flagship programmes and other major programmes, there are smaller plan programmes also for which suggestions are given by the field offices along with justification and on the clearance of the HQrs are taken up by the concerned field offices for inclusion in their report. The entire proposal for selection of topics or themes for Performance Review is finally put up to the C&AG for his approval.

The current procedure for selecting themes or subjects for performance audit is that Additional Dy. C&AG (Report Central) prepares a shelf of projects containing flagship programmes and other central plan programmes. The performance audit proposals are put up for a three-year cycle e.g., in November 2006, C&AG approved performance audit proposals for a three-year period 2007–2010. The proposals were submitted after discussion with the Principal Audit Officers and on the basis of a data bank of 32 key plan schemes of the Union Government which included flagship programmes also the selection was made. The C&AG also desired that the proposals should be in consonance with strategic audit plan and additionally, suggested four more programmes to be accommodated in the 2007–2010 programmes, if possible.

It would be seen that the foregoing approach is radically different from the previous times and in a way perhaps it is appropriate that the subjects are decided at the HQrs who are in the know of total picture of the activities in the Union Government and Planning Commission domain. The fact that the shelf of three to four years has been created, also affords an opportunity to the concerned offices to be in preparedness about the topics that are to be taken up in subsequent years; this would definitely help better collection of material and better planning for the audit.

The above system also ensures to a large extent compliance to the basic criteria that the themes for Performance Audit should be selected on risk based analysis rather than conventional analysis. In fact even with regard to the Transaction Audit, the HQrs has on the basis of their selection of 10 or 12 high spending ministries suggested to the field offices to give adequate representation to these Ministries in their Audit plan for Transaction Audit.

PERFORMANCE AUDIT AT WHAT STAGE?

The guidelines make it clear that even though Performance Audit is a post facto exercise 'there is no bar to conduct Performance Audit of programmes concurrently, or at the initial stages of the implementation of the programme'. Similarly, it advocates that concurrent Performance Audit of long term ongoing schemes should be undertaken at appropriate intervals. In detailing the implementation plan for performance audit, there are detailed instructions on operational planning for individual Performance Audits which include Audit objectives to address the Performance Audit concerns. The recent examples of such Performance Audits are NHAI Scheme of Golden Quadrilateral (C&AG Audit Report Commercial No.7 of 2005), Rural Employment Generation Programmes (C&AG's Report, Civil—No.3 of 2000), M.P. Local Area Development Scheme (C&AG's Report No.3 of 1998 and No.3A of 2001 again contemplated in 2010), Consumer Protection Act Implementation in Report No.14 of 2006, Sarva Siksha.Abhiyan (SSA) (C&AG Report No.15 of 2006). The advantage of such intermediate audit is that based on the Audit observations and recommendations, mid-course correction can be done by the Administration. For example, in the cases quoted above course correction measures were taken by Government in the case of NHAI's Golden Quadrilateral Scheme; in response to Consumer Protection Act Implementation, the Government stated that the survey findings could be used as a benchmark during future evaluation of the impact of the consumer protection measures. In the case of SSA, the Audit Report was considered by the Governing Body Meeting chaired by the Prime Minister where the contents of the Report were taken as inputs for further improvements in the programme implementation.

OPERATIONALISING NEW PERFORMANCE AUDIT

To operationalise the new Performance Audit Guidelines, elaborate and detailed planning was done. This reflects the total care taken to introduce the new system.

While the Guidelines contain comprehensive implementation standards on Performance Audit, the real merit lies in the preparation of Subject Specific Detailed Performance Audit Implementation Guidelines. These are framed by the concerned Audit office and initially presented in a workshop. These guidelines typically contain issues relating to audit objective, sub-objective, criteria and evidence. The workshop discusses these and also interacts with teams that carried out the pilot study. The final draft Guidelines are framed after this which includes inputs received in the workshop and sent to HQrs office for their approval. The Performance Audit Implementation Guidelines include the study design matrix that co-relates audit objective with audit criteria, evidence, sources of evidence, data analysis method, etc.

A distinguishing feature of the new Performance Audit system is that it has been designed to take care of the human resources management related activities that is vital for its effectiveness. For example training of a 'Core Group' in Performance Audit techniques etc was an important element of the Performance Audit System, to ensure development of highly skilled manpower in this difficult audit area. The Project meant to give training to all the Group officers in Performance Auditing has been completed as on 31 March 2006. Similarly, training for the members of the Core Groups consisting of SOs/ AAOs/ AOs/ Sr. AOs has mostly been completed. This is reminiscent of the steps taken by A.K. Roy in operationalising in the early years of Performance Audit, when he posted handpicked persons to ECPA Sections in AG offices.

The C&AG took special care to not only produce a best practice guide on Performance Auditing but also to set up the related structure for conducting these audits efficiently. At the HQrs he posted a senior officer to look after this function exclusively. Called Director General (Performance Audit) his job includes, providing technical guidance and support relating to Performance Audit, monitoring progress of Performance Audits both for Central Audit Reports and State Audit Reports, processing upto the Bond Copy Stage all India Performance Audit Reviews and all stand alone Performance Audit Reviews for the Union Civil Report [the Bond Copies will be submitted to ADAI (RC) for submission to C&AG].

His functions for Performance Audit relating to other wings are also defined—as an Ex-officio Member of Audit Board he will be associated with Performance Audits finalised by Central Commercial Wing under Chairman, Audit Board; in relation to Performance Audits relating to Ministry of Defence, Postal, Telecom and Scientific Departments and locally selected Performance Reviews by State Accountants General he would be associated by concerned ADAIs in the process of selection of topics as well as at the time of finalising the study design matrix and issue analysis. Similarly, he would be involved in the conduct of Performance Audits by Central Revenue Audit Wing at the stage of selection of topics as well as finalisation of study design matrix and issue analysis but this association is restricted to reviews that pertain to expenditure related activities of the Revenue Department. He is also responsible for devising training programme for Performance Audit and finally he is also involved in the Peer Review of Performance Audit by field offices. One of his jobs is to prepare a general appreciation note of the progress made in achieving standards as laid down in the departmental Auditing Standards and also application of Performance Audit Guidelines. The output of this Note was to be circulated as a guidance note to all wings at HQrs and through them to field offices to ensure ongoing improvements in the quality of Performance Audit Reports. 'The results of quality assurance reviews may be placed before SAI top management annually or on demand during the course of the year.'⁹

Some other important components of this structure are a Coordination Committee¹⁰ on Performance Audit Management and Review, constitution of Task Force for setting up criteria in Performance Audit and formation of Core Groups in various offices for Performance Audits. Prior to formation of such 'Core Groups', extensive inputs were received from field offices. For example, Pr. Director (Report States) at HQrs was asked in January 2004 'to examine the need for specialization in Performance Audit, particularly audit of outcomes and the feasibility of establishing specialist value for money teams at State level with responsibility for specific objectives and audit areas identified in the Strategic Plan'. He gave his inputs in the form of a detailed 'Note' to Dy. C&AG Sudha Rajgopalan in February 2004 after interacting with Pr. Accountants General/ Accountants General of five major States. The Principal Director had also drawn extensively on the draft implementation guidelines for Performance Auditing standards

issued by INTOSAI, such guidelines issued by ASOSAI and value for money hand book issued by National Audit Office, UK. Special care was taken to impart training to Core Group members both inhouse and in RTIs.

Another method adopted for dissemination of knowledge about the new system of Performance Audit was convening workshops on Performance Audit meant for various levels of officers. Thus there was a workshop meant for Principal AGs held in May 2006. Similarly, workshops were held for the benefit of Group Officers. Dissemination has also been done through distribution of literature on Performance Audit from other SAIs for the use of field offices. To further facilitate the auditor's job and provide a quick guideline for setting up Audit objectives, issue analysis, Study Design Matrix etc. a check list of 60 points was issued in May 2005. A revised abridged check list was issued in December 2005. These check lists provide a facility to carry out a quick check regarding general quality features, Audit objectives, evidence, Audit conclusions/ highlights, recommendations, language and presentation. The Check list serves as a self – evaluation of the quality of the Performance Audit Report.

Check list also provided for submission of an assurance memo by AG or the equivalent audit authority signing the Audit Report for the purpose of ensuring that the performance audit was conducted in terms of the Performance Auditing Guidelines. The ADAIs of respective functional wings have prescribed, accordingly an Assurance Memo which is to be sent alongwith the Bond copy of the Audit Report to Headquarters.

Guidelines also advocate that if in the selection of the Team Members for the audit competency gap is noticed in the inhouse personnel, expert advice and outsourcing can be done, albeit in transparent manner according to the established policy and procedures and subject to the orders of the Competent Authority.

The Guidelines also explain the role and importance of criteria in Performance Audit at length, including the sources from which these can be developed. The merit of the new Guidelines is that it would ensure that planning, the process and the audit product are consistent with Department's Auditing Standards and generally accepted auditing practices. To achieve these things, the guidelines have laid down detailed instructions on various aspects of Performance Audit plan and its implementation, on evidence and documentation and reporting process. It has also prescribed structure of supervision and review as also quality control measures.

Separately, it deals with aspect of quality assurance in Performance Audit as also audit management issues.

The guidelines have detailed instructions on Strategic Planning i.e. setting long term goals of the institution and the best approach for attaining them. It has also suggested the criteria for selection of issues or programmes for Performance Audit. The guidelines also clarify that a Performance Audit need not go into the totality of activities of the entities but can also be restricted to a few selected subjects or activities of that organisation.

According to the guidelines, good audit planning will ensure a focussed field work by audit team and facilitate monitoring and review of the progress of audit.

ENTITY INTERACTION

A significant aspect of the new Performance Auditing Guidelines is the emphasis it puts on entity cooperation. It has advocated involvement of such entities as are able to give suggestions to audit regarding the proposed Performance Audit. These suggestions could come from Secretary of the concerned Department to be audited and other Departmental Agencies who can add to this amongst them being Planning Commission, Plan Finance Division of the Finance Ministry, Ministry of Environment and Forest and Department of Expenditure and Budget Division of the Ministry of Finance.

The new guidelines place considerable importance on the meetings and interactions in the auditable entities at the commencement of audit (Entry Conference) and subsequently, at the end of the audit to discuss the audit findings with the head of the concerned auditable entity (Exit Conference). The idea is to have a more inclusive assessment of the entity where the views of the entity can also be understood and used in the Performance Audit of that entity.

CONCLUSION

The expectations of C&AG from the Performance audits conducted by IA&AD can best be gathered from his speech given to the participants in the workshop on Performance Audit for Pr.AG Level officers held on 4 May 2006. He stated that the observance of Performance Audit guidelines should result, amongst others, in organising the entire audit process so as to ensure that all relevant issues were identified and audited against objective criteria, resulting in a report that is relevant, non-partisan and reformative.

He went on to say that a 'systematic and meticulously documented audit process supported by relevant criteria, valid evidence and resultant conclusions', will establish the Department's credentials 'as the central player in the entire gamut of institutions that exist... on the national scene for ensuring transparency and accountability of Government.'

In summary, therefore one can view that the new Performance Audit system is more inclusive, intensive, participatory, transparent and is based on as much objective assessment as possible.

As regards submission of Performance Audit Reports, they need not be Annual Reports presented only once a year. In fact, they flow throughout the year in a staggered manner. For example, during the year 2006, C&AG submitted 20 standalone Performance Audit Reports relating to Union Ministries spread over all the 3 sessions of Parliament.

These reports received wide media coverage and drew the attention of Parliamentarians and Ministers in many cases.

Performance audit reports now deal exclusively with systemic points and points relating to VFM aspects. The acceptance has just begun and an evaluation of the system will probably take place a couple of years later. It will be worthwhile for audit to carry out an assessment of this new system, at an appropriate time.

The question is whether the new Performance Auditing System will improve Government performance. C&AG, V.N. Kaul identified the requirements of this very clearly when he wrote to the Finance Minister in March, 2005. He said improving Government Sector performance through better accountability demands three assurances; 'firstly that there are clear performance expectations from departments; secondly, a result based monitoring and evaluation system is set up with clear performance indicators supplemented by a vigorous programme of C&AG's performance audits; and thirdly, ... Organisations audited by C&AG fully co-operate with external auditors in the conduct and completion of performance audits'.

He also offered to have a 'Meaningful collaboration with Government and with the Programme Evaluation Organisation of the Planning Commission to provide timely reports on outcomes of selected Government programmes against key performance indicators'. He, of course, made it clear that these will be in addition to the usual financial and compliance audits being conducted by C&AG.

NOTES: CHAPTER-12

¹ Speech by Shri A.K. Roy at Shimla on 28 October 1961 to All India Association of Class-II officers of the IA&AD.

² Supplementary Audit Report (Civil) 1975-76: a brief discription of the contents of the audit review and related matters is available in R.K. Chandrasekharan's book.

³ Report of the Comptroller and Auditor General of India for the year ended March 2000, Union Government (Civil), Accounts of the Union Government, No.1 of 2001

⁴ Public Distribution System, Rural Employment Generation Programme and Inventory Management in Ordnance Services

⁵ AK Thakur who drafted this Performance Auditing Guidelines first as OSD and subsequently as DG (Performance Audit) was responsible for its implementation.

⁶ Practice Guide Series # 4—Planning Individual Performance Audit C&AG of India

⁷ Introduction in Practice Guide Series

⁸ Para 3.8.10 page 109, Chapter-8, C&AG's Manual of Standing Orders (Audit) 2002 Edition

⁹ Para 9.12—Performance Auditing Guidelines

¹⁰It has since been decided to wind up this Committee.

LIST OF KEY EVENTS

28 October 1961	C&AG A.K. Roy delivered inaugural speech at Shimla wherein he highlighted the need for performance audit due to change in pattern of Governmental expenditure.
6 June 1969	Government of Rajasthan (Finance and Investment Department) issued instructions to all secretaries, to Government, etc that AG can do efficiency-cum-performance audit.
23 June 1969	AG Rajasthan intimated Headquarters office that during discussion on 24 April, 1969, Chief Secretary accepted that Accountant General can do efficiency-cum-performance audit of schemes.
May 2004	C&AG issued performance auditing guidelines
July 2004	Performance Audit Group wrote to field offices to form Core Groups for performance audit.
11 August 2004	C&AG established a Co-ordination Committee for Performance Audit Management and Review. The Committee was also to serve as Peer Review Board.
30 May 2005	A check list of 60 points was issued by C&AG for assessment of Performance Audit Reports.
December 2005	Abridged check list was issued for Performance Audit Reports.
13 June 2006	Ministry of Finance Department of Economic Affairs Budget Division clarified that Performance Audit for which guidelines drawn by C&AG exist, is within the scope of Audit by C&AG.
2007	Supplementary Guidelines on Evidence gathering, Analysis and Evaluation techniques in Performance Audit and four practice guide series on specific subject of audit were issued by C&AG.

DOCUMENTS

1

Inaugural speech delivered by Shri A.K. Roy, Comptroller and Auditor General of India All India Association of Class II Officers of the Indian Audit & Accounts Department at Shimla on 28 October, 1961

I am happy to be in your midst to inaugurate the annual session of the Class II Officers' Association of the Indian Audit and Accounts Department. Our Constitution has placed on the Comptroller and Auditor General onerous duties and responsibilities in regard to the financial transactions of the Union and the States. In the discharge of these duties and responsibilities you play a very significant role. The training you receive and the atmosphere in which you grow up enable you not only to acquire high technical ability but also instill in you a high sense of financial integrity and public duty. It is no wonder, therefore, that trained personnel like you are in demand in all the departments of the Governments and Public Enterprises. You are one of the pillars on which the edifice of the Indian Audit and Accounts Department with its lofty traditions has been built and I have no doubt that your deliberations will aim at making the Department more efficient and useful in the service of the country.

2. In this age of almost bewildering scientific and technological developments, no institution can remain static. Every institution has to change and adapt itself to the changing conditions and needs of the social environment in which it functions. If it resists changes which become necessary due to changing social conditions, that would only lead to decay. It is, therefore, always necessary to examine our tools and techniques and see how far they are effective in the changing conditions of our country. We should not take it for granted that the procedure of accounting and audit that was evolved when the maintenance of law and order was the main function of the State would prove completely adequate in a Welfare State which has set itself to transform agricultural, industrial and social institutions and practices. It is now firmly established that maintenance of law and order is but one of the essential functions of the State : the State should and must organize its affairs in such a way that the resources of the country are suitably harnessed and exploited to maximize the net national product and secondly that the distribution of the national product be so arranged as to maximize the welfare of the Society as a whole. In order to achieve this end the State has necessarily to undertake multifarious activities with the result that efficient financial administration has become a matter of supreme importance. The re-orientation of State activities has been reflected in the rapid expansion of the State budgets and this has made it essential to devise an efficient system of control of expenditure. Broadly, this involves three types of control. The first is aimed at ensuring that the budgetary allocations are in fact spent on the purposes for which they are made available. The second aims at seeing that an allocation for an approved purpose is used as efficiently as possible. The third and broadest control seeks to ensure that the total available resources are put to the best possible use—in other words to find criteria for choosing between one purpose of allocation and another. Our Five Year plans

aim at formulating schemes and programmes keeping these objectives in view. If the Audit Department is to play a significant role in the matter and ensure that these controls are efficiently applied to serve the interest of the community as a whole, we shall have to adapt our techniques to the needs of the situation. There is no ready made answer and we shall have to feel our way through, perfect our tools on the basis of experience gained so as to find out the correct answers to all the problems which the multifarious financial transactions of a Welfare State pose.

3. The statutory audit which the Audit Department conduct is limited in scope and serves a limited purpose. It certifies that the accounts are arithmetically correct and within the appropriations made and also certifies about the legality and formality of the expenditure. But under modern conditions with the rapid increase in the functions of the State this limited purpose is not enough. Parliament is more interested to know that the money has been wisely spent with due regard to economy, that accepted plans and programmes are being efficiently executed and their purposes achieved. This broader aspect of discretionary audit is being gradually evolved and in modern context has assumed considerable importance. It is in this respect that the audit conducted by our Department differs very substantially from the audit conducted by the Public auditors. For our Department it is not enough to see that the expenditure is legal and regular; it is even more important to see that it has been incurred with wisdom, faithfulness and economy. It is not only necessary but essential that we should always keep in view the broader aspect of audit responsibility which is no less important—probably it is more important than the statutory audit that we conduct. We should not be bogged in more technicalities and should not miss the wood for the trees.

4. This leads to another important aspect of our duties, which is in reality a facet of the discretionary audit that we now conduct. This is performance audit. With the change in the pattern of governmental expenditure it is necessary that expenditure on different schemes should be examined in Audit to ascertain whether (i) such schemes are being executed and their operations conducted economically and (ii) they are producing the results expected of them. Delay in the execution of plans and programmes cost the nation much more than, for instance, an increase in the cost of execution by a few thousand rupees. It is not that the interest of economy should be sacrificed but it has to be balanced against other factors. It is the overall picture that really matters and not the individual components. It has to be seen how far the target dates have been achieved, how the final costs compare with the results obtained in respect of similar schemes in other fields in the public sector or the data available from the private sector or the landed cost of similar imported articles, how far the physical targets have been achieved and how far the financial returns which had been anticipated have been actually realized. Thus in the case of Irrigation-cum-Power projects it should be ascertained in the estimated supply of water for irrigation purposes and power has actually become available as a result of the completion of the Project and whether the actual utilization is to the extent anticipated. Similarly in respect of any training scheme it is relevant to see whether the anticipated number of persons are being trained every year in a technical centre and getting absorbed in the trade concerned to the extent

anticipated. Though the broad principles of performance audit can be laid down, the detailed technique will have to be evolved having regard to the nature of the scheme and the purpose which it is designed to serve. It will require some new thinking and initiative and its effectiveness will depend not only on the direction which comes from the top but also on the men who would be in intimate and day to day touch with the audit of the transactions of the various schemes and programmes. I have no doubt that the members of your Association with their varied experience and technical competence will make valuable contributions in evolving an efficient system of performance-cum-efficiency audit.

5. Till recently almost the entire attention and effort of our Department were concentrated on the audit of expenditure. The audit of receipts did not receive the attention that it deserves. There was also some constitutional limitation on the Comptroller and Auditor General in this regard. Non-assessment or under-assessment of revenue, however, affects the financial position of the Government in the same way as loss incurred in wasteful expenditure. Audit of receipts is thus as important as audit of expenditure. We have recently undertaken the audit of two main heads of receipts of the Central Government—Central Excise and Income-tax. Receipts under Customs are already subjected to audit for a pretty long period. In the State field action has been initiated to take up the audit of receipts of Sales Tax. This is an important new field of our activity and we shall have to build up our organization and perfect our tools. The members of your Association will no doubt make their valuable contributions to the matter.

6. In regard to our payment and accounting functions, it is necessary that we show human sympathy while dealing with personal claims of Government employees. It is not that in settling personal claims the rules that govern them should be thrown over board and settlement made without having regard to them. The rules whatever they may be are to be followed; if they are anachronistic as some of them are and serve no useful purpose, that should be brought to the notice of appropriate authorities for making necessary changes. But in many cases, within the ambit of the present rules, claims can be settled more expeditiously if we apply ourselves to the task with a little imagination and human sympathy. I know that in the majority of the cases the Audit Department is not responsible for delay in the settlement of personal claims and the fault lies somewhere else but, there is no doubt that in some cases the responsibility for the delay, at least for a part of it, can certainly be laid at our door. These cases of delayed settlement, however few, cast a shadow over the fine traditions of the Department. Before raising any objection to a case of personal claim—be it a case of pension, payment of provident fund money, issue of salary slip—the officer should ask himself : Is it imperative that the objection should be raised? Is it not possible to finalise it with the materials and information available? Supposing you were the claimant; would you be satisfied that Audit has validly rejected your claim? In the case particularly of a person retiring from Government service it should be remembered that he has a number of commitments to meet; if he does not get his pension and provident fund money quickly, he and his family might be put to great hardship. It is our bounden duty, so far as it lies in our power, not to cause avoidable hardships.

7. Though the role and functions of audit in a Democracy are of fundamental importance, unfortunately this position is not always appreciated by the Executive. Audit is sometimes treated as extraneous, hampering executive initiative and action, a necessary evil that is to be tolerated but not welcomed. This attitude has resulted in the unfortunate situation wherein audit queries and objections do not receive the attention they deserve leading to a continuation of the irregularities for long periods. The aim of audit is not one of fault finding; its criticisms are not merely directed to show up the deficiencies of departments. The criticisms are made so that irregularities of a similar nature may be avoided in future and where negligence, carelessness or dishonesty is proved, firm even ruthless action is taken against delinquent officers. The aim of audit scrutiny is to see that departments keep to the path of financial rectitude, that resources of the State are efficiently utilized with due regard to the consideration of economy. The aim of any clean and efficient administration must be the same and as such it should welcome audit and give due considerations to its suggestions. The role of audit and administration is complementary to each other and this should be recognized and acted upon if administration is to function smoothly and efficiently. The more faithfully and correctly we discharge our functions, the greater the chance that correct traditions will be established.

8. In your Conference, you will no doubt discuss, in addition to technical problems relating to your work, problems of personal nature as well—i.e. matters relating to conditions of service etc. In a dynamic society matters relating to conditions of service of the employees will need periodical examination so that the necessary adjustments can be made to keep pace with the changing requirements. The entire question regarding pay scales and other allied matters has been thoroughly examined only recently by the Pay Commission and almost all its recommendations having a financial bearing have been or are being implemented. There can therefore be no occasion now for reconsidering any major issues afresh. It may, however, be that some small adjustments here and there are necessary and on such matters any suggestions made by you will always receive sympathetic consideration.

9. The task that the Audit Department has to perform requires not only a high degree of technical skill but it requires that its members should be inspired by a high sense of duty and possess disciplined minds capable of sustained effort and concentrated attention in analyzing complicated financial transactions. This sense of discipline should assiduously be fostered and the members of your Association play a very significant role in the matter. One trouble with us today is that so many people who stand up vigorously for their rights are not equally conscious of their duties and obligations. The members of your Association come into daily contact with the staff of the department in the discharge of audit and accounting functions. By the guidance you provide and the example you set, you have immense opportunities of building up a body of men and women who would take pride in their work and feel that they are doing something very useful for the community and the country. Let it not be said of the Audit Department that its Officers and Staff failed to serve the country devotedly, conscientiously and to the best of their abilities.

10. I have done. It remains only for me to thank you for inviting me to inaugurate this annual session and to wish you all success. I shall take note of your deliberations with interest and I have no doubt that they will be conducted in a spirit worthy of the Department to which you belong.

2

No. F. 24 (1)/E.P.A./Vol. III/1672

3 June, 1969

The Accountant General,
Rajasthan,
Jaipur

The Comptroller & Auditor General of India,
Bahadur Shah Zafar Marg,
NEW DELHI.

Sub.: Efficiency-cum-performance audit of Schemes.

Sir,

I am to invite a reference to your office Circular letter No. 65-Codes/68-61.II dated 1.12.62 on the above subject.

In pursuance of the instructions contained therein heads of departments in this State were asked to furnish an annual review of the Schemes undertaken by them. On a doubt being raised by the Agriculture Department whether the efficiency-cum-performance audit of schemes came within the purview of Audit, Finance Department in consultation with Law Department, held that Indian Audit Department had no legal status to audit efficiency and performance of the Government and advised the Director of Agriculture accordingly in September 1964, who in turn started withholding production of records relating to Projects on the plea that these could not be furnished for purposes of efficiency audit. The matter had since then been under vigorous pursuance with the State Government. As a result of the discussion held between the Chief Secretary (Shri R.D. Mathur) and Accountant General on 24 April 1969, the Government have now accepted the position that the Accountant General can do efficiency-cum-performance audit of schemes undertaken by various departments of the Government according to the instructions issued by the Comptroller and Auditor General of India in this regard. A copy of the office memo issued by the Finance Department in this connection is sent herewith for information and record

Yours faithfully,

SD/-

(Kulwant Singh)

Accountant General
Rajasthan,
Jaipur

GOVERNMENT OF RAJASTHAN
FINANCE (ACCOUNTS & INVESTMENT) DEPARTMENT

No. F.15(31) FD/A&I/63

Dated Jaipur, the 6 June, 1969

OFFICE MEMORANDUM

Sub.: Efficiency-cum-Performance Audit of scheme.

The matter whether Accountant General, Rajasthan, Jaipur can do efficiency-cum-performance audit or not had been under consideration of the Government for some time. It has been examined at length and it has been decided that Accountant General can do efficiency-cum-Performance Audit of schemes undertaken by various departments of Government according to the instructions issued by the Comptroller and Auditor General of India in this regard.

It is therefore enjoined upon all concerned authorities to send the annual reviews regularly to the office of Accountant General.

SD/-

(ARUN KUMAR)

Deputy Secretary to the Government

Copy forwarded to:-

1. All Secretaries to Government
2. All Private Secretaries to Ministers/State Ministers and Deputy Ministers.
3. All Heads of Departments.
4. Accountant General, Rajasthan, Jaipur with 100 spare copies.
5. O&M (Codification) with 5 spare copies.
6. All Departments/Sections of the Secretariat.
7. All Treasury Officers.

Copy also forwarded to:-

1. The Secretary, Rajasthan Legislative Assembly, Jaipur
2. The Secretary, Rajasthan Public Service Commission, Ajmer.
3. The Register, Rajasthan High Court, Jodhpur

SD/-

(ARUN KUMAR)

Deputy Secretary to Government

3

Office of the
Comptroller & Auditor General
of India
Date 30 May, 2005

Sub.: Checklist for assessment of Performance Audit Reports

Sir/Madam

Please find enclosed a checklist for assessment of performance audit reports. These parameters would assist self-assessment of the quality of performance audit reports. The parameters are almost entirely product (report)-focused. The assurance for appropriate procedures applied to the performance audits is to be provided in the form of an assurance memo accompanying all performance audit reports. The checklist is consistent with the Performance Auditing Guidelines.

2. Detailed quality management and control features to promote high quality performance audit have been incorporated in the Performance Auditing Guidelines. These quality management features cover the procedures, viz selection of subjects, audit implementation guidelines, field audit procedures, evidence –gathering and analysis techniques, documentation standards, besides audit management process etc. as well as for the product viz. performance audit reports and the outcome (value addition) of performance audit(s). Most of them are under consolidation with help of supplementary guidelines on ‘quality management framework of performance audit’, various ‘assurance memo forms’ and ‘value-addition –estimation and evaluation’.

3. The standards for assessment of the performance audit reports have been grouped under (A) Content; (B) form; and (C) assurance memo for adherence to the Guidelines. Some of the parameters may not be relevant for certain types of performance audits (for example, revenue audit), which may be ignored as ‘not applicable’ or explained; as the case may be. Flow chart (s), if not made for the performance audits undertaken hitherto, may be used in future.

4. It has been decided that all performance audit reports will be put up to C&AG by the report controlling wings in the headquarters office for approval along with the checklist-duly filled in and reasons for deviations, if any, on the file.

It is requested that acknowledgment of this letter along with the enclosure consisting of six pages be confirmed on e-mail address senP@cag.gov.in/ojhaak@cag.gov.in or through fax.

Yours faithfully

Encl: As above

Sd/-
(A.K. Thakur)
Director General (PA)

Copy (along with enclosure):

PD(SCS), PD (RS), PD(INDT), PD(RC), PD (Railways), PD (Comml), PD (AB), PD (DT), Director (R.A. Wing), AC (C) , Director (PRI Audit), Director (DT-I), Director (RS), Director (DT-II), Director (CX), Director (SRA), Director (Customs), Deputy Director (CS-II).

Sd/
Director General (PA)

Copy for information (along with enclosure)
Directors General, NAAA & iCISA/PDs(RTI)

Director General(PA)

Copy(along with enclosure) for kind information
DAI (C) /ADAI (RC)/ADAI (RS)/ADAI (C&SCS)/ADAI(RA)

Director General (PA)

RECOMMENDATIONS OF XXIII ACCOUNTANTS GENERAL
CONFERENCE
20-22 SEPTEMBER 2005

GROUP -I

Sub-theme (ii) Implementing performance audit guidelines Performance Audit

1. Development of audit criteria

- ❖ Broad audit criteria based on performance indicators need to be developed upfront.
- ❖ For this purpose, groups should be constituted at the headquarters level by associating field AsG and persons experienced in the formulation, implementation and evaluation of governmental schemes sector-wise both from within the Government and outside.
- ❖ Based on such broad criteria, individual offices could develop more detailed or refined criteria taking into account regional or schematic/programmatic specifics once a particular topic is selected.
- ❖ Audit criteria developed by field offices could be shared with other field offices perhaps through the department's intranet.

2. Definition of parameters

- ❖ Performance audit is not a random assortment of various financial and regularity audit findings but a comprehensive assessment of the economy, efficiency and effectiveness of an activity.
- ❖ It may not always be possible to pre-define conclusively the parameters of Performance Audit.
- ❖ Once guidelines including Issue Analysis and Study Design Matrix are prepared by the field office and approved by headquarters, the field offices should be allowed complete flexibility to accommodate relevant aspects which may come to light during the course of the audit exercise.
- ❖ There could be a peer assessment mechanism involving not only departmental officers but also outside experts and /or representatives

from other concerned branches of government to appraise an ongoing performance audit both midway so as to indicative correctives as well as its conclusion to assess its findings.

Techniques of evidence gathering

- ❖ Performance audits require evidence gathering beyond mere scrutiny of records and documents. Techniques of impact evaluation, beneficiary surveys, physical inspection and expert guidance may be encouraged to arrive at a realistic assessment.
- ❖ It may thus be necessary to engage outside experts or consultants to assist the audit exercise depending on the subject chosen for the audit appraisal. There may be need for agencies to conduct surveys to collect supporting data to assess beneficiary impact.

Simplification of procedures

- ❖ As the level of documentation required in a performance audit process may be something new for our audit parties, it is necessary that procedure are introduced keeping in view their capacities to understand, absorb and implement them.
- ❖ It is also essential that assessments of performance audit are based not just on theoretical precepts but take full cognizance of actual operational environment.
- ❖ Procedures and documentation prescribed for the purpose of assessment of Performance Audit need to be simplified. Issue analysis and design matrices should be kept simple and the checklist prescribed should be kept to the minimum necessary to gain an assurance as to the quality, credibility and sustainability of the audit findings.
- ❖ It could be left to the field AG to assess the quality of the performance audit conducted with reference to the check list. It need not be reported to Headquarters.
- ❖ At this stage, there is no need for any further guidelines. The existing Performance Audit Guidelines are comprehensive enough and serve the intended purpose. The need today is for the audit parties to internalize the guidelines in their functioning.

Interaction with Auditee

- ❖ To enable an effective performance audit, it is necessary to ensure production of records
- ❖ MOS Finance in his inaugural address stated that the Finance Ministry is open to addressing any limitations in the rules and procedures for securing compliance to C&AG's Audit para or to his request for documents and information.
- ❖ We could propose amendment of the C&AG's (DPC) Act to prescribing a time frame for production of records and information requisitioned by audit.

- ❖ We may take up with Government the issue of non-production of records by departmental authorities. Such non-production amounts to a violation of statutory provisions and should constitute an actionable offence under the Conduct Rules. v Regular interaction should be organized by field offices with the higher executive with the participation of headquarters to sensitize them as to requirements of performance audit.
- ❖ Compliance to audit observations should also constitute a parameter for annual appraisals of all expenditure incurring and revenue collecting authorities.

Reporting of Performance Audit

- ❖ Each and every performance audit need not necessarily be a stand alone report. This should depend upon the volume of material and the contemporary relevance or importance of the topic.

Allocation of time for Performance Audit

- ❖ It may not be feasible to devote 50 per cent of audit time to performance audits. However, as we shift to CO-wise audit from DDO audit, the emphasis would in any case be more on overall appraisals rather than on detection of individual aberration.
- ❖ The number of performance audits to be taken up should be decided on the basis of availability of trained manpower and time and increase gradually as requisite resources become available.
- ❖ Timing of the All India performance audits need to be tailored into with the Audit Plans as well as time schedule of finalization of State Audit Reports. They have to be decided and guidelines approved well in time.

Pursuance of findings of performance audits

- ❖ Through organized inter-actions with Chairpersons of PACs/COPUs, we should attempt to see that performance audits are discussed on priority basis.
- ❖ Copies of performance audit reports could be sent demi-officially to the Chief Minister, Finance Minister and the Minister of administrative department concerned so as to bring the audit findings to their personal attention.

Training of personnel

- ❖ Training efforts should be linked with actual taking up of performance audits. Workshops on conduct of performance audits could be organized as a prelude to the taking up of a particular performance audit
- ❖ Training exercise should not be in isolation but be linked to the taking up of performance audits.

Encouraging good Performance Audits

- ❖ Quality standards should be recognized and the performance audits which are well done and meet quality standards audit party concerned applauded. The audit party could be recognized by headquarters on the recommendations of Pr. AG/AG concerned.
- ❖ Personnel management practices should be such as to send clear messages that while good work will be recognized, failure to discharge assigned responsibilities may attract deterrent administrative or disciplinary action.

GLOSSARY OF ABBREVIATIONS

AGCWM	Accountant General, Commerce, Works & Miscellaneous
CSS	Centrally Sponsored Scheme
ECPA	Efficiency-cum-Performance Audit
MPLAD	Member of Parliament Local Area Development Scheme
NHAI	National Highways Authority of India
PSU	Public Sector Undertaking
RTIs	Regional Training Institutes
VFM	Value for Money

Audit of Autonomous Bodies

Audit of Autonomous Bodies can aptly be regarded as a delicate audit. The law and the C&AG's mandate concerning this audit support this assertion. Back in 1984, the then C&AG, Gian Prakash emphasized that there was a need to ensure that audit of autonomous bodies did not become a matter of routine. He was also of the view that this area was quite sensitive. But he also laid down the ruling audit philosophy in conducting this audit. His emphasis was that autonomous bodies were 'not to be treated as sacred cows' Audit should ensure that these bodies were properly held accountable for the public funds placed at their disposal and they achieved the objectives with which they were set up or programmes entrusted to them. He, therefore, desired that audit should not take a fragmented view of these institutions but reflect certain sensitivity to the aspiration of the common citizen.

Audit of autonomous bodies is provided for in the C&AG's (DPC) Act, 1971 under sections 14, 15, 19 and 20. The expression 'autonomous body' in this context refers to two types of entities. One: those autonomous bodies that are established by or under law made by Parliament and which have a specific provision for audit by the C&AG of India. In such cases, the C&AG is duty bound to take up these institutions for audit under Section 19(2) of the Act. Two: Section 19(3) is regarding the entrustment of audit of State autonomous bodies to C&AG after consultation with him. Under section 20(1) of the Act, the President or the Governor of a State or Administrator of a Union Territory having a Legislative Assembly can entrust to the C&AG the audit of accounts of certain bodies and authorities that are not covered by section 19 or by any law made by legislature after consultation with the C&AG. In the reverse scenario, sub-section 2 of section 20 gives authority to

the C&AG to propose to the President or the Governor as the case may be to authorize him to undertake audit of accounts of any body or authority not entrusted to him if he is of the view that such audit is necessary, in public interest, because of substantial investment or advances made to such body or authority by the Central/ State/ Union Territory Government.

The term 'bodies or authorities' is not defined in the Act or in the Constitution. However, based on the definition provided by Attorney General, and as given in the Regulations these will mean as below:

Body: Body is interpreted to mean an aggregate of persons, whether incorporated or unincorporated. The expression would, therefore, include institutions or organizations set up as an autonomous organization under specific statutes or as a society registered under the Societies Registration Act, 1860 or Indian Trust Act, 1882 or any other statutes, voluntary organizations, non-government organizations, urban or rural local self government institutions, co-operative societies, societies or clubs, etc.¹

Authority: Authority is interpreted to mean a person or body exercising power or command, vested in it by virtue of provisions in the Constitution or Law passed by Parliament or legislature.

Broadly, therefore, these autonomous bodies may be defined as bodies or authorities established by the Government and having a distinct legal existence. These are broadly independent or autonomous in their day-to-day functioning but concerned Ministries/ Departments have significant control over these bodies in matters of general direction and supervision. CAG's revised Manual of Instructions² on Autonomous Bodies has clarified that 'the terms 'body' and 'authority' used in the Act and indeed in the Constitution have a wide connotation and include a company or corporation'. It would mean that if a company or corporation is not covered by Section 19 (1), 19 (2), or 19 (3) of the Act it is open, strictly speaking, to take up audit under Section 14 (1), 14 (2) or 20 (2), as the case may be, subject to conditions specified in each section being satisfied.

C&AG acts as sole auditor in respect of some of these bodies or authorities (under section 19 and 20) and in that capacity, he conducts financial audit of their annual accounts and issues audit report and certification on financial statements. Besides, he also conducts compliance and VFM audits of these bodies and authorities.

The other group of autonomous bodies that fall under the purview of C&AG's audit are bodies or authorities which are 'substantially financed' by grants or loans from the Union Government or the State Government or Union Territory Government. These bodies are audited under the provision of section 14 of the Act. Mostly, the chartered accountants conduct primary audit of these bodies and C&AG's audit is in the nature of compliance audit or value for money audit and does not involve audit of annual accounts and their certification.

Section 14 (1) confers on the C&AG the right and obligation to audit all receipts and expenditures of such bodies or authorities and report on results of his audit. The condition for such audit is that a body or authority is substantially financed by grants or loans from the Consolidated Fund of India or of a State or Union Territory. The expression 'substantially financed' has been defined both in terms of quantum of grants and loans as well as with reference to the percentage of this to the total expenditure of that body.

Section 14 (2), which was added in 1984 to the Act, allows the C&AG to audit all receipts and expenditure of a body or authority provided it has received a grant or loan of Rs.1 crore and above (irrespective of the fact whether such grant or loan is 75 per cent or more of the total expenditure of the body or authority) during a financial year. C&AG's audit, however, is further subject to the condition that in such cases, previous approval of the President or the Governor of a State or the Administrator of the Union Territory is obtained. Section 14(2) was brought in the Act specifically from the materiality angle of loan and grant given to a body or authority irrespective of its share in the total expenditure or receipts of the body or authority.

Section 14 (3) of the Act grants C&AG the right to conduct audit of a body or authority for a further period of two years even if in those two years the eligibility conditions for grant of audit to the C&AG are not fulfilled.

Section 15 of the Act explains C&AG's responsibilities in regard to grants or loans given to authorities and bodies for specific purpose. His responsibilities relate to the scrutiny of the procedure by which the sanctioning authority satisfies itself as to the fulfillment of the conditions subject to which grants or loans were given to such authority or body (it should not be a foreign State or International organization). For this purpose, C&AG has been given the right of access to the books and accounts of such authority or

body. However, this section has also inbuilt restrictive provisions for C&AG.

As on 31 March 2005, 253 Central autonomous bodies were to be audited by the C&AG as the sole auditor under section 19(2) or 20 (1) of the Act. Essentially, all these autonomous bodies are non-commercial and almost wholly funded by the Government. In fact, these could be classified as extended arms of the Government. Out of these 253 autonomous bodies, funding data available for 242 autonomous bodies for the year 2004–05 shows that they were paid Rs. 12290.67 crore as grants-in-aid and Rs.90.54 crore as loans. Ministry of Human Resource Development was the biggest nodal agency, having disbursed Rs. 5600.48 crore or 45.57% of the total grants for disbursement to 91 educational institutions. This was followed by Ministry of Health and Family Welfare with disbursement of Rs. 870.35 crore (7.08 per cent) and Ministry of Commerce with disbursement of Rs. 340.35 crore (2.77 per cent). Ministry of Culture was also a substantial fund provider with funding of Rs. 173.97 crore. During 2004–05, there were 198 Central autonomous bodies which were substantially financed by grants/loans by Union Government and were, therefore, subject to C&AG's audit under section 14. These bodies received grants/loans amounting to Rs. 3,346.68 crore from the Union Government. It will be pertinent to mention here that the bodies and authorities coming under section 14 are difficult to list out entirely, and therefore, the figures of disbursement of funds to them may not be complete. Some of these aspects are dealt with separately in the sections below.

AUDIT APPROACH

Audit approach, procedure, etc. relating to the audit of autonomous bodies was contained in the Manual of Instructions for Audit of Autonomous Bodies issued by C&AG in 1983. Two years later, in April 1985, K.S. Sastry, then Director of Audit, in his D.O. letter to Heads of Audit Offices, detailed a comprehensive set of instructions and policy decisions on the subject. In August 1991, Headquarters brought out a comprehensive Compendium of Amendments/Instructions to the Manual of Instructions for Audit of Autonomous Bodies which contained all important instructions issued since 1984 and was intended as a supplement to the Manual issued in 1983. This Compendium *inter alia* also included the important orders contained in the set of instructions issued in April 1985. Together,

these two documents constituted for a long time the source book of information for the audit of autonomous bodies as fortified by periodical instructions till a new Manual was issued very recently in July 2007. This was a thoroughly revamped, exhaustive Manual. The contents of this Manual are discussed in subsequent section.

The 1985 letter sets out guidelines to the Accountants General for taking up of audit under section 14(2) or 20(2). As a general thumb-rule, it was suggested that there should be a professional approach to taking up these audits and wherever adequate arrangement already existed for audit, C&AG's audit need not be fostered; conversely, where such arrangements were inadequate, public audit had a moral responsibility to draw the attention of appropriate authorities 'and, if need be and permissible, take up the audit'.

An important requirement provided in this letter was that whenever such an audit is proposed to be undertaken by the AG under the relevant sections of the Act, a personal discussion must be held by the AG with the Finance Secretary and Secretary of the concerned Department before sending the formal proposal. This would avoid a situation where a proposal of the C&AG for entrustment of the audit is accepted by the Government.

Applicability of Section 14(1) or 14(2) of the Act to institutions receiving grants or loans through an autonomous body which is itself financed by Government has been an issue. The 1985 letter said that the legal position in such cases was not clear; but went on to say that where 'these bodies act as mere agents of Government for remitting the grant or loan provided by Government, then the recipient body would be subject to audit under section 14(1) or 14(2) as the case may be'. In September 1987, C&AG ruled that in terms of section 16 of the UGC Act, 1956, fund of the Commission is a statutory fund which cannot be treated as grant paid out of Consolidated Fund of India or State and would not attract provisions of section 14 of DPC Act.

To make the position clear, in 1999 an amendment was suggested according to which the C&AG was to be made responsible for audit of a body or authority which receives more than Rs.75 lakh by way of grant or loan from another body or authority substantially financed by State/ Centre/ Union Territory Government. A draft note to the Cabinet suggesting the above amendment was proposed by the Government which the C&AG concurred in January 2004.

C&AG's decision in case of UGC was that he would not take up audit of grantee institutions to which funds are disbursed by the UGC. However, on reconsideration of the entire issue, the C&AG in June 2007 took the stand that there was, in fact, no need for an amendment to the Act, as it should be possible to audit these grantee institutions under the provisions of the existing Act.

In a letter to Joint Secretary and Government Counsel, Ministry of Law and Justice, in June 2007, the Director General (Audit) made the following substantive reasoning in this regard:

'In fact, an amendment to the Act is not really called for. The spirit of Section 14 is quite clear that substantial grants and loans from the Government to any body or authority should be audited. This right of the C&AG to audit the grants does not and should not get infringed just because grants are routed through some other authority. This is specially so as there is no value addition by the immediate grantee. The final destination of the grants as well as the terms and conditions are clearly known even when these grants are released from the Consolidated Fund. Thus the spirit of the Act clearly allows for such audits.³⁷

In view of the above, the letter requested a clarification from Ministry 'to finally settle the issue'.

MANUAL OF INSTRUCTIONS FOR AUDIT OF AUTONOMOUS BODIES

Since a series of instructions had been issued after printing of Manual of Instructions for Audit of Autonomous Bodies in 1983 and supplemented by a Compendium issued in 1991, C&AG brought out second edition of the Manual of Instructions for Audit of Autonomous Bodies in 2007 incorporating instructions issued from time to time and best audit practices consistent with the principles underlying the Uniform Format of Accounts prescribed by the Government of India. The present edition has been prepared in two volumes. Volume I includes the legal framework for the audit of autonomous bodies, principles of financial audit of autonomous bodies, quality control in audit process and other matters. Volume II contains the Uniform Format of Accounts and Common framework for Financial Reporting for Port Trusts.

The new Manual has the merit of being not only exhaustive in its coverage of the various aspects relating to the audit of autonomous bodies but, and more importantly it has set out very

clearly in simple language provisions relating to the following major areas:

- ❖ Part I contains legal frame work and related procedures
- ❖ Part II contains instructions on financial audit of autonomous bodies and
- ❖ Part III which is a major addition compared to the previous manual contains instructions on performance audit , compliance audit, audit quality management framework, audit of autonomous bodies in a computerized environment and other related matters.

FORMAT OF ACCOUNTS AND RELATED MATTERS

An important development has been that a committee of experts headed by CGA was appointed by the Government to prepare a common format of accounts applicable to all the Central autonomous bodies. This was cleared by the C&AG in March 2002 with a rider that those autonomous bodies that were created by an Act of Parliament and where C&AG was the sole auditor will not be covered by this accounting format and in their case separate accounting format already approved would prevail. Recently, on the suggestion of C&AG, this position has changed 'for bringing about uniformity and transparency in the accounts' and Government have now notified that the common accounting format would be applicable to all the Central autonomous bodies⁴. As regards major port trusts separate accounting format has been prescribed by the Ministry of Shipping (Ports wing) in consultation with the C&AG. This new accounting framework for financial reporting is applicable from the fiscal year 2003-04. The State autonomous bodies are not bound by the common format prescribed for the Central autonomous bodies.

The April 1985 letter of Headquarters cited, discussed the approach of the Department towards the appointment of a chartered accountant as primary auditor of a body or authority. The letter stated that in the event of a chartered accountant being the primary auditor of a body or authority, his appointment would be on C&AG's advice and he would conduct audit as per guidelines issued by C&AG's office. Audited accounts and audit report thereon were required to be submitted to C&AG who was to have right to conduct test check of the accounts. C&AG's observations in such cases were to be in the form of comments on accounts audited by chartered accountant. That meant that C&AG was not

to certify accounts, but to issue comments in the same manner as is done in case of government companies under the Companies Act. There was to be no objection to the inclusion of this position in the rules, regulations or articles of association of the body or authority. Further, the conditions of grant, loan or investment may stipulate that the auditor for certification of accounts 'may be required to be appointed on the advice of the C&AG of India'. The letter went so far as to say that even if the audit of any body or authority is not entrusted to C&AG, there would be no objection to C&AG recommending the appointment of a chartered accountant as auditor.

The guidelines further added that C&AG would not insist on being the sole auditor for autonomous bodies unless there was substantial surplus staff. Conversely, if there was a shortage of staff, the AG could in rare cases insist on the appointment of a primary auditor.

These provisions, however, it seems, remained mostly on paper, and were not put to practice. Enquiries reveal that commercial audit wings were not asked for names from the panel of chartered accountants maintained by them for this purpose.

REPORTING AUDIT FINDINGS

Periodicity of Audit: Where the C&AG is the sole auditor and, therefore, has the responsibility of certification of accounts under section 19(2), 19(3) or 20(1), this duty has to be carried out regularly every year as clarified by the Headquarters on 17 March 1992. According to Manual of Instructions for Audit of Autonomous Bodies, (1983 Edition Para 9.03), rotational audit of branch units was to be carried out in such a way that no branch unit escapes from audit altogether. Headquarters circular dated 29 April 1985 laid down that it would suffice if the accounts of institutions are audited annually and audit of transactions of individual units was done once in three years. It was also decided that audit under section 14, 19 & 20 of the Act would be done on annual basis except by offices which had shortage of staff. However, the 1992 instructions made it abundantly clear that the certification audit would be done every year on priority basis. Propriety audit under section 14, 19 and 20 was to be conducted in cycles ensuring that all autonomous bodies were covered once in three years or less. Major autonomous bodies viz. port trusts, UGC etc. were to be subjected to propriety audit every year.

Another important instruction related to the contents of SAR. It was clarified that SAR in respect of Section 19 and 20 of the Act, should contain only 'comments on accounts' and the then prevailing system of 'including all the audit points' in the SAR was to be discontinued. The rationale of delinking the audit comments from the SAR was clear: the emphasis in this situation will be more on the 'comments on accounts' per se, in line with the commercial audit pattern. Since then, more refinements have taken place as regards the SAR. There are instructions now that the important comments on the accounts contained in SAR should be included in the audit certificate itself as 'significant comments'. In the revised Manual (July 2007 Edition), Chapter 12 on Compliance Audit has emphasized that a risk-based approach should be adopted to select entities for compliance audit and more frequent and intensive audit for the 'very high risk category' entities should be undertaken (para 12.06).

Certification of Accounts: C&AG issues an audit certificate along with his Audit Report⁵ containing 'comments on accounts' in respect of all entities audited under Section 19(2), 19(3) and Section 20. The format of audit certificate that was in use since 1989, was revised in April 2004 to include significant audit findings in the body of the certificate. In October 2005, Commercial audit wing modified the audit certificate to be issued in respect of statutory corporations where C&AG is the sole auditor based on Auditing and Assurance Standards (28) of the Institute of Chartered Accountants of India. With a view to having uniformity in audit certificate to be issued in case of all bodies, authorities, corporations or societies subject to C&AG's sole audit, format of audit certificate was thoroughly revised in 2006 by the Autonomous Bodies Wing. All the Audit Reports containing comments on accounts and forming part of audit certificates are placed before Parliament/ legislature in respect of entities audited under Section 19(2) and 19 (3). However in case of audit under Section 20, the Audit Reports are placed before Parliament/ legislature only if the accounts of the said entity are to be placed before Parliament/ legislature as per the statute governing the entity or the recommendations of the appropriate committee of the Parliament/legislature. In each case, it has to be ascertained from the Government concerned. All SARs to be placed before Parliament/ legislature require clearance by the office of C&AG.

INSTRUCTIONS ON SEPARATE AUDIT REPORTS IN THE
NEW MANUAL

The new Manual of July 2007 has comprehensively dealt with the contents of Separate Audit Reports. It lays down the principle that no precise rules can be made to guide auditors in determining what facts are of substantial importance to warrant a reference in the Separate Audit Report and what facts are not so important. These are to be determined by individual auditors. It goes on to detail the guiding principles on the kind of comments on accounts which should find place in SAR on the basis of attributes of materiality and significance. These include the following:

- ❖ non-compliance of accounting standards or instructions contained in the Common Format of Accounts;
- ❖ Porrections/rectifications/revisions carried out at the instance of audit;
- ❖ cases where assurances for rectifications are not fulfilled after a couple of years;
- ❖ where corrective measures have been taken by the management in relation to matters brought to their attention by the auditors, it may still be necessary for the auditors to report certain cases to the governing body; for example, cases relating to fraud/ embezzlement committed but compensated by officials; and
- ❖ deficiencies in system of financial control and maintenance of financial record.

Other instructions contained in the Manual are regarding placement of the comments in the SAR.

Management Letters: Another good strategy prescribed in the new Manual is issue of management letter in addition to SAR/audit certificate. The management letter is issued to the management and contains a detailed report on the procedures, systems, weaknesses in internal control etc. which are of importance to the management and which would enable them to exercise a better control over the operations of the body. The Manual has also given, by way of illustration, the nature of objections which can be included in the management letter. These include errors in annual accounts not considered material, deficiencies in the accounting records, systems and control alongwith audit recommendations for their improvement, non-compliance with financial control/ internal control procedures etc. The Management letter is to be addressed to the chief executive officer of the autonomous body.

It is also enjoined that a mention must be made in the SAR about the issue of a separate management letter. The management letter is to be issued only at the time of issue of final SAR. A copy of the management letter is also to be sent to the headquarters.

In addition to reporting results of financial audit to Parliament/ legislature, C&AG also reports major audit findings arising from compliance audit and performance audit through the Audit Reports prepared under the provisions of Article 151 of the Constitution. Prior to 2006, C&AG was bringing out an exclusive report on audit of autonomous bodies. The report was titled 'Report of the C&AG for the year ended Union Government (Civil) Autonomous Bodies'. Since 2006, there are two Audit Reports on Autonomous Bodies—one containing audit findings arising from compliance (transactions) audit and the other on performance audit in respect of Central autonomous bodies audited under Sections 19(2), 20(1) and 14. Even though Section 15 does not contain any provision for reporting the results of audit of loans or grants by C&AG, it has been clarified that since the grants /loans constitute expenditure out of Consolidated Fund, reporting thereon is automatic in terms of Section 13 of the Act.

The results of audit in respect of autonomous bodies of States audited under Section 14, 19(3) and 20(1) are incorporated in the C&AG's Report (Civil) of respective States. These are generally single volume Report containing audit findings on both transaction (compliance) audit as well as performance audit.

Inspection reports on compliance (transaction) audit of Central autonomous bodies are finalized and issued by the field audit offices. Important paras that merit a place in C&AG's Audit Report are proposed to Headquarters in the usual manner for inclusion in the Central Audit Report on Autonomous Bodies signed by the DGACR. DGACR acts as the nodal authority for the draft paras pertaining to autonomous bodies. IR paras relating to State autonomous bodies are sent by respective State AsG and processed similarly at Headquarters for inclusion in the Civil Audit Report of respective State.

ISSUES OF MANDATE ETC.

In the initial phase of the audit of autonomous bodies, a number of issues cropped up -mostly concerning the nature, scope and even authority of C&AG to take up this audit. Certain state governments expressed reservations about C&AG taking up audit

of bodies and authorities due to the interpretation of words 'subject to the provisions of any law for the time being in force applicable to the body and authority' appearing in Section 14 (1) of the Act. While Audit view was (and this was based on the advice of the Law Ministry) that if the relevant statute under which the body or authority was set up did not expressly exclude and prohibit audit by the C&AG, he had a right to audit the institution under the section concerned, some of the State Governments (there were six such States) were of the view that since in their statute creating the body or authority, audit was entrusted to some other authority for example, Examiner of Local Funds, by implication the C&AG's audit was to be excluded. Their interpretation of the term 'subject to the provisions of any law' was that once State law had provided for audit by some other authority, it automatically excluded audit by the C&AG. Interestingly, both the interpretations were based on two different rulings given by the Hon'ble Supreme Court.

Based on the C&AG's suggestion in 1980, the Act was amended in 1984 and the amendment became effective from the accounting year 1983-84. This new law made it clear that no law of State legislature can supersede or abridge the duties and powers of the C&AG prescribed by Parliament. In view of this, the clause 'subject to any law for the time being in force' occurring in section 14(1) was interpreted to mean that C&AG's audit will co-exist with and complement the audit arrangements that may be specified in State law.

In June 1983, the Indian Institute of Technology (IIT), New Delhi raised a doubt regarding the right of C&AG to conduct efficiency-cum-performance review of that institution. The question was eventually examined by Law Ministry. IIT was of the view that under the Institute of Technology Act 1961, only the Visitor was empowered to direct such a review to be done. The Law Ministry gave the following opinion:

'Under section 23(3) of the Institute of Technology Act 1961, the C&AG of India, inter-alia, has the same right, privileges etc. in auditing the accounts of the Institute as he has in connection with the audit of the Government accounts'. The opinion also mentioned about C&AG's powers to make regulations for carrying into effect the provisions of the Act in so far as they relate to the scope and extent of audit and concluded that in exercise of those powers, 'the C&AG had issued standing orders and under paragraph 56(1) of MSO (T)

C&AG also had a right to examine how far the agency or authority is discharging its responsibilities in regard to the various schemes undertaken by it.' The Law Ministry therefore concluded that 'C&AG is empowered to undertake efficiency cum performance audit of Government accounts and therefore under section 23 of Indian Institute of Technology Act, the C&AG of India is entitled to undertake efficiency cum performance audit of Institute's accounts even independently of the directions of PAC'.

The Ministry of Education and Culture in their letter of May 1983 to the Registrar of Indian Institute of Technology and copy endorsed to the Principal Director of Audit, Central Revenues clarified that the Law Ministry were consulted and they had clearly opined that 'C&AG is empowered to undertake efficiency cum performance audit of Indian Institute of Technology'.

There were, however, certain other issues, which needed changes in the existing provisions of the Act to make the C&AG's mandate really effective. One such issue related to the existing wording of Section 14(1) which explains the expression 'substantial' to mean grant or loan from Govt. not less than Rs.25 lakh and the amount of such grant or loan not being less than 75 per cent of total expenditure of that body or authority. The difficulty here comes in ascertaining as to whether grant or loan to the institutions concerned was 75 per cent or more of their expenditure. The source for information on this point is often blurred. The institutions are not obliged to provide this information. In the situation, a number of such institutions, some even completely funded by Govt., escape audit. The XIX Accountants General Conference held in November 1996 deliberated on this issue and suggested amendment to the Act to remedy the problem.

The C&AG, accepting the viewpoint, addressed the Finance Minister in January 1997, suggesting that explanation below Section 14(1) be amended and all institutions in receipt of substantial amount be subjected to audit. The substantial amount could be defined to mean Rs.50 lakh or more. This will mean that the provisions regarding the grant being a certain percentage of the total expenditure will no more remain on the statute. A formal proposal from the C&AG to Expenditure Secretary for draft amendment was sent in March 1999, which included amendment of Section 14 which the C&AG termed as of some urgency 'so as to ensure normal expectations concerning accountability in the matter

of utilization of public money transferred to bodies or authorities for the purpose of development of socio-economic infrastructure and/ or improving the quality of life of the common man'. After some correspondence, however, a revised draft amendment, which proposed the floor limit of grant or loan of Rs.1 crore or more to be made subject to C&AG's audit irrespective of the percentage share of Govt. funds in the total annual expenditure of that body or authority was proposed to the Ministry. Decision is pending.

The present C&AG has examined issues involved in the audit of autonomous bodies on several occasions. He desired in August, 2005 in a detailed note that Autonomous Bodies Wing should thoroughly examine the scope of audit under sections 14, 15, 19 and 20 of C&AG's (Duties, Powers and Conditions of Service) Act, 1971. C&AG's directions were on the following broad areas that concerned audit of autonomous bodies:

- (i) a de novo examination of his audit mandate, specially with reference to the NGOs;
- (ii) preparing a reliable and complete database of entities that would come under audit of one of the sections relevant for autonomous bodies audit;
- (iii) preparation of a new comprehensive manual of Audit of Autonomous Bodies; and
- (iv) autonomous Bodies Wing to carry out a review of the extent and scope of audit of Autonomous Bodies already being covered by that Wing.

The C&AG referred to the view held by many that he did not have a clear mandate 'to follow' the taxpayers' money as in USA or UK. In this context, he queried whether C&AG's legal mandate for the audit of NGOs was unambiguous and clear. In doing so, apparently C&AG was moved by the fact that there has been, of late, a very marked shift in government policy towards involving NGOs as partners in the implementation of Govt. programmes on socio economic developmental activity. In a large number of programmes, NGOs were involved in some capacity or other and this involvement is likely to be much more in the future. In this context, substantial funds made available to the NGOs needed a proper and suitable accountability mechanism. The examination of this issue by the Autonomous Bodies Wing concluded that C&AG has a clear and unambiguous mandate to audit the NGOs subject to the conditions laid down in the relevant sections of the Act. The new GFR has also clarified (Rule 211) that the accounts of all

grantee institutions or organizations shall be open to inspection by the sanctioning authority and audit both by the C&AG of India under the provisions of C&AG's (DPC) Act, 1971, as also by internal audit. It also provides that such a provision should be incorporated in all orders sanctioning grants-in-aid.

While the policy of engaging the NGOs as partners in the developmental programmes is fairly established now, very little has been done to have a reliable source to get data regarding the total funds made available to these bodies. The Planning Commission is making attempts to collect the relevant data on funding of these bodies.

RELIABLE AND COMPLETE DATA BASE

The question of a reliable and complete database is an old one. It has been one of the problems encountered in audit of autonomous bodies. The difficulty of preparing such a reliable database is more pronounced in case of bodies and authorities that fall within the scope of audit under section 14. In the absence of a comprehensive database of all such organizations, it becomes difficult to establish an appropriate timeframe and suitable programmes for completing audit. To overcome this problem, the Headquarters office has been requesting all State Accountants General to impress upon the concerned State Governments to invariably forward to Audit in time all sanctions of grants-in-aid given to the autonomous bodies. Despite best efforts, large gaps still exist in the data availability, although, for the purpose of collecting this data and to prepare the data base, special cells were sanctioned to field offices. These cells partially succeeded in the building up of database of NGOs/ private bodies etc., mostly by referring to the respective demands for grants which contain information on such bodies receiving grants of above Rs.5 lakh (recurring) and Rs.10 lakh (non-recurring). From this data, it was possible for the Accountants General to cull out details of the bodies that were receiving grants of more than Rs.25 lakh; the data was also helpful in identification of schemes financed by Ministries/ Departments which would attract audit under Section 15. In February 2001, the three Principal Audit Offices in Delhi were encouraged by the then ADAI (RC) to create one more data-base by collecting information from the records of PAOs/ Ministries. Incidentally, the D.O. letter of 29 April 1985 from K.S. Sastry which set out elaborate instructions on the autonomous bodies audit, also deals with the procedure for

collection of data, apart from the detailed provisions contained in Chapter-3 of the Manual. As far as Central autonomous bodies are concerned, a system was devised in the year 2001 between the C&AG's office and the Controller General of Accounts (CGA) whereby the CGA organization was to send, ministry-wise, a list of all the grantee institutions alongwith the grants made during the preceding years. This list was to be sent by each Principal Controller of Accounts to the DGACR with a copy of forwarding letter to the C&AG for information. This system had been built to give a good source of information as far as Central autonomous bodies are concerned.

Despite all the measures detailed above, a comprehensive and satisfactory database of all autonomous bodies still eludes the Audit Department.

Aware of the magnitude of this problem, the present C&AG directed (in October 2004) that a complete data base (census) on autonomous bodies receiving assistance from the government must be prepared expeditiously. Accordingly, in June, 2006, Principal Director, HQrs addressed all State Accountants General/ Principal Directors of Audit, with a fresh set of instructions that a complete data base (census) of the Central and State autonomous bodies and Non-Government Organizations (NGOs) must be compiled. The directions also included the procedure and the time frame for collection and compilation of the data and its submission to Headquarters Office, along with the formats for the purpose. The data was required for the years 2003-04 to 2005-06. The Headquarters office instructions also envisaged that this data-base must be updated every year and will be in addition to the records required to be maintained as per the provisions of the Manual of Instructions for Audit of Autonomous Bodies.

To overcome the problem of collecting details of grants/loans etc. released to grantee/bodies by the departments of the government, the Regulations notified in November 2007, have made specific provisions⁶ regarding essential requirements to be met in the issue of sanction of grants and loans and forwarding of statement of bodies and authorities receiving assistance.

SPECIAL ECONOMIC ZONES

A recent development of considerable importance vis-à-vis the audit of autonomous bodies, is the enactment of the Special Economic Zones Act, 2005 which has prescribed C&AG as the

auditor for accounts of every Special Economic Zone Authority that will be constituted/ have been constituted under the Act. The number of such Authorities is likely to be substantial. In February 2007, HQrs addressed all Principal AsG/ AsG (Civil) regarding audit of these Authorities. Audit of these Authorities falls under section 19(2) of C&AG's (DPC) Act read with section 37 of the SEZ Act, 2005. The PDAESM, being the Principal Auditor of the Ministry of Commerce and Industry is the coordinating authority and is to 'clarify issues concerning audit and certification'. He is also to prepare a detailed checklist and procedure of audit of SEZ Authority.

The letter also clarified that audit of SEZ will include financial and performance audit.

AUDIT COVERAGE OF AUTONOMOUS BODIES

The entrustment of audit for 105 autonomous bodies set up/ constituted by State Governments was given to various State Accountants General offices. Besides, there are State Commercial Corporations entrusted to Accountants General under section 19(3) and 20 of C&AG's (DPC) Act, 1971. It was also noted that these entrustments were given several years back and were continuing.

Another survey done by PD (Autonomous Bodies) was regarding status of audit under section 15. It was revealed that audit under section 15 had large gaps in coverage and was practically non-existent in some States. Information called from all the concerned offices for the year 2005-06 revealed the following picture.

(i) Audit identified	799
(ii) Audit planned	390
(iii) Audit actually done	349

If the auditee units identified/planned/audited by Principal Accountant General (Audit) Kerala (374/135/134), AG-II Nagpur (38/38/38), PAG Rajasthan (30/30/28) and PAG-I Maharashtra (92/64/64) are excluded, position of section 15 audit in other States would be considered poor.

Audit under section 15 could be an important source of information about the prevalent systems and procedures by which the Government could assure itself that the funds given to autonomous bodies were being used judiciously and for the purpose for which they were given. But as the survey revealed many issues relating to this audit needed to be addressed.

In nut shell, it would appear that audit of autonomous bodies has taken a back seat partly on account of the lack of information flow on such bodies and authorities that exist and qualify for audit under section 14 (1) or 14 (2). Essentially it is a question of a good data bank on these bodies or authorities. Secondly, it is also true that of late State Governments are quite reluctant to approach C&AG for entrusting audit of these bodies or authorities.

Because of lack of strong audit of the Secretariat/ Departments in the State Governments, vital information which AG can get on these Autonomous Bodies is not available to him. C&AG Kaul conscious of this, has initiated several steps towards improving matters. This includes a comprehensive census of all bodies and authorities that attract provisions of section 14(1) or section 14(2) of the Act.

SOME IMPORTANT PARAGRAPHS FROM AUDIT REPORTS

Coffee Board, Bangalore: The Coffee Board was set up under the Coffee Act, 1942 (Act) to promote the development of Coffee Industry by promoting coffee cultivation, research, sale and consumption of coffee. An audit review on the working of Coffee Board, brought out interesting findings on its functioning, weaknesses and success in achieving its objectives. The world market of coffee being volatile sustained efforts were called for even to retain their prevailing share of exports (2.2 to 2.7 per cent during 1985–89). Its efforts to promote export of Indian Coffee showed skewed picture with nearly half of the total exports going to USSR; worse in terms of value the picture was dismal as there was a shortfall in average unit value realized. The Audit view was that initiatives of the Board for promoting export of Indian Coffee abroad were minimal. Seventh Plan envisaged a target production of 1.80 lakh tonne by the end of 1989–90 at an annual growth rate of 5.5 per cent, the biennial average production achieved at the end of the plan period 1988–90 was 1.68 lakh tonne, giving an average growth rate of 2.5 per cent only. No outturn standards were laid down by the Board for curing works despite the existence of internal norms for such outturns. Short outturn of cured coffee during 1986–89 (5509.28 tonne) compared to the standard outturns fixed caused a loss of Rs. 11.23 crore to the pool growers. Actual cured coffee outturn reported by the curing works during 1987–88 was lower compared to the norms by 6,894 tonne resulting in a loss of Rs. 11.93 crore to the pool fund. Deficient agreements with curing workers did not

make the curers accountable for time taken in curing, outturn declared and the coffee graded. While the Board relied on the certificates furnished by the curing works for the stock, on receipt of complaints, the Board carried out stock verification of one curing works and discovered shortage of coffee valued at Rs. 73.65 lakh in this one works alone. Cases of gross mismanagement of contracts were in evidence as the Board ignored the action of a curing works in not distributing to the growers anything out of Rs. 83 lakh it withdrew from the Board and compounded this by releasing further sum of Rs.1.60 crore to them of which the curer failed to render accounts for Rs. 1.17 crore. Sluggish marketing efforts led to accumulation of stocks and down—gradation of coffee which resulted in 10,509 tonne of such downgraded coffee yielding very low prices during 1986–90.

Release of coffee for domestic markets was stagnant and less than the targets except during 1989–90 and did not reflect any efforts to boost sales in the domestic market.

(Report No. 14 of 1991)

Material Management In DDA: DDA has a strong Engineering Department headed by a Member (Engg.). It has years of experience in building houses for Delhi population. And yet, as this Audit study brings out DDA's Material Management was shoddy and reflected that Authority was negligent, lethargic and generally immune to protecting DDA's interests. Failure of Engineering Department to intimate annual requirement of stores for various works resulted in delays in execution of works and additional expenditure of Rs. 199.93 lakh to the contractors.

DDA failed to levy damages amounting to Rs. 1164.56 lakh in cases of delayed supplies of cement and steel.

DDA failed to put up its claims of Rs. 2.59 crore in time before the arbitrator for consideration. DDA also failed to fix responsibility for this negligence. Delay in placing orders for supply of cement resulted in loss of Rs. 60 lakh. The supplier was requested to complete the entire supply of cement by July 1990. However, he could supply only 8039 tonne. For balance of 11961 tonne, DDA awarded work to other firms in February 1990 at risk and cost of the defaulting firm. When DDA went into arbitration, the arbitrator in his award of October 1993 rejected the demand of Rs. 60 lakh on account of additional expenditure on purchase of balance quantity of cement on the ground that DDA has placed the order for balance quantity after lapse of 8 to 9 months of the last date of

agreement. Purchase of steel in piecemeal resulted in extra expenditure of Rs. 49.51 lakh.

No action was taken to recover Rs. 154.74 lakh from the firms, which had supplied cement during 1984-87. Wrong application of issue rate of cement resulted in loss of Rs. 51.22 lakh.

(Para 61 of Report No. 11 of 1995)

SCOPE Minar Project: This Para highlights the mismanagement of the construction of a building complex for use by the Public Sector Undertakings (PSUs) by Standing Conference of Public Enterprises (SCOPE) that comprises all the Chief Executive Officers of the PSUs.

SCOPE decided to assist the public sector enterprises in having their own buildings on a pooled basis in a major combined office complex and accordingly decided in 1978 to construct an office complex called MINAR project. The office complex to be developed on the land allotted by the Government at Laxmi Nagar, Delhi in 1982 was financed by the participant enterprises. The Project was to be completed by 1991 at a projected cost of Rs. 74.38 crore.

An architect and a Coordinator were appointed to design, plan, execute, supervise and ensure timely completion of the project. As of December 1997 the work was still in progress, and as a consequence, cost escalated to Rs. 183.25 crore by 1996.

Despite such shoddy performance by the Architect, he was given undue financial benefit of Rs. 1.64 crore through unjustified hike in fee and other irregular/ inadmissible payments. While civil contractor got a bounty of Rs.6.52 crore on account of delayed handing over of site and unjustified midway revision in the labour escalation formula, the other service contractors were also compensated by Rs.2.38 crore.

The project coordinator, who was the person responsible for timely completion of the project, was, instead of being penalized, actually benefited by Rs.2.75 crore due to faulty and ambiguous terms of the contract.

SCOPE paid interest free special advances of Rs.8.93 crore to the contractors which were outside the scope of the contract. In addition, eight contractors were paid Rs. 1.44 crore interest free mobilization advances over and above the normative advance.

The Para brings out that an apex body of the highest professionals of Indian Public Sector could not even ensure execution in time and within cost estimate, a building project for their own use.

(Para 20 of Report No.4 of 1998)

Council for Advancement of People's Action and Rural Technology: The Council for Advancement of People's Action and Rural Technology was set up as an autonomous body in September 1986, to encourage, promote and assist voluntary action in implementing rural development schemes. An audit review of this organization lays bare the gross mismanagement and irregularities in this organization.

The Council sanctioned projects without observing the laid down norms and without verifying the eligibility, credibility, professional competence and genuineness of the documents submitted by the voluntary organizations (VOs).

A large number of the beneficiary VOs were blacklisted (248) spread over 16 States for various reasons. About 60 per cent of the funds given to these VOs were misutilised. Several VOs were found non-existent. Besides, 226 VOs to whom Rs. 2.25 crore were released were placed under 'Further Assistance Stopped' category on the basis of adverse reports of monitors, etc. The Council admitted nexus between officials of the Council including monitors, in cheating, forgery, criminal conspiracy and misappropriation of Government funds.

92 per cent of the projects sanctioned upto 1995-96 involving Rs. 224.07 crore were incomplete as of July 1997, although 95 per cent of the projects assisted by the Council were of short duration of six months to one year.

Sample evaluation of the implementation of the Accelerated Rural Water Supply Programme in Uttar Pradesh revealed that 33 per cent of the hand pumps had inadequate discharge of water, 31 per cent were installed in locations to selected persons; no provision for maintenance was made in respect of 68 per cent of hand pumps and no training for maintenance was provided in 50 per cent of the cases.

Sample evaluation of the Central Rural Sanitation Programme revealed that 75 per cent of the latrines were provided to ineligible households, latrines constructed were of poor quality and complete sanitation of village through construction of drains etc. was not taken up.

(Para 25 of Report No. 4 of 1998)

Indira Gandhi National Centre for Arts, New Delhi: Department of Culture, Ministry of Human Resources Development had approved major amendments in the original deed of declaration of 1987, thereby abdicating its responsibility for administrative and

financial control over this autonomous body funded by Government.

Ministry released Corpus Fund of Rs. 50 crore in violation of General Financial Rules. The interest accruals from corpus funds aggregating Rs.24 crore were further reinvested by IGNCA to gain further income instead of spending on programmes and projects of the Centre.

Unutilized Martyrdom fund: Rs. 2.85 crore out of Rs.3 crore sanctioned separately for observing 10th Martyrdom Anniversary of Indira Gandhi remained unutilized.

Building complex: Further, out of a total amount of Rs.84.55 crore granted in addition to Corpus Fund for construction of a building complex since 1987–88, only Rs.45.52 crore were spent up to March 1998. The building complex remained incomplete as of September 1998.

Even though the expenditure on architectural services worked out to 20 per cent of project costs (as against the service norm of 3 per cent), no penalty was levied on the architect for the inordinate delay in completion of the building. A private company was favoured to act as construction management agency, without recording reasons. This resulted in avoidable expenditure of Rs.2.40 crore.

(Para 6.1 of Report No.4 of 1999)

Non-Repayment of Loan to Government of India: Security and Exchange Board of India defaulted in repayment of loan of Rs.115 crore granted by the Government of India during 1992–97 and did not make timely effort to realise fees due from merchant bankers.

(Para 4.1 of Report No.4 of 2000)

All India Institute of Medical Sciences (AIIMS): AIIMS was established as a teaching hospital for developing excellence in medical education and research in 1956. Over the years while it developed into a large hospital emphasis on teaching or research grew weaker. Teaching suffered due to shortage of teaching staff; research was not able to get resources. A large complement of teaching staff was employed on adhoc basis. Out of 339 research projects sanctioned during the decade 1991–2000, final reports were received only in respect of 153 projects (upto March 2001). There was no evidence of utilization of research findings. The hospital infrastructure was found deficient. The specialized centers for treatment of cancer and trauma were not developed. The drug addiction centre was not fully functional. A substantial part of

resources received from the National Illness Assistance Fund for providing treatment to the poor remained unutilized. Large shortages in the cadre of doctors and nurses resulted in depriving the patients of diagnosis, treatment and medical care. The doctor patient ratio was very high and the waiting time of surgery was also very long. Various instances of losses and mismanagement were noticed in the administration of the Institute. The study also found that large investments in providing subsidized medical education for providing excellence and sufficiency had gone substantially unreturned, as at least 49 per cent of doctors trained at the Institute found their vocations abroad.

(Para 1 of Report No.4 of 2001)

Paragraphs pointing out irregularities in AIIMS have been repeatedly printed in Audit Reports. Para 40 of Report No.11 of 1991 commented on purchase of a lithotripter machine in September 1988 at a total cost of Rs.192.76 lakh which included Rs.18.97 lakh towards Indian agent's commission. The Indian agent's commission paid by AIIMS worked out to 11 per cent of the f.o.b. price of the equipment and was prima facie excessive. The agency commission paid by the Director General of Supplies and Disposals for purchase of a similar machine from the same firm for the Lok Nayak Jai Prakash Narain Hospital, New Delhi was only 7.5 per cent of the f.o.b. price.

Failure to ensure advance preparatory action resulted in the machine remaining idle for seven months.

The AIIMS approved levy of charges of lithotripsy at the rate of Rs.7000 per case in October 1989. From August 1989 to March 1990, the average number of patients treated was 12 per month against anticipated average output of 42 patients due to non-availability of required staff.

Audit Paras 10.1 and 10.2 in Report No.4 of 2005 highlighted irregular payment of conveyance allowance amounting to Rs.68.59 lakh during 2002-04 to ineligible staff despite clear orders and irregular payment of Rs.42.97 lakh to ineligible staff members due to non adherence to the guidelines for the grant of financial assistance to attend conferences respectively.

Navodaya Vidyalaya Samiti: Navodaya Vidyalaya Samiti (Samiti) was set up as a registered Society in February 1986 to implement the Navodaya Vidyalaya Scheme (Scheme) which is aimed at establishing, endowing, maintaining, controlling and managing model schools called Jawahar Navodaya Vidyalayas (JNVs) having

co-educational and residential facilities for providing good quality modern education to the talented children predominantly from rural areas. The broad aims of JNVs are to serve the objectives of excellence coupled with equity, to promote national integration, provide opportunities to the talented children to develop their full potential and to facilitate the process of school improvement. The JNVs set up under the scheme, one in every district, were to act as pacesetter institutions, fortified with an integrated core curriculum and complement of high caliber teachers. A comprehensive review of this scheme in audit brought out several shortcomings in implementation. The quality of infrastructure and academic support was unsatisfactory. The examination results of JNVs were found consistently good in terms of achieving a very satisfactory overall pass percentage but were not impressive in comparison to the results of private educational institutions in the category of high achievers (75 per cent and above). Further, a laudable objective of the scheme was inculcation of the spirit of national integration among the students through the concept of inter-state migration of students for brief periods. This, however, became a problem area in actual implementation. The so called Migration Policy failed due to a number of reasons and it became imperative that an urgent review of the Policy was done for its proper implementation. JNVs have thus not acted as pace-setting institutions as visualized despite strong financial and policy support largely because of the absence of strong academic backup and academic leadership. A large number of posts of academic staff remained vacant and 23 principals resigned without completing the tenure. The scheme needed strong monitoring in order to keep the performance of institutions in line with the objectives; no serious monitoring was undertaken by the administrators of the scheme.

(Para 1.2 of Report No. 4 of 2002)

Prasar Bharti: The Audit Paras on the deficient financial and programme management of Doordarshan (DD)/ Prasar Bharati became a regular feature of the successive Audit Reports; these gave enough evidence that Doordarshan authorities were not only indulging in such malpractices, worse they hardly bothered about these since they indulged in more irregularities of similar nature. In the event, the overall impression these Paras generate about Doordarshan is that it does not care much about its accountability. A few of the audit Paragraphs given below will testify to this:

DD hire-purchased three digital storage systems from National Film Development Corporation (NFDC) for capsuling and playback of programmers and the systems were installed in 1995. However, these were not found suitable/ useful for DD programmers and the Director General, Doordarshan, directed their disposal in December 1996 resulting in unfruitful expenditure of Rs.5.40 crore on hiring a system which remained unutilized, besides an overpayment of Rs.2.40 crore to NFDC was also made.

DD fixed, in May 1995, the Sponsorship Fee and Free Commercial Time (FCT) for repeat telecast on its international channel and also provided additional FCT which could be banked and utilized in other national channels within a period of seven days which was increased to 30 days in August 1996 when sponsorship fee and FCT were revised. However, in violation of its own rules, DD allowed the producers to utilize the additional FCT banked by them during the period from May 1995 to March 2002 after the expiry of the stipulated period of seven and thirty days which resulted in a loss of Rs.2.31 crore to DD.

Incorrect interpretation of commercial rates by Doordarshan Kendra, Kolkata resulted in extension of undue financial benefit of Rs. 2.20 crore to sponsors for telecast of two sponsored programmes.

Amongst other financial misdemeanour indulged in by DD were, clearance of an advance to a State Government Company in the year 2000; Company closed down its business in January, 2001 and the advance of Rs. 4.41 crore alongwith interest at 15 per cent remained outstanding as of April, 2004.

Doordarshan allowed full production/ commissioning cost to a firm and did not bill for 6,329 seconds of commercial time, incurring loss of revenue of Rs. 1.50 crore.

Doordarshan acted arbitrarily in granting free commercial time in excess of admissible limit in respect of a sponsored programme, which resulted in loss of revenue of Rs. 74.10 lakh.

Doordarshan failed to deduct income tax at source from World Tel which led to levy of penalty and interest amounting to Rs. 4.43 crore by the Income Tax Department.

Prasar Bharati did not adhere to the schedule of payment of installments of telecast right fees to Board of Control for Cricket in India, during the period 1990–2003, which resulted in avoidable payment of interest of Rs. 1.42 crore.

Prasar Bharati irregularly allowed agency commission at the rate of 15 per cent to National Film Development Corporation for the telecast of 210 films between June, 2001 and September, 2003 which resulted in irregular expenditure of Rs. 22.68 lakh.

Grant of additional Free Commercial Time and repeating this next year also resulted in undue financial benefit of Rs. 10.66 crore to the producer on these counts.

Failure to appoint operational and maintenance staff for nine low powers TV transmission systems built during March, 2002 to September, 2004 resulted in their idling as well as idling of investment of Rs. 6.74 crore. Further, DD also failed to commission studios set-up at six stations during March, 2001 to March, 2005 at a cost of Rs. 22.55 crore even 12 to 48 months after their completion.

Doordarshan procured two transmitters before erecting the TV Tower at Vadodara which resulted in idling of Rs. 3.82 crore for two to four years as of July, 2005. The guarantee for the equipment also lapsed while these were idling.

In summary, DD was put to a loss of Rs.46.26 crore due to irregularities mentioned above.

Allotment of Land to Private Hospitals and Dispensaries by Delhi Development Authority (DDA): This Review brings out with authenticity what is commonly perceived by the people in Delhi viz. getting land at concessional rates in lieu of fulfilling social obligations but after getting and commissioning never fulfilling it. Allotment of land to Private Hospitals and Dispensaries by DDA was made at concessional rates in consideration of certain commitments. However, DDA failed to enforce the terms of allotment of institutional land, at concessional rates, to 53 hospitals and 12 dispensaries. The primary objective of these allotments was to provide 25 per cent free indoor and 40 per cent free outdoor treatment facilities to the poor. This was not done. Allotment of land was made to three ineligible institutions which deprived DDA of revenue of Rs. 38.54 crore. There is no system in place to deal with complaints received against the defaulting hospitals and dispensaries in contravention of the terms and conditions of allotment. Twenty-three out of 27 hospitals had not started functioning as of July 2003, even after lapse of periods ranging from 4 to over 30 years from the date of allotment of land. Ineffective pursuance of outstanding dues led to accumulation of arrears of Rs. 3.54 crore besides ground rent and interest of Rs. 2.46 crore.

(Para 3.1 of Report No. 4 of 2004)

Para 13 of Report No. 4 of 2002 highlighted cancellation of allotment of houses at Narela due to lack of basic amenities leading to blockage of funds of Rs. 36.08 crore for 3–7 years, extra expenditure of Rs .7.20 crore due to delay in supply of layout plans and materials, extra expenditure of Rs. 1.59 crore due to defective designing of pile foundation, cost overrun of Rs. 1.18 crore due to belated decisions and delay in supply of drawing/ materials for Nagin Lake Apartments, etc.

NOTES: CHAPTER-13

¹As per Regulations on Audit and Accounts, 2007 and Manual of Instructions for Audit of Autonomous Bodies 2007 edition.

²Para 2.02 (ii) of chapter 2, Manual of Instructions for Audit of Autonomous Bodies (Volume I), Second Edition issued in July 2007.

³DG (Audit) D.O No. Audit (AB)/17-2006 dated June 1, 2007 addressed to Joint Secretary and Government Counsel Ministry of Law and Justice, Department of Legal Affairs, New Delhi-110001

⁴C&AG's OM No. 131-Rep (AB)/71-2004 dated 14 August 2006

⁵Earlier these were called Separate Audit Report (SARs) perhaps to distinguish them from the C&AG's Audit Reports on Union Government or State Government Accounts to Parliament.

⁶Regulations 83 and 84 contain detailed provisions in this regard.

LIST OF KEY EVENTS

29 April 1985	Policy decisions /clarifications on the audit of autonomous bodies conveyed to field offices.
3 September 1987	C&AG clarified that grants paid to institutions by U.G. C. should not be taken into account for applying provisions of Section 14 of DPC Act.
17 March 1992	Instructions issued regarding certification of Accounts, propriety audit etc.
21 June 1993	Title of separate audit reports in respect of all Autonomous Bodies including Port Trusts was changed as 'Audit Report on the accounts of thefor the year
March 2002	A common format of accounts of central autonomous bodies was introduced to bring about uniformity and transparency. The format was applied to Autonomous Bodies governed by separate Acts of Parliament in August 2006.
October 2004	C&AG directed that a complete data base on all autonomous bodies receiving assistance from Government must be prepared expeditiously.
February 2007	C&AG's office addressed all field offices regarding financial and performance audit of Special Economic Zones.
1 June 2007	DG (Audit) wrote to Joint Secretary and Government counsel Ministry of Law and Justice that right of C&AG to audit grants paid by UGC does not get infringed just because grants are routed through UGC.

DOCUMENTS

1

D.O.No.364-AuditII/72-91

Dated:- 17-3-1992

S. LAKSHMINARAYANAN
Pr. DIRECTOR

Dear Shri

Kindly refer to Shri K.S. Sastry, Director of Audit's D.O. letter No. 649-Au. II/143-85 dated 29.4.1985 and Shri G.M. Mani, ADAI's circular D.O. letter No. 157-Rep (AB)/20-86 dated 31.5.88 regarding audit of autonomous bodies and preparation of SARs. In para 1.7 of Shri Sastry's D.O. letter it was decided that audit under Section 14,19 and 20 will be done on an annual basis except in offices which have shortages in which case suitable relaxation may be sought from Headquarters office.

2. From the annual returns furnished by various Accountants General, it has been observed that arrears in audit of accounts of autonomous bodies subject to audit under Section 14, 15, 19 and 20 have been on the increase. The arrears are mainly attributable to shortage of staff or non-finalization of accounts by the autonomous bodies.

3. In order to streamline the procedure for audit of autonomous bodies, certification of accounts and preparation of SARs, the following changes in the existing instructions are made:

- (i) Certification of accounts will be done every year. Where there are arrears in certification of accounts already received, Accountants General concerned should take steps to immediately clear these arrears by deputing special parties. This work should be given priority every year.
- (ii) Propriety audit under Section 14, 19 and 20 should be conducted in cycles ensuring that they are covered once in three years or less. The list drawn up should be sent to Headquarters (AB section) by the middle of March every year. The first list should be sent to Headquarters by the middle of May 1992. Interse priority of the audit of these organizations/bodies should be decided by the Accountants General vis-à-vis the civil, Forest and works audit under their charge. In this connection the Accountants General may carry out an exercise to determine the need for the existing periodicity in the Civil, Works and forest wings keeping in view the fact that there is a major shift in the expenditure pattern due to introduction of social and developmental schemes in areas other than works, Forest etc. Such studies will help in redeploying the manpower resources to areas like Sections 14, 15, 19 and 20 audits which are assuming greater importance. Major autonomous bodies viz; Port trusts, UGC etc. should be subject to propriety audit every year.

- (iii) In respect of Section 14(1) &(2) it should be kept in mind that a body or authority fulfilling the conditions of audit in any year is also liable for audit for a further period of two subsequent years and any audit due should be completed within this time span. Separate inspection reports may be issued on such audits and points of interest and of great importance should be reflected in the conventional audit reports.
- (iv) In respect of Section 19&20, from now onwards, the SAR should contain only 'comments on accounts' and the existing procedure of including all the audit points in the SAR may be discontinued.

By delinking the audit comments from the SAR, we will be laying more emphasis on the 'comments on Accounts' which will be more on the commercial pattern. Our experience on the commercial side indicates that we can be more effective by Delinking the two issues. Observations arising out of transaction audit can be issued separately and will not form part of certification of accounts. The comments on accounts will then be brief, concise and more effective.

Important irregularities, points of interest and importance etc. noticed during audit of an organization should be highlighted through the conventional Audit Report, while the other irregularities will be pursued through the Inspection Report like in the case of other audits.

Hindi version will follow.

Yours sincerely,
Sd/-

(S. LAKSHMINARAYANAN)

2

Copy of Comptroller and Auditor General of India, New Delhi- 110 002, letter No. 250-Rep (AB)/20-86 Dated: 21.06.93 addressed to Director General of Audit/ Principal Directors of Audit

Sub.:Quality and contents of Separate Audit Reports on the Central /State autonomous bodies.

Sir,

Instructions have been issued in this office circular letter No. 240-Rep (AB)/20-86 dated 07-08-1991 to include in all the draft Separate Audit Reports on the Central and State autonomous bodies, a paragraph on 'outstanding audit objections/inspection reports'. Consequent on the instructions issued in Shri S. Lakshminarayanan, Principal Director (Audit)'s circular d.o. letter No. 364—Audit II/72-90 dated 17-03-92 to streamline the procedure for audit of autonomous bodies, certification of accounts and preparation of Separate Audit Reports etc. the position about using caption/title in Separate Audit Reports, including paras on outstanding audit objections/inspection reports, etc. has been reviewed. In respect of all the autonomous bodies, including the port trusts, it has since been decided that the Separate Audit Reports may henceforth be captioned/titled as 'Audit Report on the accounts of thefor the year and the statistical para on

outstanding audit objections/inspection reports may also not be included in the Separate Audit Reports.

2. It is requested that Separate Audit Reports may henceforth be prepared accordingly.

3. Hindi version will follow.

Sd/-
(SMT. ANJALI SEN)
Director (AB)

3

No-131 -Rep (AB)/71-2004
Dated: 14.08.2006

To

All Directors General/Pr. Directors of Audit/ Pr. Accountants General/
Accountants General (Audit)

(As per list enclosed)

Sub.:Common format of accounts for Central Autonomous organizations

Ref: 1. Headquarters' circular letter no. 103-Audit II/88-2000 dated 27.3.2002

2. Headquarters' circular letter no. 201-Rep (AB)/67-99 dated 08.07.2002

Sir/Madam,

I am to invite a reference to the letters cited and to state that a common format of accounts was prepared/introduced by the Committee of Experts to bring about uniformity and transparency in the accounts of Central Autonomous Bodies. A copy of this common format was forwarded vide this office circular letter no. 103-Audit II/88-2000 dated 27.03.2002. However, the Central ABs governed by separate Acts of Parliament and where C&AG is the sole auditor, were exempted from adoption of new format of accounts and their format of accounts earlier approved remained unchanged.

Due to several shortcomings in the accounting formats of these Central ABs, exempted earlier, matter was taken up with the Controller General of Accounts to bring about uniformity and transparency in the accounts. Now CGA, M/o Finance has revised the instructions issued earlier and has decided that the common format of accounts of autonomous organizations prescribed by the Committee of Experts would also be applicable, in the interest of transparency and comparability, to such Central ABs, which were exempted earlier. A copy of CGA's office memorandum dated 23.7.2006 is sent herewith for information.

It is, therefore, requested that these instructions may be kept in view and preparation of accounts in new format may be insisted upon all the Central ABs.

Hindi version will follow.

Yours faithfully,
SD/-
(R.N.Ghosh)
Pr. Director (AB)

4

D.O No. 172 Audit (AB)/17-2006
June 1, 2007

AJANTA DAYALAN
Director General (Audit)

This is regarding clarification on Section 14 of the C&AG's (DPC) Act, 1971 which authorizes the C&AG to audit all receipts and expenditure of bodies or authorities which are substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having Legislative Assembly.

2. In case of University Grants Commission, funds are received from Government of India for release to other Universities, Colleges etc. The grants from Government of India are first credited to the UGC Fund established under Section 16 of the UGC Act, 1956. Thereafter these are released to the nominated Universities, Colleges etc. Thus the UGC acts only as an agent of Government of India to pass on the grants to other Universities, Colleges etc.

3. There are many other organizations which receive grants or loans from the Government of India or a State Government or Government of Union Territory having Legislative Assembly, to pass on the same to sub-grantees. As these funds are first credited to the Organizations' own Funds, any release of funds therefrom to the sub-grantees can not be taken to be at par with the release from Consolidated Fund of India or of the State or Union Territory. Hence, the authority of C&AG under Section 14 of the C&AG's (DPC) Act, 1971 to audit receipts and expenditure of such sub-grantees can get questioned.

4. The fact, however, remains that all these sub-grantees are receiving substantial amounts from Union Government, State Government or the Union Territory Government- though not directly. As these sub-grantees are, in fact, substantially financed from the Government, common logic makes it abundantly clear that the authority of C&AG to audit substantially financed bodies and authorities under Section 14 of the C&AG's (DPC) Act, 1971 should extend to such sub-grantees as well.

5. An amendment of the Act to this effect was also considered at one stage and was accepted by the Ministry of Finance. In this connection, Ministry of Finance reference No. F. N. 6(5)-B (R)/99 dated December 31, 2004 read with Para 8 of the Note for Cabinet refers. The matter is still pending.

6. In fact, an amendment to the Act is not really called for. The spirit of Section 14 is quite clear that substantial grants and loans from the Government to any body or authority should be audited. This right of the C&AG to audit of grants does not and should not get infringed just because grants are routed through some other authority. This is specially so as there is no value addition by the immediate grantee. The final destination of the grants as well as the terms and conditions are clearly known even when these grants are released from the Consolidated Fund. Thus the spirit of the Act clearly allows for such audits.

7. In view of the above, a clarification on the matter is sought from the Ministry to finally settle the issue.

I would be grateful for an early reply.

Yours sincerely,
Sd/-
(Ajanta Dayalan)

Shri M.A Khan Yusufi
Joint Secretary and Govt. Counsel
Ministry of Law & Justice
Department of Legal Affairs
Copy to Joint Secretary (Budget), Ministry of Finance, Department of Economic
Affairs , North Block, New Delhi-110001

SD/-
(Ajanta Dayalan)

GLOSSARY OF ABBREVIATIONS

CGA	Controller General of Accounts
GFR	General Financial Rules
IIT	Indian Institute of Technology
IR	Inspection Report
NGO	Non-Governmental Organization
PAOs	Pay and Accounts Offices
SAR	Separate Audit Report
SEZ	Special Economic Zone
UGC	University Grants Commission
UK	United Kingdom
USA	United State of America
VFM	Value for Money

Audit of Local Bodies—A Collaborative Approach

In early nineties, when Government launched its famous liberalisation programme of economic management, another landmark legislation was enacted. This was of an entirely different nature viz. empowering the rural and urban local governments. The two momentous amendments to the Constitution viz. 73 and 74 Amendment Acts 1992 that did this have been rightly hailed as epoch making and a vital piece of legislation that resulted in creation of 'institutions of self-governance'.

The Constitution mandated the Government to do this by inserting a direction in Article 40 of the Constitution, which said, 'The State shall take steps to organise Village Panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government'. Even after several attempts towards such an empowerment, the progress in this direction was not satisfactory for a variety of reasons. Eventually, a beginning was made in Rajiv Gandhi's tenure as Prime Minister to bring in a comprehensive legislation to empower these bodies and make these real units of self-governance. That was in 1986—the fruits of this fallen legislation, however, came in 1992 in Narasimha Rao's time when the Parliament passed the historic 73rd and 74th Constitutional amendment bills pertaining to PRIs and ULBs respectively—the Presidential assent was given on 20 April 1993. These amendments inserted Part IX and IX A in the Constitution. Part IX concerns panchayats containing Articles 243 to 243 O and Part IX A containing Articles 243-P to 243-ZG, relates to municipalities.

Since Local Government Institutions in both urban and rural areas are State Subjects, Union cannot enact laws on them. By these amendments to Constitution, Union gave a framework of scheme which is essentially to be implemented by States by making suitable laws or amending their own existing laws 'to bring them in conformity with the provisions of 73rd and 74th Constitutional Amendment Acts'. The States soon followed with their respective back up legislations in line with the Central Act. Main features of this amended law are already outlined in Chapter-2.

The changes that were expected to come with this new Act were formidable in empowering these local bodies, specially the rural, and giving these a far greater role than ever before. As many as 29 subjects listed in Schedule-XI were on the transfer list from Government line departments to the PRIs for their budgeting and execution and 18 subjects in Schedule-XII to municipalities. In a way, this would take away, a huge portfolio of existing fund allocations from State Government line agencies to the local bodies. In practice, the transfer of functions and funds varies from State to State. From data available in Annex, it will be seen that only Karnataka has transferred to PRIs all the 29 functions along with funds for these functions. Other States that show a good picture in this regard are Kerala, Sikkim, Rajasthan and Maharashtra. In 8 other States and Union Territories (Madhya Pradesh, Chhatisgarh, Orissa, Rajasthan, Tamil Nadu, West Bengal and Daman and Diu) although a large number of functions have been transferred to PRIs, corresponding quantum of funds have not been given—these vary from funds for none to 15 functions only. Overall, in most States funds transfer is still not very encouraging and the real independence of PRIs and ULBs is still far away. The Eleventh Finance Commission Report stated that a study done by National Institute of Rural Development (NIRD) (commissioned by them) revealed that 73rd amendment had not significantly altered the functional domain of panchayats at various tiers, and only a few States 'have been serious in vesting the panchayats with necessary powers, funds and staff to enable them to perform the functions assigned to them under the Statute'.

In nutshell, these changes meant that:

- ❖ PRIs and ULBs became institutions of self-governance.
- ❖ They were to be the institutions of planning for their economic growth.

- ❖ These were to be the main agents for implementing State and Centrally Sponsored Schemes.

INITIAL INITIATIVES TAKEN BY C&AG

The issues that were likely to be thrown up by such changes as were to come, were clearly seen by the then C&AG, V.K. Shunglu. The relevant question that concerned Audit Department was that with so much devolution of funds to these bodies what was the audit and accountability system? These were not defined clearly in the Act. The Act (Articles 243 J and 243 Z) dealing with the provision for the maintenance of accounts and audit of local bodies merely said 'The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Panchayats/ Municipalities and the auditing of such accounts'. The pertinent issues were: Is the existing system for audit and accountability mechanism sufficient? To whom are the PRIs accountable? And what about the standardisation of accounting formats and accounts keeping?

C&AG discussed these issues with his top management team at the HQrs Office, during Senior Officers Meetings. He then decided to have these issues discussed in a wider forum. For this purpose, he convened a high level Seminar on 'Accountability of Local Bodies and PRIs' at the National Academy of Audit and Accounts, Shimla (NAAA) where, besides the senior officers of the Department, other participants included P.R. Das Gupta, Secretary, Rural Development, Sudhir Krishna, Member Secretary, Eleventh Finance Commission, Nirmala Buch, former Chief Secretary, Madhya Pradesh and S.C. Anand, President, Institute of Public Auditors of India (IPAI). This seminar was preceded by a Round Table Conference on 'Accountability of Panchayats and DRDAs' (held in August 1999) organised by the IPAI—an autonomous organisation under the aegis of C&AG in collaboration with the Ministry of Rural Development—where C&AG, the Secretary, Rural Development, Additional Secretary and Joint Secretary, Rural Development as well as some concerned Secretaries from States and experts from Institutions like National Rural Development Institute, Hyderabad, Indian Institute of Public Administration (IIPA) and officers of the Department participated. This Seminar as well as Shimla Seminar dealt with, amongst others, issues of audit and accountability of PRIs. The C&AG also submitted a Memorandum to the Eleventh Finance Commission

giving his views, amongst others, on the audit and accountability of local bodies consequent upon the 73rd and 74th constitutional amendments.

It would be obvious from these facts that a lot of spade work on information sharing amongst the key stakeholders had been facilitated by C&AG to make them aware of the issues concerning accountability of these bodies and also generate a broad framework of agreement on the accountability and other issues of PRIs. The general recommendations in these forums were:

- ❖ Need for prescribing accounting standards and accounts formats for local government accounts to ensure a degree of uniformity
- ❖ Laying down auditing standards
- ❖ Auditing arrangements
- ❖ Formal system for follow-up of audit findings

Surely, these things in some way facilitated Ministry of Rural Development, Finance Ministry and Eleventh Finance Commission's task.

ELEVENTH FINANCE COMMISSION'S RECOMMENDATIONS

It was the Eleventh Finance Commission's recommendation that set in motion a series of actions towards audit and accountability of rural and urban local governments. Eleventh Finance Commission, as part of their terms of reference, were required to suggest measures to augment the Consolidated Fund of the States to enable them to supplement the resources of the local bodies. In their Report dealing with accounts and audit¹ the Finance Commission, amongst other things, recommended that (a) the C&AG should be entrusted with the responsibility of exercising control and supervision over proper maintenance of accounts and their audit for all the three tiers/ levels of Panchayats and Urban Local Bodies, (b) the Director, Local Fund Audit or any other agency made responsible for the audit of the accounts of local bodies, should work under the technical guidance and supervision (TGS) of the C&AG in the same manner as the Chief Electoral Officers of the States operate under the control and supervision of the Central Election Commission, (c) the C&AG should prescribe the format for the preparation of budget and for keeping of accounts for the local bodies. These formats should be amenable to

computerisation in a network environment, (d) the C&AG may lay down qualifications and experience of the agency for accounts maintenance work, who could be contracted for this work, (e) audit of accounts of the local bodies be entrusted to the C&AG who may get it done through his own staff or by engaging outside agencies; an amount of half a per cent of the total expenditure incurred by the local bodies should be placed at the disposal of the C&AG for this purpose, (f) the report of the C&AG relating to audit of accounts of Panchayats and Municipalities should be placed before a Committee of State Legislature constituted on the same lines as a Public Accounts Committee.

In making these recommendations, the Finance Commission was prompted by the great concern it had over the prevailing state of affairs in these bodies as far as upkeep of accounts and their audit was concerned. Despite a Director, Local Fund Audit (or any equivalent authority) in position in most of the states to carry out audit of local bodies, and maintenance of accounts, there was widespread deficiency in accounts keeping as well as in the audit of the local bodies. To a large extent, the reason was that the local bodies had shortage of staff, but more important, the staff did not have requisite skills for maintaining accounts. There was no credible database on the finances of local bodies, and in addition, the accounting formats of PRIs were such, as were difficult to maintain. There was an urgent necessity for substantial technical skill upgrading among local fund auditors. The independence of the local fund auditors was also suspect and their report hardly ever elicited response from the auditee organisations or the government in most of the States.

COMPTROLLER AND AUDITOR GENERAL'S ROLE

In the above background, the Eleventh Finance Commission's recommendations were a very timely step towards establishing accountability and audit mechanism of local bodies.

The Ministry of Finance (Department of Expenditure) issued Guidelines for the utilisation of local bodies grants recommended by the Eleventh Finance Commission (2000-01 to 2004-05) in June 2001. The guidelines suggested that to give effect to the recommendations of the Eleventh Finance Commission regarding TGS, State Governments should send a request to C&AG under Section 20(1) of C&AG's (DPC) Act, 1971. Among other things, the guidelines also provided (i) C&AG shall lay down the

qualifications and experience for the agency or the person who should be contracted for maintenance of accounts by local bodies particularly village level panchayats and in some cases intermediate level Panchayats that do not have trained accounts staff. Such agency or person may be registered by the Director, Local Fund Audit (DLFA). A group of local bodies may be entrusted to an agency/ person for upkeep of accounts on payment of remuneration as may be fixed by the C&AG in consultation with the State Government, (ii) DLFA or his equivalent authority may do the supervision over the quality of work of such agency or person under the directions of the C&AG, (iii) DLFA or any other agency made responsible for the audit of accounts of the local bodies shall work under the technical supervision and advice of the C&AG, (iv) Guidelines also prescribe that the format for preparation of budget and for keeping accounts of the local bodies shall be as prescribed by the C&AG. The Guidelines were shown to C&AG office at draft stage.

MANDATE OF C&AG ON AUDIT OF LOCAL BODIES

In all the states, barring West Bengal, Bihar and Jharkhand, Audit of Local Fund is conducted by Director, Local Fund Audit (or a similar authority by any other designation). In the 3 States mentioned above C&AG has been conducting the audit of Local Bodies including Panchayati Raj Institutions and ULBs as Local Fund Auditor before the enactment of Constitutional amendments relating to Local bodies. In all these States, the Audit of these institutions is entrusted to C&AG (to concerned State AG) in terms of the relevant State Act. Of these, in the case of West Bengal, it is a very old history. Local Audit Department was first created in 1880 to audit the accounts of municipalities and other local funds by an officer of Finance Department styled as Examiner of Local Accounts attached to the office of Accountant General. Gradually local audit of the accounts of all local funds and similar other non-governmental institutions as also certain government institutions in Bengal was entrusted to him. Under the Reforms of 1921, audit of local bodies became a provincial subject. The Government of Bengal decided that control of Local Audit Department would remain with the Auditor General. The Examiner of Local Accounts in West Bengal under AG (Receipt, Works and Local Audit) will Audit Panchayati Raj Institutions and Urban Local Bodies and in case of Panchayati Raj Institutions, Accountant General has

conducted cent percent audit of accounts of Gram Panchayat from 2002–03 onwards under West Bengal Panchayat Act 1973.

C&AG's mandate for audit of Local Bodies flows basically from the CAG's DPC Act 1971, and he has been conducting the audit of receipts and expenditure of those local bodies both rural and urban, which are substantially financed from Union or State revenues under Section 14 of the Act *ibid*.

The first two tiers of Panchayat institutions in Karnataka-Zilla Parishads and Taluk Panchayats—have been entrusted to the C&AG in terms of Section 19 (3) of the DPC Act.

Entrustment of TGS over the local bodies audit and accounts, including technical support to the DLFA, in most states is under the provisions of section 20 (1) of the DPC Act which states that the C&AG may be requested by the President or the Governor of a State or the Administrator of a Union territory having a legislative assembly, to undertake the audit of the accounts of a body or authority on such terms and conditions as may be agreed upon between him and the concerned government.

C&AG'S ACTION PLAN—TECHNICAL GUIDANCE AND SUPERVISION (TGS)

In a minute recorded by the C&AG on 3 May 2001, he desired that with the possibility of Panchayat Audit being entrusted to the Department, the existing responsibility in this related area must be of appropriate quality and delivered on time. He further directed that the necessary resources if not available in the audit offices may be made available from the accounts offices. Soon thereafter, C&AG set about to restructure and revamp the Local Bodies Audit, hitherto not considered important enough. But now with TGS in the offing, this was needed. As an initial step towards such restructuring, C&AG set up a Local Bodies Audit Wing under the charge of newly created post of Deputy C&AG in December 2001. This wing became the nodal wing for all activities relating to Local Bodies audit which included policy formulation and strategy, processing of audit reports, consolidation of Inspection Reports, HR issues etc. Continuing with administrative restructuring the present C&AG V.N Kaul created 17 new field audit offices in July 2004 to exclusively deal with Local Bodies Audit. The personnel for these offices have been drawn from existing manpower in AG (A&E) and AG (Audit) offices on deputation basis. The administrative structure is therefore now well established. The

one point that still remains somewhat unsolved concerns staffing of these offices, while a committee, as elaborated elsewhere, is going into this issue, it needs to be said that greater demands on TGS for example checking the release and utilisation of funds by states following the Twelfth Finance Commission's recommendations, have meant increased work load.

In their first communication on the subject Dr. E.A.S. Sarma, Secretary, Department of Economic Affairs requested the C&AG vide his D.O. letter of 4 August 2000 while sending a copy of the Report of the Eleventh Finance Commission alongwith Memorandum detailing the action taken by the Government on the recommendations of the Commission to suggest 'an Action Plan for operationalizing the recommendations of the Finance Commission within a given time frame considered reasonable by you'. In the Memorandum, the Government made it clear that the recommendation of the Commission relating to the grants-in-aid for financing local bodies was accepted subject to the caveat '(i) measures to strengthen accounts and audit of local bodies recommended by the Eleventh Finance Commission have been accepted in principle. The details will be worked out in consultation with the C&AG, (ii) Earmarking of funds for maintenance of accounts, within the overall recommended level of grants, may be increased to the extent necessary in consultation with the C&AG'.

The initial thinking in the Department was that in order to fulfil the requirements suggested by the Eleventh Finance Commission and accepted by the Government of India regarding the format for maintenance of accounts as per the C&AG's prescription and regarding audit of these bodies, a suitable amendment to the relevant State Act would be required providing that C&AG shall conduct the audit by employing his staff and associating the staff of Examiner, Local Fund Audit or that of Panchayati Raj Audit as the case may be. The State Government's staff would work under the technical guidance and supervision of C&AG. The Director General (Audit) addressed Joint Secretary (Budget) in August 2000 to consider taking up the matter with the Ministry of Rural Development as well as Urban development as a follow-up to the Government's decision contained in the Memorandum to the action taken note on Eleventh Finance Commission's recommendation dated 11 August 2000. D. Swarup, Joint Secretary (Budget) promptly replied to this letter on 16 August 2000 advising the Department that there was no conflict between the recommendations of the EFC to entrust the audit of the local

bodies to the C&AG and the Constitutional provisions. He added that section 14, 15 and 20 of the C&AG's (DPC) Act, 1971 adequately cover the audit of Government financed bodies or authorities. He mentioned, therefore, that it was not Central Government's intention to deprive the States from its statutory control of accounts/ audit of local bodies. The Ministry's, in principle, approval of the EFC's recommendations should be presumed to mean a role for the C&AG under the C&AG's (DPC) Act, 1971 and State laws.

This set at rest the issue of any amendment. Addl. Dy. Comptroller and Auditor General² addressed Joint Secretary (Budget) in February 2001 in response to his D.O. of 16 August 2000 intimating him that C&AG office had, in the meantime, done the home work regarding assessment of staff needed for the audit of local bodies in the new system. The C&AG was prepared to take up the new challenge provided a request was received from concerned State or Union Territory under Section 20 of the C&AG's DPC Act, 1971. The idea was to pool the manpower resources of Accountants General and Director, Local Fund Audit (DLFA) so that a single and effective audit arrangement could be established to cover all the rural and urban local bodies. The letter requested the Government to suggest to State Governments/ Union Territories accordingly.

In response, the Government issued, in June 2001, Guidelines for the Utilisation of Local Bodies Grants which mentioned inter alia about C&AG arranging the training in audit through his training institute or training centre without charging any training fees; C&AG also agreed to waive audit fees in case either a suitable amendment in the Act entrusting audit to him was inserted by the State Government or a request under Section 20(1) of C&AG's (DPC) Act, 1971 was made for at least a period of 5 years or more. These guidelines were seen by the Headquarters at draft stage.

DAI (Local Bodies) acted fast on all these things. The format of accounts of Panchayati Raj Institutions was drafted in coordination between the Accounts Wing and the Commercial Audit Wing and after a series of discussions of the draft format between Addl. Dy. Comptroller and Auditor General (Report States), Addl. Dy. Comptroller and Auditor General (Accounts, Entitlement and Complaints), and the concerned Principal Director, the format was approved. The account and budget format prescribed by the C&AG has several advantages:

- ❖ The format is based on a modified cash basis. It has a few statements on demands, collections and assets appended to the accounts that address critical aspects. The formats also take care of all activities that are listed in the Eleventh Schedule to the Constitution and depict funds transferred to the Local Bodies under various programmes and the schemes.
- ❖ The format has been kept simple so that it can be maintained easily by limited expertise of staff that are generally available in PRIs.
- ❖ The accounts and the budget formats are synchronised and linked with classification codes on the same pattern as for Union and State Accounts. This will facilitate computerisation and building up of data base for effective monitoring. Subsequently in 2006–07 the format was further simplified and the latest simplification does away with the synchronisation in all cases, on grounds of ‘ease of use and understandability of accounts and codes to the users.’ Nevertheless the one to one correlation i.e, synchronisation, is achievable through computerised mapping, without having to burden the individual users with a complicated accounting structure.

IMPLEMENTATION OF THE TGS

TGS to the Director, Local Fund Accounts (DLFA) includes assistance in auditing standards, audit planning, improved audit methodology and professional training to the auditors of the DLFA by the C&AG’s institution. In a letter to all the Principal Accountants General/ Accountants General (Audit) in May 2002, the Principal Director (LB) from HQrs listed out the scope of technical control and supervision by C&AG (produced as a document in this Book). How much of this is in reality operational in the states which have accepted the TGS will differ from State to State. The DLFA (by whatever name it is known) continues to be the Principal Auditor of the Local Bodies and he works under the administrative control of State Government while receiving technical guidance and support/ supervision in audit matters from Accountant General. The AG also has the authority to carry out supplementary audit through the Local Fund Audit Department mainly to ensure proper certification of accounts.

The various components of TGS seem to have been implemented and these have performed creditably as can be seen from details below:

- (i) Entrustment of TGS for proper maintenance of accounts and audit to C&AG: As of now 19 States have entrusted TGS to C&AG while 3 States have partially entrusted such TGS to C&AG. Only 2 States (Arunachal Pradesh and Punjab) are yet to entrust such audit/ TGS to C&AG. Of the three States that have agreed to partial entrustment of TGS, Chhatisgarh has opted for only technical guidance, there is no audit mandate under TGS. In Haryana, also only technical guidance is being provided under TGS by the AG. Tamil Nadu, while entrusting TGS, withheld any powers to AG to audit Gram Panchayat.
- (ii) Documents prescribed by the C&AG for providing TGS: Documentation was one of the most problem areas in Local Self Government Audit specially in case of rural bodies. The Eleventh Finance Commission had commented on this very strongly stating that 'In many States the formats and procedures for maintenance of accounts by these bodies prescribed decades ago, are continued without making any improvements to take into account the manifold increase in their powers, resources and responsibilities'. One of the first tasks on which C&AG embarked immediately after the decision of TGS, was documentation preparation and preparation of manuals. C&AG in quick succession produced following documents:
- ❖ Auditing Standards for PRIs and ULBs
 - ❖ Guidelines for Certification audit of accounts –PRIs
 - ❖ Manual of Audit for PRIs
 - ❖ Audit training modules for ZPs, PSs and GPs
 - ❖ List of Codes for functions and activities of PRIs
 - ❖ Budget and Accounts formats for PRIs
 - ❖ Training Module on PRI accounts and budget—in 2 parts theory and practical.
- (iii) 21 States have so far accepted the accounting and budget formats as prescribed by the C&AG for the PRIs with some modifications. Three States (Arunachal Pradesh, Goa and Sikkim) are still in dialogue with the C&AG.
- (iv) Regarding the adoption of data based format, 10 States have accepted the format while 14 States are still in dialogue with the C&AG on this issue. C&AG has identified 'lack of information about finances and accounts or any institutional mechanism for collating and managing such

data in respect of local bodies at the State level', as a big handicap in efforts to create a (networked) data base on finances of PRIs.

While providing Technical Guidance and Support to the DLFA, C&AG's audit was expected to reflect qualitatively higher concerns for cost, efficiency or performance in respect of the schemes that the Panchayats manage. In contrast to the DLFA's concerns, which are generally legalistic and focus more on observance of financial rules or government orders, C&AG's audit, by way of a supplementary check of the work of DLFA, would essentially focus on performance issues and utilisation of funds in general, subversion of internal controls in the local bodies leading to fraud, corruption, misappropriation and mismanagement of funds. C&AG's Reports also suggest strengthening internal controls and best accounting practices and systems as also capacity building within these institutions.

SEPARATE OFFICES OF LOCAL BODIES AUDIT AND ACCOUNTS

In view of the fact that with every passing year, more and more States are transferring increased number of functions to the PRIs along with funds thereby increasing the audit and accounting responsibilities, a separate office, independent budget and dedicated staff was needed for this work. The question as to what organisational structure Local Bodies Audit would have and from where the staff would come was addressed at length by an HR Committee constituted in January 2004 by the C&AG under the chairmanship of DAI 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.' Amongst the 5 areas identified by the Committee in the context of Perspective Plan, where organisational changes would be required to fulfil the goals set out one area was audit of Local Bodies. The Committee concerned itself basically with the organisational structure for the Local Bodies audit and how to meet the staff requirements for that.

Based on Committees recommendations, the C&AG decided in March 2004 to create a separate office/ unit of Local Bodies Audit & Accounts headed by a Sr. DAG (Local Bodies, Audit and Accounts). The staff for these offices would be drawn from both Audit and A&E offices on deputation basis. Administratively and

technically these offices would be under the control of senior most Pr.AG/ AG at the station. Accordingly, as already stated 17 offices were created in various states in the above fashion.

NATIONAL MUNICIPAL ACCOUNTS MANUAL

A Task Force of accounting format for Urban Local Bodies was constituted by the C&AG of India in February 2002 with representative from Ministry of Urban Development, State Governments of Maharashtra, Tamil Nadu and Karnataka besides officers from the office of the C&AG of India. Deputy Comptroller and Auditor General (Accounts and Local Bodies) headed the task force. Task Force finalised its Report in December 2002 recommending accrual accounting system for municipalities. Based on the report of the Task Force, Ministry of Urban Development, Government of India brought out National Municipal Accounts Manual (NMAM) in December 2004 in association with C&AG of India. This document details the accounting policies, procedures and guidelines designed to ensure correct, complete and timely recording of municipal transactions and produce accurate and relevant financial reports. The Manual has been adopted by nearly all the states, who are now engaged in customising and adopting NMAM suitably to meet their specific requirements.

TRAINING

C&AG took special steps to impart training to the staff of Director Local Fund Audit as also Urban Local Bodies since it was recognised that capacity gaps were a major constraint in proper accounts keeping as well as effective auditing. The C&AG took initiatives in this direction as a component of his TGS model and over the period of about 4 years beginning 2002–03 organised training programmes to the concerned staff in PRI and ULB accounts and audit. Specifically speaking, in the early phase, C&AG organised training programme on maintenance of accounts of PRI through the agency of IPAI³ which was chosen as a Nodal agency for training for the audit and account staff of PRIs. Eventually, when the C&AG had prescribed budget and accounts formats for the PRIs, (IPAI was involved in their preparation) the training of PRI functionaries was formulated for execution in two segments. In the first phase there was training for trainers—in this training programme a core group of PRI functionaries were trained. These trainers were assigned the task of training the remaining personnel

at the district and block level. The conduct of training for trainers of PRIs in the various states was entrusted to the IPAI in April 2002, who conducted the training in the States of Jharkhand, Orissa, Uttarakhand, Gujarat, Assam, Chhattisgarh, Himachal Pradesh, Uttar Pradesh and Haryana and around 1100 trainers were trained. The process is ongoing. While the cost of the first phase of training was borne by the C&AG, the State Government bears the cost of Phase-II training, for which funding assistance is given by the Central Government to State Governments. C&AG also assists training efforts in states by providing training material and experts.

The training manual based on National Municipal Accounts Manual is under finalisation by a consultant under the aegis of National Institute of Urban Affairs. The Local Bodies Wing of C&AG is extending technical support and advice where required. The training for the staff of ULBs was largely conducted by National Institute of Urban affairs which is an autonomous body under the Ministry of Urban Development and has 16 branches all over the country. RTIs and RTCs would also be involved in training the State government staff and C&AG's staff.

The current focus of C&AG is on improving audit skills of the staff of DLFA in different States. In line with this thinking, training in PRI and ULB audit is planned in large number of States. C&AG is also organising refresher courses in audit and accounts on specific requests from State Governments. In fact the refresher courses in 12 States have already been organised by the C&AG for training in audit and accounting matters. This is because the trained staff of local bodies are still not very comfortable in organising the in-house training programmes on PRI accounts and, therefore, AG offices have continued to assist them in terms of experts and training material.

Regional Training Institute, Kolkata (which is designated as a 'centre of excellence' in local bodies audit) has developed a number of Audit Training Modules which are further customised by individual offices and these have been very helpful in providing a structured training programme on various aspects of PRI and ULB functioning. These modules have information on various aspects like finances, accounts, statutory basis of audit and practical guidance to audit of various schemes executed by local bodies including critical areas like works and contracts and also new areas like social audit, gender perspective, etc.

C&AG'S AUDIT REPORT ON LOCAL BODIES

The Eleventh Finance Commission, inter-alia, recommended that the Report of the C&AG relating to audit of accounts of panchayats and municipalities should be placed before a Committee of State Legislature, constituted on the same lines as the Public Accounts Committee (PAC). Prior to the enactment of 74th constitutional amendment, the results of C&AG's audit of the accounts of PRIs and ULBs were included in his Audit Report (Civil) of the concerned State Government as a Chapter which was discussed in the PAC in the usual manner.

It was decided by C&AG in July 2001 that a separate volume of Audit Report on Zilla Parishad/Panchayati Raj Institutions may be prepared by Principal Accountant General/Accountant General, Karnataka, Maharashtra, Bihar, West Bengal and Tamil Nadu. The report was to comprise three Chapters—Chapter-I on Financial Management in Zilla Parishad and Panchayat Institutions; Chapter-II would contain reviews, if any, on a selected topic (a model review published in report of West Bengal for the year ended 31 March 1998 was enclosed for guidance); and Chapter-III to contain individual audit paragraphs. Subsequently on the basis of discussions held on 24 July 2001 on the subject with the concerned Pr.AG/ AG it was decided that in the case of Karnataka, Maharashtra and West Bengal, this report would cover results of audit of Zilla Parishad and Taluka level panchayats. In the case of Bihar material for 4 Zilla Parishads was to be included and for Gram Panchayat only test audit of 100 Gram panchayats was to be done. In the case of Tamil Nadu the Audit Report was to cover results of Taluka Panchayat audit because Zilla Parishads did not execute any schemes or programmes by themselves in Tamil Nadu. Headquarters also intimated the money value of the paras for the 3 levels namely, Village panchayats (Rs.1 lakh or more), Taluk panchayats (Rs.5 lakh or more) and Zilla Parishads (Rs.10 lakh onwards).

In August 2002, the question of signature on the Audit Reports was carefully examined by Headquarters. Currently, separate Audit Report on Local Bodies is brought out by Accountants General of Karnataka, Kerala and Tamil Nadu for submission to respective State Legislatures. All these reports are countersigned by the C&AG and they are all bilingual. While AG, Rajasthan also prepared a report for his State on Local Bodies for the year 2004-05, duly countersigned by the C&AG, due to some legal objections

raised by the State Government, the report could not be placed in the Legislature so far. A final decision on the issue of placement is still to be taken. Accountants General, Andhra Pradesh and Maharashtra have prepared audit report for the year 2005-06 which is under process and these would also be placed in the State Legislature after countersignature of C&AG.

As regards discussions on these reports by the Legislative Committees, in both Tamil Nadu and Karnataka the State PAC discusses them; in Kerala, there is a separate Committee of Legislature called Committee on Local Self Government Institution which discusses the report; in Rajasthan also a Committee of the House has been constituted to deal with the C&AG's Report on Local Bodies. Separate Committees of Legislatures to examine the Report of DLFA is already in position in Gujarat.

In respect of eight States namely, West Bengal, Bihar, Assam, Orissa, Madhya Pradesh, Gujarat, Himachal Pradesh and Uttar Pradesh, the report prepared on the audit of Local Bodies by the concerned Accountants General/Examiners of Local Accounts is called Consolidated Technical Inspection Report. This is signed by Accountant General only and is submitted to State Government Finance Secretary who takes the follow up action on the report. All the reports mentioned above contain audit findings under TGS and also under section 14. However, where a separate audit report is not presented to the Legislature, important audit findings under section 14 are included in the State Civil Audit Report. In Maharashtra, there exists a Committee of Legislature to deal with the Report of States Local Fund Auditor. Who will deal with C&AG's Report when, as is likely, it is presented this year (2007) remains to be seen?

The C&AG is of firm view that there should be separate volume of audit report in respect of Local Bodies Audit. For achieving this objective, apart from other things, with the augmentation of staff, and more experience of TGS system, it is to be expected that separate volumes of audit reports would be produced by all the Accountants General.

In the coming years, when the system gets stabilised it would be possible to understand what kind of institutional mechanism will be in place to follow up of the report of the C&AG on Local Bodies.

RELEASE AND UTILIZATION OF FUNDS RECOMMENDED
BY TWELFTH FINANCE COMMISSION

Based on the recommendations of the Twelfth Finance Commission, Ministry of Finance issued Guidelines for utilisation of Local Bodies Grants, according to which, C&AG would provide assurance to Central Government on the releases and utilisation of these grants devolved by Central Government. For this purpose, C&AG would examine the timely release of funds from the Consolidated Funds of the State to the Local bodies to ascertain whether these releases have been timely or were delayed. When instructions to this effect were received, a meeting was held with the Secretary, Department of Panchayati Raj in September 2005, wherein it was decided that the C&AG shall work out the modalities to examine timely releases of funds to the PRIs/ ULBs. Similarly, C&AG was also to check about the utilization of funds to ascertain whether these had been used for the purpose for which they were sanctioned.

Necessary instructions on these lines were to be issued by Ministry of Finance, Government of India to the State Governments.

In this connection C&AG office issued following modalities in November 2005⁴

- ❖ Since Government of India would release the grants in July and January each year, Pr. Finance Secretaries of State Governments should provide certificates of release to Pr. AG/ AG by 31 August for first instalment and by 31 January for second instalment
- ❖ For utilisation of Grants, Pr. Financial Secretaries should provide certificate of utilisation by 30 April each year. Pr. AG/ AG would give necessary assurance to Central Government by October/ November each year. The release of second instalment in January would depend on this utilisation certificate.

The functions that were required to be performed by the C&AG needed a specific authority since this was an additional work. It also needed a separate entrustment under Section 20(1) of C&AG's DPC Act by State Governments. Pending this, the C&AG asked Principal Accountants General/ Accountants General to proceed with the work on the lines indicated in his modalities.

As is usually the practice, the C&AG's audit certificate on the audit of TFC grants was to be as a 'sole auditor' and he could not delegate this work to anybody else. A calendar for issue of audit

certificate was also prescribed according to which the Pr.AG/ AG shall issue audit certificate latest by October/ November.

The Headquarters instructions of November 2005 contemplated that the Pr.AG/AG of the State concerned would verify the correctness of the State Government certificate of utilization by adopting a risk based audit of transactions to enable him to give a reasonable assurance about the receipts of money into the accounts of PRIs, ULBs and the use thereof. In checking the utilisation of grants the AG would go as per the broad areas identified by the Twelfth Finance Commission in so far as use of grants in these areas is concerned. Guidelines also have laid emphasis on checking the utilisation in 'thrust areas'. The rule of the thumb is that if overall pattern of expenditure is within the priority areas then Audit should be satisfied.

This additional function assigned to the C&AG, though very important in nature, does have implications on staffing.

Another requirement, in the whole process was about timely intimation by the Government of India of the details of the amount released to the State Government Budget and a certificate from the State Government to the State Pr. AG/ AG in a prescribed format giving the details of release of funds by two prescribed dates namely 1 December and 31 January for the year 2005–06. Similarly, for utilization State Governments would provide a certificate by 31 October to the Pr.AG because the release of the next instalment in January would depend on this certificate. These provisions were for the year 2005–06 only. For subsequent years, the system as mentioned in earlier paragraphs was prescribed both for release and for utilization of funds as mentioned above.

In the above task, the C&AG's organization was tested very clearly because dimension of the work involved was stupendous — there are over five lakh village Panchayats (including 6795 taluk Panchayats and 531 Zilla Panchayats). Similarly there are 3723 ULBs. Working out a suitable model for their audit and issue of audit certificate along with application of funds to the purposes for which these were released posed some challenge to the department. While for the year 2005–06 and 2006–07, State Accountants General have been able to carry out this job well within the time frame, many of them have informed Headquarter that suitable augmentation of PRIs/ ULB audit staff would be necessary to cope with this additional work load. Currently, the Headquarters is examining the entire staffing pattern of the Sr.DAG (LB) offices.

The induction of C&AG's organisation into the TGS Scheme was a difficult task to be achieved despite the recommendations of the Eleventh Finance Commission and the backing of Ministry of Finance. Since, under the Constitution local bodies are listed in the State list, there is practically no power with the Centre to effectively do much in this regard. Given the sensitivity and reluctance of the State Governments to let anyone enter into their areas of operation, it should be considered remarkable that most of the States agreed to the TGS and C&AG's new role on audit and accounting matters.

While it looks that a workable collaboration has been established, it is too early to say how successful it is. TGS, as it is operationalized now, is different from what the Eleventh Finance Commission had proposed. At best, the C&AG is an external advisor without any authority to enforce his systems and procedures, more as a matter of conscious choice, which was influenced by the reluctance of the State Government to accept the expression supervision. TGS, therefore, now really means Technical Guidance and Support. As far as 'Supervisory' role of TGS is concerned, it is not really operational. The corroborative approach, however, has established a new system of what can be called 'participatory approach to accountability'. In such a case, all the three parties i.e. C&AG, Director, Local Fund Audit and the Civil Societies have joined together to explore the results of their respective oversight functions and improve local bodies functioning. This should be considered as a development of great importance.

There is no evaluation so far as regards the effectiveness of the new arrangements of audit of PRIs based on TGS. The eventual question also is has C&AG's new role as a guide and advisor improved accountability of local governments and resulted in qualitatively better audit outputs? How much progress has been made in satisfactory accounting system is yet another question? Added to this is the question perennial to all Audit Reports, namely, the question of follow up and action taken on the audit outputs. In other words, whether the new framework has produced better accountability, better resource utilisation and better accounting records, are the questions that need some answers.

ISSUES FOR THE FUTURE

The Local Bodies Audit Wing of the C&AG's Office have identified certain issues for the future in the context of audit of PRIs and Urban Local Bodies.

Issues in urban local governance in so far as they affect C&AG's Audit, relate to paradigm shift in municipal governance with the introduction of accrual based accounting. This will throw up a challenge to audit in areas like assets valuation and accounting, cost of services, etc. and would call for corresponding capacity building in audit. Similarly, with more and more public-private partnerships model in the execution of urban infrastructure programmes, new issues of Municipal Bonds, rationalization of property tax, issues of user charges and e-governance have been thrown up. Besides these new areas, audit would continue to address issues of urban poverty, unemployment, public health, slum development, sanitation and primary education.

As for the issues of rural local governance, the primary focus will be on 'issues of governance at the grass root level' and programmes of rural unemployment, public health and sanitation, drinking water, roads, education, women empowerment, creation of community assets and housing. Audit will have to come up with a system to comment on quality of democratic decentralization. Similarly, on devolution of funds and its uses, it would need a different kind of approach. One can visualize auditors acting as facilitators in fostering a culture of accountability in PRIs. All this could be done through capacity building, sharing of knowledge, ideas and experiences. The concern of government audit would be to strengthen the overall accountability framework.

In the context of devolution of power and authority to PRIs for implementation of TGS, C&AG is of the firm view that 'Without putting in place a system of commensurate accountability for desired performance it might turn out to be a futile attempt'. He, therefore, strongly recommended to Ministry of Finance 'for developing a strong and effective system of internal audit and control for PRIs that clearly defines their duties and clear responsibility and accountability chain and centres'. He also advocated building a strong social audit system for measuring the impact of various programmes implemented by PRIs or ULBs.

The TGS offers a unique picture of collaborative audit approach in the field of Local Bodies. It is still evolving. On the success of this model hinges the success of new accountability framework

for PRIs and Urban Local Bodies. TGS also implies looking beyond the traditional moors of audit—it should look beyond paper audit and extend a helping hand to the civil society, which is people's voice in the conduct of social audit of PRIs and ULBs. How exactly this can be done is something to think about?

C&AG'S DISCUSSION WITH ADMINISTRATIVE REFORMS COMMISSION

Administrative Reform Commission held discussions with the C&AG on 7 June 2007 where C&AG apprised the Commission of the progress made in the TGS arrangement regarding Local Bodies and conveyed his views to the Commission on some of the issues like strengthening the TGS arrangement, auditing arrangements for the Urban Local Bodies on the lines of Government companies under the Companies Act and regarding discussion of Audit reports where he was of the view that public interest would be better served if reports of the C&AG on Local Bodies were discussed by a separate committee of State Legislature on the same lines as the PAC. This was also in line with the recommendation made by the Finance Commission. C&AG also touched upon the important subject of poor documentation and record management in Local Self Government Institutions as well as arrears in accounts in many of them.

SOCIAL AUDIT AND LOCAL BODIES (PRIs)

C&AG has made a strong pitch for the role of social audit in accountability mechanism of Local Bodies Audit. He has voiced this in several forums. In his suggestions to Ministry of Finance regarding TOR for the Task Force proposed to be set up by Ministry of Finance, C&AG made a special mention of issues relating to the social audit of Centrally Sponsored Schemes (CSS) through the involvement of civil society. C&AG's note also impressed upon the fact that developing social audit 'is very essential' to improve the PRI mechanism, increase accountability and transparency as CSS, delivered through Panchayats and Gram Sabhas, automatically builds in decentralised participation of the community and user groups.

SOME IMPORTANT PARAGRAPHS

Some important audit paragraphs on Local Bodies Audit are summarised below:

Solid Waste Management by Municipalities and Corporations: Report of the C&AG for the year ended 31 March 2005 (ULBs—Government of Tamil Nadu) was a kind of Performance Audit on a subject of immense importance from environmental angle and functioning of the municipalities and corporations concerned on this score. The findings revealed that only two municipalities out of 151 in Tamil Nadu have established waste processing and disposal facilities. Out of 102 municipalities (after excluding 49 Grade III municipalities), five did not have any land for dumping solid waste and 36 had inadequate land for this purpose. More disturbing news was on the disposal of bio- medical waste by government for reclassification and private health care units—none of 313 government hospitals and nearly 85 per cent of 2,255 private health care units had obtained any authorisation for the disposal of bio-medical waste from Tamil Nadu Pollution Control Board as required under the relevant rules. An interesting point emerged in this audit was that after privatisation of the work regarding garbage collection by Corporation of Chennai the quantity of garbage cleared by a private agency in specified zones indicated that the quantity of the garbage cleared was inexplicably higher by 21 to 66 per cent compared to waste generated and cleared in other comparable zones resulting in excess expenditure of Rs.37.07 crore during the year 2001–02. Bio-medical Waste Management as would be clear from the above was in shambles. Only 2,382 kgs out of 57,461.50 kgs of bio-medical waste generated per day in the State were treated and disposed.

Audit Report gave a set of recommendations at the end of the Report that included concerted action for setting up waste disposal facilities, house-to-house collection of waste, modernisation of garbage collection and privatisation of conservancy operations to the extent envisaged.

The subject of Solid Waste Management by Municipal Corporation had also been discussed in his Report for the year ended 31 March 2004 (LSGI) Government of Kerala, where the audit noted same deficiencies as in the case of Tamil Nadu regarding collection segregation and removal of waste. None of the Municipal corporations had evolved adequate system for these functions. In three Municipal Corporations, the sweepers employed

were far below the required norms. Even in cities like Thiruvananthapuram, Thrissur and Kozhikode Municipal Corporations the solid waste power plants installed were not working regularly. The review thus concluded that sufficient number of bins were not provided for primary segregation and collection resulting in non-removal of full quantity of such waste. Worse, whatever waste was removed was not fully treated. Amongst the recommendations made by audit were ensuring an adequate system for primary collection and clearance of waste daily, providing coloured bins to ensure segregation of wastes at source into biodegradable, recyclable, hazardous, etc.

Ineffective implementation of Desert Development Programme: The Desert Development Programme (DDP) was implemented in the State from April 1995 in 22 blocks having hot and arid zones with low rainfall and depleting ground water table. The main objectives of DDP were development of land in these blocks and improving social and economic condition of poor. Audit test—checked (January–May 2003) the implementation of DDP in 10 taluks, covering the period 1995–2003. Implementation of Desert Development Programme was deficient as there was non-receipt of Government assistance of Rs. 78.91 crore and available funds were not fully utilised. Only 50 per cent of the projects under first Batch commenced in 1995–96 was completed and completion of projects in other Batches was delayed. There were instances of improper selection of watersheds (costing Rs. 5.48 crore) and irregular/doubtful expenditure /non/sub-standard execution of works (Rs. 6.03 crore) Internal controls, monitoring and follow up and evaluation were inadequate.

(Paragraph 2.3 of Audit Report for the year ended 31 March 2003, Government of Karnataka)

Misappropriation of funds in the Taluk Panchayat, Malur by presenting fraudulent claims: Audit scrutiny of records (2001–03) of Executive Officer (EO), Taluk Panchayat (TP), Malur in Kolar District disclosed that the EO misappropriated funds aggregating Rs. 1.74 crore by preferring fraudulent claims of works/supply bills in violation of Codal provisions. Sub-Treasury Officer (STO), Malur facilitated misappropriation by passing such fraudulent bills without exercising proper checks as prescribed in Codes and Manuals.

Audit scrutiny disclosed that Chief Accounts Officer Zilla Panchayat, Kolar did not object to the excess expenditure over

budget allocation and diversion of funds from one scheme to another. Most of the bills contained alterations/over writings / interpolations, supporting vouchers attached to the bills did not match with the total of bills, same bills were preferred more than once quoting the budget allocation more or less equal to the bill amount and checks were issued in favour of subordinate staff from scheme accounts.

Out of misappropriation of Rs. 1.74 crore, Rs. 70.37 lakh related to interpolated /tempered supply bills not supported by requisite certificate. Rs. 37.74 lakh was drawn on bills for which no material had been received , Rs. 33.88 lakh was drawn on work bills not supported by measurement books and many bills were tampered by altering without attestation. Government replied that socruse notices had been issued to officials responsible for the irregularities A Deputy Secretary was kept under suspension pending departmental enquiry.

(Paragraph 2.6, Report on Zilla Panchayats for the year ended 31 March 2004—Government of Karnataka)

ANNEX

Summary of Devolution of Funds and Functions to PRIs by States

Sl. No.	States/UTs	Functions devolved	Functions for which funds are devolved
1.	Andhra Pradesh	17	5
2.	Arunachal Pradesh	0	0
3.	Assam	29	0
4.	Bihar	25	8
5.	Jharkhand	0	0
6.	Goa	6	6
7.	Gujarat	15	15
8.	Haryana	16	0
9.	Himachal Pradesh	26	2
10.	Karnataka	29	29
11.	Kerala	26	26
12.	Madhya Pradesh	23	10
13.	Chhattisgrah	29	10
14.	Maharashtra	18	18
15.	Manipur	22	0
16.	Orissa	25	9
17.	Punjab	7	0
18.	Rajasthan	29	18
19.	Sikkim	24	24
20.	Tamil Nadu	29	0
21.	Tripura	12	0
22.	Uttar Pradesh	12	4
23.	Uttaranchal	11	0
24.	West Bengal	29	12
25.	Andaman & Nicobar	6	6
26.	Chandigarh	0	0
27.	Dadra & Nagar Haveli	3	0
28.	Daman & Diu	9	5
29.	NCT Delhi		
30.	Pondicherry	0	0
31.	Lakshadweep	6	0

India—Rural Governments & Service Delivery—World Bank Study 2006

NOTES: CHAPTER-14

¹ The Finance Commission has discussed the auditing and accounting issues in para 8.19 of the then Report

² K.N. Khandelwal

³ Institute of Public Auditors of India

⁴ Letter No. 424/LB/PRI/4-2002 dated 14 November 2005

LIST OF KEY EVENTS

20 April 1993	President gave his assent to 73rd and 74th amendments to the Constitution relating to rural and urban local bodies.
3 July 1998	President constituted XIth Finance Commission to give recommendations on specified aspects of Centre-State fiscal relations during 2004–05.
7 July 2000	Commission submitted its Report covering all aspects of its original mandate. C&AG was made responsible for exercising control and supervision over the maintenance of accounts and audit for all the tiers/levels of Panchayats and Urban Local Bodies. Government accepted the recommendations.
4 August 2000	Secretary, Ministry of Finance, Department of Economic Affairs, New Delhi requested C&AG to suggest an action plan for operationalising the recommendations of the Commission.
16 August 2000	Joint Secretary (Budget), Department of Economic Affairs, New Delhi intimated Director General (Audit) that C&AG's (DPC) Act covers the audit of Local Bodies.
13 February 2001	ADAI wrote to Joint Secretary (Budget) stating that C&AG can undertake Technical Guidance and Supervision provided a request from State/Union Territory is received under Section 20 of C&AG's (DPC) Act, 1971.
8 June 2001	Ministry of Finance sent Guidelines for utilisation of Local Bodies Grants recommended by the XIth Finance Commission (2000–01 to 2004–05).
19 July 2001	ADAI addressed State Accountants General intimating that the Department would finalise auditing standards and provide training to staff of State Governments. Model accounts format for panchayat institutions was to be sent separately.
11 July 2001	Decision to bring out a separate Audit Report on working of Zilla Parishads and other Panchayati Raj Institutions.
20 July 2002	Following documents were issued by C&AG : <ul style="list-style-type: none"> (i) Auditing Standards for Panchayati Raj Institutions and Urban Local Bodies. (ii) Guidelines for Certification Audit of Accounts of Panchayati Raj Institutions.
16 October 2002	Following documents were issued by C&AG : <ul style="list-style-type: none"> (i) List of Codes for Functions, Programmes and Activities of Panchayati Raj Institutions.

- (ii) Model Budget Format for Panchayati Raj Institutions.
 - (iii) Model Receipts and Payments Account Format of Zilla Parishad.
 - (iv) Model Receipt and Payments Account Format of Block Panchayat/Village Panchayat.
- 31 December 2002 Manual of Instructions for Audit of Panchayati Raj Institutions was issued by C&AG.
- December 2004 National Municipal Accounts Manual detailing the accounting policies, procedures and guidelines was launched.
- November 2005 Director, Local Bodies approached Ministry of Finance for issue of instructions to Chief Secretaries/Principal Finance Secretaries of States to provide certificates and related information regarding release of grants recommended by XIIth Finance Commission to state Accountants General.

DOCUMENTS

1

D.O. No. 10 (17)-B(S)/2000
Ministry of Finance
Department of Economic Affairs
4th August, 2000
Dear Sh. Shunglu,

Kindly refer to our brief discussion regarding the recommendations of the Eleventh Finance Commission (EFC) relating to the maintenance of accounts and audit of local bodies. EFC has proposed that C&AG may be entrusted with the responsibility of exercising control and supervision over the accounts and audit of these bodies.

I am sending herewith a copy of the Report of the Commission along with an Explanatory Memorandum detailing the action taken by the Government on the recommendations of the Commission. Both these documents have been laid on the Table of both the Houses of Parliament on 27th July, 2000.

I would request you to suggest an action plan for operationalizing the recommendations of the Finance Commission within a given time-frame considered reasonable by you.

With regards,

Yours sincerely,
Sd/-
(E.A. S. Sarma)

Encl: as above
Shri V.K. Shunglu,
Comptroller & Auditor General of
India, 10, Bahadur Shah Zafar Marg,
New Delhi.

2

D.O. No. 502-Audit-II/68
Date: 11 August 2000

Dear Shri Dhirendra Swarup,

I am enclosing a copy of the letter received from Joint Secretary, Ministry of Rural Development asking for our comments on a private bill moved by Mr. Priya Ranjan Dasmunsi, Member of Parliament. The proposal from the Hon'ble M.P. is to amend Article 243-J to provide for audit of Panchayat accounts by the C&AG of India. The letter from the Joint Secretary, Rural Development states that the Ministry has decided to oppose the introduction of this bill. This letter was received on 28 July (Copy enclosed).

In the meantime, it is seen that the Department of Economic Affairs has come out with an explanatory memorandum to the Action Taken on the Eleventh Finance Commission's recommendations on 27 July 2000. According to para 9 of this memo, Govt. has accepted the recommendations of the

Commission regarding the measures proposed for strengthening the arrangements for maintenance of accounts and audit of local bodies including Panchayats.

We have brought this development to the notice of Department of Rural Development through the letter addressed to Ms. Sudha Pillai, Joint Secretary (Copy enclosed) and have also suggested that suitable constitutional amendment may be proposed by them in consultation with us.

For municipal bodies, similar amendments will be needed in Article 243-Z of the Constitution. You may kindly consider taking up the matter with the Ministries of Rural Development as well as Urban Development as a follow up to the Govt.'s decision contained in the explanatory memo.

Yours sincerely,
SD/-
(J. Manadal)

Shri. Dhirendra Swarup,
Joint Secretary (Budget),
Deptt. of Economic Affairs,
Ministry of Finance, North Block,
New Delhi-1

3

D.O. No. F.10 (7)-B(S)/2000
Ministry of Finance,
Department of Economic Affairs
Date: 16 August 2000

Dear Sh. Mandal,

Kindly, refer to your D.O. letter No. 502-Audit II/68-2000 dt. 11.8.2000 regarding audit of local bodies.

2. Under Article 243-J and 243-Z, State Legislatures are empowered to regulate by law the accounts/audit of Panchayats/Municipalities . Eleventh Finance Commission (EFC) has recommended that C&AG should exercise control and supervision in this regard. The recommendation has been accepted in principle.

3. Government's in-principle decision to the recommendations concerning strengthening of accounts and audit of panchayats and the municipalities should be interpreted in the context in which the Commission has made the recommendations. In the memorandum submitted to EFC, the Ministry of Rural Development had stressed the need for a proper system of maintenance of accounts and their audit, under the supervision and control of the Comptroller and Auditor General of India (vide para 8.4 of the EFC's Report). Further, the Commission had taken cognizance (vide para 8.19 of the EFC's Report) of Articles 243J and 243Z of the Constitution under which States are authorised to make provisions by way of legislation for maintenance of accounts by the panchayats and the municipalities and for the audit of such accounts. The Commission did not, however, specifically recommend any change in Articles 243J and 243Z of the Constitution. The Commission has noted that most States' legislation do make general provisions for these purposes, but detailed

guidelines or rules have not been laid down, in several cases. In many States, the formats and procedures for maintenance of accounts by these bodies prescribed decades ago, are continued without making any improvements to take into account the manifold increase in their powers, resources and responsibilities. As regards audit, in many States, the legislation leaves it to the State Government to prescribe the authority. In the Commission's view this area—of accounts and audit—needs to be set right under the close supervision of the C&AG and supported by specific earmarking of funds from the grants recommended by the Commission. This also conforms to the submissions of the Ministry of Rural Development to the Commission.

4. There is no conflict between the recommendations of the EFC in this matter and the Constitutional provisions requiring any legal/constitutional amendment. Sections 14, 15 and 20 of the C&AG's (DPC) Act adequately cover the audit of Government financed bodies or authorities. Exercise of control and supervision by C&AG would essentially involve setting up of standards, advice on systems and procedures and perhaps a super-imposed test audit under the DPC Act without transgressing the provisions of any State law. It is not Central Government's intention to deprive the States from statutory control of accounts/audit of local bodies. In principle approval should be presumed to mean a role for the C&AG's under the DPC Act and State laws. Questions of inter-law conflict, if any could be addressed as and when they arise.

With regards,

Yours sincerely,
Sd/-
(D. Swarup)

Shri J. Mandal
Director General (Audit),
O/o the C&AG of India
New Delhi.
Copy to:
Mrs. Sudha Pillai,
Joint Secretary,
M/o Rural Development
New Delhi.

Sd/-
(D. Swarup)

4

D.O. No. 199-II/73-2000
Date: 13 February, 2001

Dear Shri Swarup,

Kindly, refer to your D.O. No. F.10 (17)-B(S)/2000 dated 16th August 2000 regarding audit of local bodies. In the meantime, this office has developed a standard format for keeping accounts of the village level and intermediate level Panchayats in Zilla Parishads as recommended by the Eleventh Finance Commission. These formats have been devised taking care that they will be amenable to computerisation in a network environment. Once the Ministry of

Rural Development agrees with this format after a pilot experiment in two or three Panchayats, the Ministry plans to suggest its adoption throughout the country during 2001–02.

After ascertaining the arrangements of audit of Panchayats in various states, it is gathered that almost each state has a Director of Panchayat Audit with significant staff. However, as already noticed by the Finance Commission, the area of accounts as well as audit of Panchayats, Municipal local bodies needs to be set right, under the close supervision of the C&AG and for this purpose the Commission has recommended that the state audit agency should work under the technical and administrative supervision of the C&AG. C&AG may also get the audit done through his own staff.

It is noticed that presently the calibre of staff of Director, Panchayat audit is not upto the required level nor is the audit conducted in a regular manner. A lot of upgradation of their skill through training and standardisation of accounts and audit procedures will be needed particularly so in view of the expected increase in the flow of funds to the Panchayats and Municipalities.

We have made a rough assessment that we can associate our staff and officers to the required degree for the function of technical supervision as well as in the conduct of audit of the local bodies and no extra staff will be required excepting a few senior level officers to take care of training, framing guidelines, high quality supervision where needed, editing and pursuance of reports. We are, therefore, prepared to exercise this function of audit of local bodies if any request is received from any State or Union Territory under Section 20 of the C&AG's (DPC) Act 1971. In fact, by pooling the man power and resources of the Accountant General and the Director Local Fund Audit, a single and effective audit arrangement can be established to cover all the rural and urban local bodies

It is presumed that the states while making such request will place their Director of Panchayat Audit/Director, Local Fund Audit under the suprintendence and technical supervision of the C&AG as recommended by the Finance Commission.

Govt. of India may like to suggest to the State Govts./Union Territories accordingly.

In the meantime, it is understood informally from a few State Govts. that they may undertake suitable amendments in their Local Fund Audit Acts entrusting audit on a regular basis to C&AG alongwith directing the Examiner Local Fund/Director, Panchayat Audit to work under the technical guidance of C&AG. Whenever any such development takes place, we would keep you suitably informed.

Yours sincerely,
Sd/-
(K.N. Khandelwal)

Shri D. Swarup
Joint Secretary (Budget),
Deptt. Of Economic Affairs,
R.No. 168-B, North Block,
New Delhi-1

5

D.O. No. 220/Local Bodies/PRI/ULB

Date: 2 May 2002

R.N. Ghosh
Principal Director (LB)
Dear

Please refer to D.O. letter No. 48/Local Bodies/PRI/51-2001 (Vol.II) dated 28.02.2001 from Shri K.N. Khandelwal, Dy. C&AG (LB) regarding entrustment of audit of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) to C&AG of India.

In terms of para 6.4 of the guidelines for grant to Local Bodies issued by the Ministry of Finance, Government of India in June, 2001, the C&AG is to be entrusted with the responsibilities of technical control/guidance and supervision (TGS) over the audit and accounts matter of PRIs/ULBs.

The scope of technical control and supervision by C&AG would be broadly as under:

- ❖ The audit methodology and procedures for audit of ULBs/PRIs by Director/Examiner Local Fund shall be as per the audit guidelines/standards prescribed by the C&AG.
- ❖ The nature, extent and scope of audit including form and contents of the report of Director/Examiner Local Fund shall as per the guidelines laid down by the AG.
- ❖ Training programmes for staff of Director/Examiner Local Fund at all levels would be finalised and imparted by an agency approved by the C&AG. The course contents would include, inter-alia, audit procedures, certification of accounts, audit standards etc. Similar help will be extended for account staff of PRIs including VLWs/Secretaries of Panchayats.
- ❖ Staff of Director/Examiner Local Funds would continue to work under the administrative control of the state government and state government will pay their salaries.
- ❖ Accountant General would monitor quality and timeliness in preparation of accounts and their audit.
- ❖ The Director/Examiner Local Fund would prepare the audit plan in consultation with the AG to include selection/rotation of units, number of units to be test checked by AG (say 20%), audit party composition and deployment. The AG would approve the audit plan.
- ❖ The reports of test check conducted by AG would be sent to Head of the concerned Local body and to the Director (LFA)/similar statutory authority for follow up on action taken with the Local Bodies. The Director (LFA)/similar statutory authority would pursue settlement/action taken on the audit paras raised by AG in the same manner as he would pursue his own reports.
- ❖ The composition of audit parties of Director/Examiner Local Fund would be in accordance with the guidelines issued by the AG.
- ❖ Officials of the AG shall supervise some of the audit parties of Director/Examiner Local Fund as decided by AG.

- ❖ The Director/Examiner, Local Fund shall submit such returns/reports in such form as may be prescribed by the AG to have an effective check/monitoring of the audit functions.
- ❖ The Director/Examiner Local Fund shall develop in consultation with AG a system of internal controls in his/her organisation.
- ❖ AG would supervise proper certification of accounts with reference to initial records like—cash book, assets register, bank accounts etc.
- ❖ The inspection reports, their vetting, issue and follow up action would be as per the guidelines issued by the AG. A copy of the IRs of the first tier (ZP/MC) of Local Bodies would be submitted to the AG. In case of other 2 lower tiers, the AG would decide which IRs would be sent to him based on the criteria of monetary value of expenditure/budget/any other suitable criteria.
- ❖ Irrespective of money value or any other criteria, serious irregularities noticed during audit particularly those related to system defects, serious violation/deviation from rules, embezzlements, frauds etc. shall be intimated to the AG demi-officially by the Director/Examiner Local Fund, alongwith necessary supporting documents as when they come to notice.
- ❖ Finalisation of reports would be as per the guidelines issued by AG.

During discussion with the State Government officials, you may also like to emphasize on the advantages of technical supervision and guidance of the C&AG, some of which could be:

- ❖ The State government would get an independent and fair opinion on the correctness of accounts of local bodies.
- ❖ There would be no additional financial burden on the state government.
- ❖ The staff of AG would supplement the audit by Director/Examiner local fund to ensure quality and timeliness of accounts and audit.
- ❖ It would improve the credibility of the accounts and audit of local bodies, especially if the local bodies approach the open market or International lending agencies for grants/loans.
- ❖ The training programmes and supervision by C&AG would help in capacity building and expertise of the Examiner local fund staff and the accounting staff in the local bodies.

The above points for TGS are illustrative and these may be added to/modified after discussions with the State Government. The final blueprint for TGS by C&AG would have to be finalised by you keeping in view the local requirement and in consultation with the State Government.

I would request you to follow up closely with the State Government for entrustment of audit/TGS of PRIs/ULBs to C&AG of India.

Yours sincerely,
Sd
(R.N. Ghosh)

To
All PAsG/AsG.

GLOSSARY OF ABBREVIATIONS

CSS	Centrally Sponsored Schemes
DLFA	Director, Local Fund Audit
DRDA	District Rural Development Agency
EFC	Eleventh Finance Commission
GP	Gram Panchayat
HR	Human Resources
IIPA	Indian Institute of Public Administration
IPAI	Institute of Public Auditors of India
NIRD	National Institute of Rural Development
NMAM	National Municipal Accounts Manual
PRIs	Panchayati Raj Institutions
PS	Panchayat Samiti
TFC	Twelfth Finance Commission
ULBs	Urban Local Bodies
VLC	Voucher Level Computerisation
ZP	Zilla Parishad.

Emerging Audits

SECTION 'A' — AUDIT OF REGULATORY BODIES

Independent regulators are a creation of post liberalization era of 1990s. When the Government opened up several key infrastructure sectors for private sector, in keeping with the prevalent philosophy of separation of policy, operations and regulations, it set up independent regulatory authorities for telecom, power, ports, insurance sectors etc. Regulation of private infrastructure would rank as a relatively new phenomenon. It all started with Great Britain under Margaret Thatcher in the 1980s, when Britain went on privatizing its public sector entities in telephones, electricity, gas, water and railways. The expectation was that after privatization, these entities would improve quality of service and productivity. The British model was copied quite fast by a large number of countries including Latin America and Europe as well as South East Asia. India followed this after 1991 reforms policy of Narasimha Rao–Manmohan Singh. The first set of reforms were aimed at dismantling Government monopoly in certain vital sectors like telecom, power, ports, insurance, etc. The decade of 1990s therefore saw private players entering these sectors. This apparently meant establishing independent regulatory mechanism for regulating the conduct of operations in these sectors. Resultantly, a number of regulatory bodies came up during this period. These included Telecom Regulatory Authority of India (TRAI) in 1997 to regulate the telecom sector, the Insurance Regulatory and Development Authority (IRDA) in 1999 to regulate the insurance sector, the Central Electricity Regulatory Commission (CERC) in 1998 to regulate Central Electricity Sector (at the State Level, State Electricity Regulatory Commissions were set up). The Securities and Exchange

Board of India (SEBI) had been functioning as a regulator in Financial Sector since 1992. It is likely that there will be more regulatory bodies coming up in other sectors too.

The C&AG in a reshuffle of charges relating to audit of the above Regulatory Bodies, has assigned the function of auditing these to the three central audit offices viz. DGACR for SEBI and IRDA; PDAESM for audit of CERC, TAMP; and DGAP&T for audit of TRAI. The SERCs are audited by respective Accountants General of the State concerned.

ACCOUNTABILITY OF REGULATORY BODIES

The public accountability of regulatory bodies is a vexatious issue. Often, in India, regulators have taken the stand that they can be self regulators while a number of knowledgeable persons have held a view that there should be some accountability of regulators to some authority—apparently, such authority can be Parliament only, being the custodian of the public will. The debate on accountability of Regulatory Bodies naturally leads to the instrument of securing this accountability. The Planning Commission has recently highlighted this issue in a discussion paper¹ and has suggested the creation of a separate Department of Regulatory Affairs within the Ministry of Personnel and Administrative Reforms to focus on regulatory reform and governance. In India, the C&AG is the prescribed authority for the audit of these regulatory bodies as per the laws that created these authorities. The interpretation of this audit by C&AG was, as in the case of other auditable entities, that the nature, scope and extent of the audit will be the sole discretion of the C&AG and the audits would be carried out accordingly. The Planning Commission in their paper cited above has observed that ‘overall functioning of the regulator should be subjected to scrutiny by the Parliament’. It goes on to say that the capacity of the legislatures to scrutinize the functioning of regulators would be enhanced by the information and analysis presented in an Audit Report. But surprisingly it also says in that context that ‘unlike the Audit Reports of Ministries and Departments, the audit of regulatory bodies should be limited to expenditure control and not policy review of regulatory decisions’.

The question is how the capacity of the legislatures to scrutinize the functioning of regulators would be enhanced by Audit Reports, if these are confined to merely ‘looking into expenditure control’? To that extent the assertion of the Discussion Paper regarding the utility of Audit Report on regulators to Parliament seems somewhat

exaggerated, for unless auditors go into other substantive issues of regulation, audit role as an aid to legislature, would be severely handicapped. The initial audits, of course, focused mostly on the expenditure aspects and there was not much by way of audit comments regarding 'the core functions' of the regulators. This was more an outcome of the competency gap in the Audit staff since an understanding of the regulatory framework, its functions and relationship with the activity it was regulating and role of the Audit in this complex situation were all evolving issues. However, the Government in January 2000 amended the TRAI Act 1997, by inserting an 'explanation' under section 23. The purport of this was that the decisions taken by TRAI in the discharge of its functions under clause B (subsection 1 and subsection 2 of section 11 in addition to section 13) of the TRAI Act were excluded from the Audit scope of the C&AG. This meant that audit could comment only on the accounts *per se* and establishment matters, while all other functions of TRAI were kept outside the purview of C&AG audit.

When this development came to the notice of the then C&AG V.K. Shunglu, he immediately took up the matter with the then Prime Minister A.B. Vajpayee in January 2000 where he pointed out that while adjudication of disputes could be a quasi judicial function, the function of setting tariff was an executive function and this function, howsoever worded, remained the same as what the Government used to do earlier. He contended, therefore, that it would not be proper to allow the TRAI to discharge this function without accountability to Parliament and excluding it from the ambit of C&AG's Audit was not correct. Similar pleadings were made to the Government by Shri N.D. Tiwari when he was the Chairman, Public Accounts Committee and wrote to Prime Minister in January 2000. Nothing, however, came of these communications. When the new C&AG V.N. Kaul joined the office (March 2002), one of his initial tasks was to take up this issue with the concerned authorities. He took up the matter with Arun Shourie the then Minister of Communication in May 2003; subsequently, he again took up the matter with the Minister of Communication Dayanidhi Maran through his D.O. letter of June 2004, a copy of which was also sent to the Cabinet Secretary. During discussions, both Arun Shourie and Dayanidhi Maran sounded very appreciative of C&AG's view point, however, apparently they could not do much. Subsequently, C&AG also addressed in August 2004 the Chairman Telecom Commission and Secretary, Department of Telecommunication. Eventually, C&AG wrote to the Principal Secretary to the Prime Minister P.M.

Nair in August 2004 urging that this matter should be considered carefully by the Prime Minister and resolved early so that 'a unique anomaly in the Audit mandate of the C&AG is remedied and other regulators do not take a cue from this act and seek similar exclusion from public audit scrutiny'. C&AG's apprehension that other regulators will take 'cue' from TRAI case proved correct as can be seen from what is stated in this Chapter.

PERFORMANCE AUDIT GUIDELINES ON REGULATORY BODIES

While the amended TRAI Act remains in force, C&AG 'as an interim measure, keeping the existing provisions of law in mind'², desired a new set of Performance Audit Guidelines of Regulatory Bodies. A Committee of three Senior Officers³ was constituted to prepare draft guidelines including defining scope of audit for Regulatory Bodies. The draft guidelines were submitted to C&AG for approval in September 2003. Before his formal approval to these guidelines, the C&AG wanted the draft guidelines to be sent to Ministry of Finance for their information and comments if any on behalf of the Government of India. Ministry of Finance, however, did not send any comment on the draft guidelines. Slightly revised version of guidelines was put up to C&AG in January 2004 for approval. C&AG wanted that revised guidelines should cover two more points. Firstly, a section on 'SAI skills' corresponding to section I of INTOSAI guidelines should be added. Secondly, these guidelines be in line with the INTOSAI guidelines and should apply only to performance audits and should not be used for transaction audits. While approving the guidelines, C&AG also cautioned that transaction audit should not venture into issues concerning regulation and for that purpose he wanted the draft guidelines to clearly reflect this position. When C&AG formally approved the Guidelines on performance audit of regulatory bodies, he desired that the guidelines be sent to the concerned regulatory authorities also. The above developments reflect C&AG's policy of transparency in audit practices and systems.

While enclosing these guidelines to the Secretary, Department of Telecommunications Nripendra Misra, C&AG in his D.O. of August 2004 requested him that these be communicated to regulators in the Ministry so that 'they are aware that these have been framed to avoid any confusion or doubt in the minds of both the auditors and the auditees about the Audit mandate'. Earlier, a copy of the

new guidelines on audit of regulatory bodies was sent to Pradeep Bajjal who was then Chairman of the TRAI and he welcomed the guidelines as 'very timely and extremely well prepared'. He also suggested that before the Audit Department took up Performance Audit of TRAI, there was a need for auditors to have training and interactions with institutions like ITU, World Bank and some old and established regulators like FCC and OFCOM. He even offered his assistance in facilitating such training.

While in the case of TRAI, the Act itself has barred C&AG from auditing the regulatory functions, in the case of CERC and SERC of various States, strong reservations have come from CERC/ SERCs of some States, about C&AG's powers to audit the regulatory functions of these bodies. Some of the regulators—at least 3–4 cases were on record—questioned C&AG's powers to carry out the performance audit of SERC.

The CERC held that 'as there is a legal remedy available in the Act for review/ appeal against the orders of the Commission, it will not be possible to subject these orders to the scrutiny of audit..., it may be difficult to allow audit of the orders passed by the CERC...'.

The Rajasthan Electricity Regulatory Commission said that the guidelines should confine to audit of accounts only.

The Tamil Nadu Electricity Regulatory Commission was of the opinion that 'Performance Audit of Electricity Regulatory Commission is not envisaged in the Electricity Act 2003'.

The concerned Director in the Headquarters sought in August, 2004 the opinion of C&AG's in-house legal expert [Director (Legal)]—on these contentions 'so that the matter could be suitably taken up'. His opinion was that 'audit of accounts of Electricity Regulatory Commission and Audit Report thereon would include performance audit of these Commissions. It is, however, presumed that orders passed by the Commission in exercise of quasi-judicial functions, as its legality and justiceability, would not be within audit scope'.

Uttar Pradesh SERC, provoked by the insistence of Accountant General, Uttar Pradesh to audit the decisions of the Commission wrote back, after obtaining legal opinion that 'C&AG had no authority to comment upon the orders passed by the Commission ... the C&AG's audit is to be restricted to the audit of the receipts and expenditure of the Commission'.

C&AG's justification for audit of regulatory decisions like tariff fixing has been that C&AG has the same rights, privileges and authority for the audit of Electricity Regulatory Commissions, as is available in the audit of government accounts where he has

comprehensive powers to audit all aspects of the finances. Further, while fixing tariff, the 'Commission is only discharging executive functions and not adjudicating functions and that the Commission is required to follow the financial principles as required under Sections 46, 57 and 57A of Electricity Supply Act 1948 and it is within the scope of audit to ensure that these principles are followed'.

While, as already expounded above, initially the C&AG was very strongly in favour of audit taking up issues even if these were the subject matter of regulatory decision there was a change in the stand when in November 2004, Headquarters addressed all Accountants General/ Principal Directors of Audit on the subject 'Audit of Regulatory Bodies' giving the following decisions:

'The 'Guidelines on Performance Audit of Regulatory Bodies' are general and executive in nature and cannot supplant the legislations by which such regulatory bodies have been set up. These are only supplement to statutory provisions of the TRAI Act'.

C&AG, therefore, directed that while taking up the audit of regulatory bodies, it should be kept in mind that the audit should be within the sphere of the provisions made in the relevant Act regulating such bodies in order to avoid any confrontation between the Act and the guidelines.

In yet another review of the matter, on the basis of the references received from different SERCs challenging the authority of C&AG for auditing matters other than the annual accounts, the C&AG decided that audit of accounts of CERC and Audit Report thereon would include performance audit of CERC. However, directions to this effect issued in December 2004 also contained a proviso that 'orders passed by the Commission in exercise of quasi-judicial functions (as its legality and justiceability) would not be within the scope of audit'. It was also made clear that the above instructions were equally applicable to other regulatory bodies. In June 2005, ADAI M.S. Shekhawat, addressed demi officially A.K. Basu, Chairman, CERC pointing out that after consultations with the Ministry of Law who had opined that 'while auditing regulations under the Electricity Act 2003, the auditor can comment on their economy, efficiency and effectiveness in the audit report to be placed before Parliament/ State Legislature', it was expected that Electricity Regulatory Commission would extend full cooperation to audit in performance of its statutory obligations.

What has been the Audit experience so far in Audit of Regulation? The experience has been very mixed. C&AG's initial audit of TRAI, before the amended Act of 2000 produced some

startling findings on misuse of powers by top executives of TRAI in the matter of their entitlements and claims. These findings, as contained, in C&AG's Audit Reports on the accounts of TRAI for the years 1998–99 and 1999–2000 reflect poorly on personal ethics. But C&AG did not go beyond the establishment audit, because by the time his auditors were ready to go beyond to performance related aspects, the Act had been amended.

In the case of SEBI, Audit initially confined itself to the certification of accounts. In 1996, the scope of Audit was broadened to include an examination of SEBI's inspection reports on UTI, Stock Exchanges and Brokers, etc. When Audit asked for relevant records on these, it faced tough resistance from SEBI. A kind of stalemate existed for sometime. And, finally in a meeting between the then C&AG, C.G. Somiah and SEBI Chairman D.R. Mehta an agreement was reached. Broadly, the agreement between SEBI and Audit was that while Audit had a full right to ask for production of all records needed by it, it would exercise this right on a selective basis and requisition them at an appropriate level. This was necessary to keep the confidentiality of the information. This was a very genuine stand by SEBI, because often information of finance is sensitive; but C&AG is well versed with such situations since he deals with audit of similar nature like of defence, of income tax, reward to informers, etc. which are also very sensitive matters.

It would be interesting to see the audit ingenuity when it brings out a Report on Performance Audit of regulatory bodies but without looking into the orders passed by these bodies in exercise of their quasi-judicial functions. Interestingly, a look at some of the value for money Audit Reports of NAO UK on the regulatory authorities indicates that the audit can, without touching upon regulatory decisions, still come out with useful and material findings that have bearing on various aspects of the functioning of the regulator to cover issues of regulatory processes, procedures including, as seen from these reports, such issues as:

- ❖ Allocation of resources to meet the regulator's objectives
- ❖ Economy and efficiency of operations of the regulator
- ❖ Achievement of targets by the regulated entities
- ❖ Relationships with other regulators, and international co-operation
- ❖ Feedback from business leaders and consumers about the regulator's role
- ❖ Lack of adequate information with the regulator

- ❖ Policy approach followed by the regulator (e.g. setting water leakage targets)

Audit discussion on the issues mentioned above, did not cover the regulatory decisions *per se*; these issues relate to the systems and procedures followed, quality of data or information flowing to regulators. The issue of economy and efficiency of the operations will reflect the cost of the decisions and timeliness of the decisions—this may create some conflict but objectively these fall outside the quasi-judicial aspects of regulator on regulatory functions.

It would thus appear that a good Performance Audit Report can still be prepared by audit without getting into the regulatory decisions provided of course the regulatory bodies respect C&AG's right to this extent. One would have to wait for that because for the moment the stress in audit of regulatory bodies is restricted to account certification and establishment audit.

C&AG Kaul himself is of the view that in the audit of regulation, there is a necessity for audit to proceed with great caution; also, as stated already, there is a need to bridge the competency gap that exists today in the audit of regulatory bodies. He is, however, very clear that the guidelines on Performance Audit of Regulatory Bodies are internationally bench marked and have been proclaimed transparently to all the stake holders and, therefore, for the auditor these guidelines of C&AG are to be the basis for the audit.

To the question where the Audit Department stands today vis-à-vis audit of these independent regulatory bodies, the answer, frankly, is that this branch of audit is still evolving and is in a nebulous state as of today. There have been, so far, no performance audit reports on any of the regulators. But good points have emerged in the audit of accounts and establishment issues as already brought out above. The limitations of legal mandate apart, the most important and pressing issue at the moment for Audit Department must be to train and equip a team of officers with knowledge of regulatory functions, the environment within which it works, the complexities of balancing conflicting claims of the various stakeholders by regulators and finally the skill to wade through the regulatory orders without infringing on the regulator's decisions on regulatory aspects and yet produce a good performance audit report. Can it be done? Yes, of course, it can be, but it will need knowledge, skill and great articulation in Audit and presentation of his Report.

FILLING THE COMPETENCY GAPS

The AsG Conference of 2001 had identified 'Competency Gap' as a key issue in the audit of regulatory bodies. Subsequently, a Group constituted to deal with the issue gave a report titled 'Audit of Regulatory Bodies—Bridging the Competence Gap' in October 2001. The Report made an attempt to identify the competency gaps regulator wise and it also made a kind of Action Plan for bridging the competency gaps. In May 2003, C&AG desired that Action Plan for skill development be adopted because in any case IA&AD is mandated to audit regulators unless barred by a specific provision in a statute. Later, realizing that there was a considerable competency gap in the matter of audit of regulatory authorities in IA&AD, C&AG Kaul laid special emphasis on specialized training needs of field audit offices for carrying out Performance Audit of Regulatory Bodies. Several instructions were issued by Headquarters towards this objective. A circular issued by Headquarters in August 2004 to all the concerned Pr. AsG/AsG envisaged a comprehensive role for iCISA in designing, developing and delivering specialized training requirements of the respective audit offices dealing with specific regulatory bodies. In September 2004, this was followed by a D.O. letter to DG, iCISA⁴ asking her to take steps to design and deliver the specialized training keeping in view the Report⁵ and the Guidelines⁶.

But Headquarters soon realized that to fulfil its obligation as detailed above, iCISA itself would need to acquire and assimilate the competency (knowledge and skill) in the first instance. This would be time-consuming. To get over the problem, a different strategy was invoked—of allowing the respective field offices to identify and develop their own training resources in consultation with the respective regulatory bodies and specified training institutes, as identified in the Report on Audit of Regulatory Bodies—Bridging the competence Gaps. The Headquarters, therefore, addressed the concerned DG/ PD Audit accordingly. In this context, Principal Director of Audit, Economic & Service Ministries (PDAESM) who audits CERC, was specifically asked to coordinate the training requirements relating to audit of SERC also. In addition, RTI, Chennai as a Centre of Excellence in the field, developed a very basic structured training module on audit of regulatory bodies which they sent to the concerned audit offices and other RTIs. This is also hosted on C&AG's website.

SECTION 'B' — AUDIT OF DISINVESTMENT/ PRIVATIZATION

The most significant offshoot of the historic Industrial Policy of 1991–92 was the decision of the Government, to open large number of sectors of industrial activities that were earlier exclusively reserved for the Government, to the private operators. This, naturally, resulted in the Government giving up either part of their holdings in the Government Companies or, as happened in later years, fully or substantially withdrawing itself from the ownership and selling the equity to the private entities. Several methods for such disinvestment exist but so far the Government have adopted for example in the first phase of disinvestment, sale of a small percentage of shares by auction of bundled shares of selected PSUs to some pre-identified domestic financial institutions. For Government utilities like Electricity Boards, etc. it followed a system of unbundling of their operations by hiving off the responsibilities of distribution of electricity to a private entity or entities and, during the time of NDA Government, the system of strategic sale for disinvesting equity along with the transfer of management control was undertaken. Finally, in some cases, the disinvestment was also done through floatation or what is popularly known as 'IPO' or 'offer for sale'.

Proposals for disinvestment in any PSU are placed for consideration of the Cabinet Committee on Disinvestment (CCD) chaired by the Prime Minister. Soon after this, an advisor (known as Global Advisor or Financial Advisor) is selected through competitive bidding. Bids for disinvestment are invited through advertisement. An Information Memorandum is given to prospective bidders. Draft share purchase agreement and shareholder agreement are prepared by the advisor in consultation with bidders, legal advisors, etc. These are finalized by Inter Ministerial Group (IMG) and after approval by CCD sent to prospective bidders for final binding financial bids. The bids are opened by IMG and compared with reserve price. After analysis and evaluation of bids, recommendations of IMG and Core Group of Secretaries on Disinvestment are placed before CCD for decision on selection of strategic partner and signing of agreements. In case the disinvested PSU's shares are listed on the Stock Exchange, an open offer would be required to be made by the bidder before closing the transactions, as per SEBI guidelines.

After the transaction is completed, all papers and documents relating to it are turned over to the C&AG who conducts evaluation an audit evaluation for reporting to Parliament if considered necessary by C&AG.

The first disinvestment decision was taken along with the decision to liberalize the economy in 1991–92, when the Finance Minister, in his interim budget, mentioned about the Government's decision to disinvest 20 per cent of its equity in selected PSUs in favour of mutual funds and investment institutions in the public sector. This disinvestment, carried out in two phases in December 1991 and February 1992, raised Rs.3038 crore from sale proceeds of shares held in 31 selected PSUs.

The first disinvestment audit was done by the office of PDAESM, in September 1992. Later Headquarters issued instructions to the effect that audit of disinvestment should be conducted by DGACR. This was done because the Ministry of Finance was the service ministry for the 'Core Group of Secretaries' on disinvestment and it also used to process recommendations of the Disinvestment Commission that was set up.

The Government set up Disinvestment Commission⁷ in August 1996 initially for a period of 3 years for the purpose of advising it on all aspects relating to public sector disinvestment. The terms of reference, *inter alia*, included drawing a comprehensive, over all long term disinvestment plan for the PSUs referred to it by the Core Group of Secretaries including extent of disinvestment in each PSU and determining the *inter-se* priority of the PSUs to be disinvested (referred to it by the 'Core Group'). The Commission was also to recommend preferred mode of disinvestment of each identified PSU and take decisions on instrument, pricing, timing etc. of disinvestment and select financial advisors for specified PSUs. The Commission submitted 12 Reports involving 58 PSUs. It recommended strategic sale for 36 PSUs involving transfer of management for initial disinvestment. The Commission, after its reconstitution in July 2001, submitted reports on 41 PSUs including four review cases. It was finally wound up in October 2004.

Meanwhile, in December 1999, the Government established a new Department of Disinvestment (DOD) for laying down a systematic policy approach to disinvestment and privatization. The Department deals with all matters connected with disinvestment of Central Government equity from Central PSUs including decisions on the recommendations of the Disinvestment Commission on modalities of disinvestment, restructuring, implementation of all the

decisions taken on disinvestment by the CCD (including appointment of Advisors), pricing of shares, and other terms and conditions of disinvestment. The Government in a policy shift in 2000–01 announced that it was prepared to reduce its stake in non-strategic PSUs even below 26 per cent, if necessary. It also decided to set up a Disinvestment Proceeds Fund which would be used for expenditure on social sector, reconstruction of PSUs and retiring/servicing of public debt.

Privatization got a boost in NDA regime under Prime Minister Vajpayee, when, for the first time, a policy of 'strategic sale and giving up management control' was introduced. The approach of the present Government to disinvestment has undergone a qualitative change. According to the 'National Common Minimum Programme' the Navratna PSUs are to be retained in the public sector and privatization in other cases is to be considered on case to case basis. In general, the principle will be that profit making PSUs would not be privatized. Simultaneously every effort will be made to modernize and reconstruct the sick PSUs. The privatization process has, therefore, slowed down in the present regime; this is revealed by the facts given below:

Government realized disinvestment proceeds of Rs.47,671.62 crore during 1991–2005, which included Rs.36,007.20 crore from the sale of minority shares in 43 PSUs during this period and Rs. 1317.23 crore during 2000–2001 from the sale of majority shares of Kochi Refineries Limited (KRL), Chennai Petroleum Corporation Limited (CPCL) and Bongaigaon Refineries and Petrochemicals Limited (BRPL) to sister PSUs. Of the total proceeds of Rs. 36,007.20 crore, Government realized Rs.15,205.35 crore and Rs.2700.06 crore during 2003–2004 and 2004–2005 respectively by divesting minority shareholding through the market sale route, either through Initial Public Offer or Offer for Sale. Subsequently, Government adopted the strategic sale route for disinvesting equity in the PSUs during the period 1999–2004. Government privatized 11 PSUs and 22 hotel properties of HCI and ITDC through the strategic sale route and realized Rs.10,347.19 crore.

The audit of disinvestment of Government companies started immediately after the first phase of disinvestment was carried out by the Government in 1991–92, and audit was conducted by the office of PDAESM during 1992. The outcome of this audit is contained in C&AG's stand alone Audit Report for the year ended 31 March 1992 (No.14 of 1993) (Civil). Subsequently, PDAESM

carried out another audit on 'Disinvestment of Government Shareholding in PSEs during 1992–1996'. A draft of the Review Report was sent by PDAESM to Headquarters in September 1997 and based on the observations of the Headquarters revised versions were sent in October 1997 and February 1998. Revised draft included the observations from the records of DPE also which were earlier missing. The Headquarters eventually referred the review back to PDAESM observing that fundamental issues had not been addressed in the review. It also observed that review was based solely on the scrutiny of records in DPE, while the records of Department of Economic Affairs (DEA), Ministry of Finance (MOF), which serviced the Core Group of Secretaries (CGS) on disinvestment, had not been studied in audit. Since, PDAESM was not the audit officer for DEA, Headquarters, in September 1998, issued instructions that since the Ministry of Finance serviced the Core Group of Secretaries and recommendations of the Disinvestment Commission are processed by the Core Group under the Ministry of Finance the audit of disinvestment, in future, should be conducted by DGACR which was the principal audit officer of Ministry of Finance. The office of PDAESM would provide all the inputs to the DGACR arising out of their audit of department of public enterprises. However, by a subsequent letter of 15 December 2000 Headquarters issued instructions taking away the audit of disinvestment from DGACR and entrusting the same back to the office of PDAESM. This was done because, in the meanwhile, Department of Disinvestment had been constituted by the Government of India in 1999 as a nodal ministry for all disinvestment proposals and PDAESM was designated as the auditor of that Department. Currently, all disinvestment proposals are in the domain of PDAESM.

AUDIT EXPERIENCE OF DISINVESTMENT

The first audit of disinvestment, as mentioned above, was done soon after the event. This was remarkable considering that normally the audit of transactions of a particular year is programmed in the next cycle that is the following year, and since the C&AG was venturing into disinvestment audit for the first time without any background, this step was even more remarkable. It has not been possible to trace the reasons for C&AG stepping into audit of disinvestment so soon after this disinvestment but, an analysis of the prevailing circumstances points to the fact that some criticism had started appearing in the media which was also heard in the Parliament about

the method of this first time disinvestment. It is likely that the C&AG decided to carry out his audit in the interest of producing a timely report to the Parliament on this subject of great topicality. A stand alone audit report was presented to Parliament in May 1993. Unfortunately most of the initial records of this first audit are not readily available in the audit office and from whatever records are available and verbal interviews, the planning for this new audit can be described something like this:

The PDAESM constituted a team headed by a young IA&AS officer of Deputy Director⁸ level to carry out this audit. The first difficulty encountered in conducting this audit was when they visited the Department of Public Enterprises, which was the nodal Ministry, and they found that most of the files connected with the disinvestment had been taken away by the CBI. Apparently, it was under CBI scanner even before audit went for it. However, it is to the credit of CBI that they agreed to part with these documents for the sake of C&AG's audit.

An uphill task it was because there was no previous case of such disinvestment or its audit in India and the audit team coped with this entirely new job by trying several options. They wanted to interact with the Financial Advisor of the Department of Public Enterprises but unfortunately they were not given time despite repeated requests. They then looked to sources from where they would get useful inputs on the disinvestment exercise. An officer of the DPE⁹ who was relatively junior but very closely involved in the process of disinvestment was the principal reference person for the Audit team and he was readily available for Audit. Unfortunately, at that point of time there were no INTOSAI guidelines on audit of disinvestment. Its committee on the subject was set up about a year later¹⁰. The audit team for their reference had a couple of audit reports by NAO on disinvestment but the nature of disinvestment in UK was entirely different from that of what happened in India. Here, in India, the disinvestment was a queer mixture of parting of minority shares in a restricted manner to a pre-decided group of mutual funds and investment bankers, through a concept of bundled shares of various varieties in a basket. Such a complex exercise for disinvestment was unique. Perhaps, in their anxiety to raise the resources at the earliest due to the financial mess in which the Government was, and preferring to follow a safe course, the Government had undertaken this kind of route. In addition, the entire process of disinvestment decision was taken post haste.

In such circumstances, what eventually helped the audit team was basic skills of an auditor which they had learnt in the Department and the fundamental skills of an auditor namely scrutinizing the process of disinvestment as per the records in a meticulous manner, gathering the facts and figures and verifying the system and process of disinvestment, through the file with some knowledgeable officials in the Ministry.

The result was not disappointing. Considering that they were up against a kind of disinvestment which was unique, the audit team should be given the credit for bringing out a credible document on disinvestment audit which generated a high, intense debate in the Parliament and in the media about the correct methods of disinvestment.

After the first disinvestment audit, there was a considerable lull in further disinvestment and not much was done on this front till the NDA Government came to power. Audit conducted a review on disinvestment of government shareholding in Public Sector Enterprises during 1992–96. This review report, however, as already explained was not found acceptable.

The change in the method of disinvestment that came about around the year 2000 was of a substantive nature. The government made a departure from its earlier practice. The majority government stake in the company 'Modern Food Industries' was sold to Hindustan Lever Limited (now called Unilever India) as strategic partner along with transfer of management control. Later in March 2001, the government sold 51 per cent stock in respect of BALCO¹¹. In this case also, management control was transferred to Sterlite Industries. This approach was apparently significantly different from the earlier approaches to disinvestment where only limited shares were offered for sale. In these two cases majority government holding was sold to a strategic partner along with transfer of management control. After this, it became the pattern and a number of other disinvestment transactions were also done on the same basis¹².

BROAD APPROACH TO DISINVESTMENT AUDIT-2002

When the Department of Disinvestment was set up in December 1999, the Minister incharge Arun Shourie was keen that C&AG should carry out audit of all the disinvestments of PSUs and a report submitted by him to Parliament. Considering the high voltage atmosphere that any disinvestment proposal or actual disinvestment

of a company generates in India, Shourie's desire was probably to get an assurance from a neutral constitutional authority like the C&AG about the fair and proper procedure followed in the disinvestment process. He addressed the C&AG twice on this issue and he also made a statement in the Parliament in the year 2000, about his intention to get all the disinvestments audited by the C&AG on which a report to the Parliament would be presented. Shourie also wanted that the C&AG should get involved in the disinvestment process from an early stage rather than do it post sale. He wanted C&AG to assess whether it would be appropriate to nominate an officer to participate in the deliberations of the Internal Ministerial Group (IMG) or get associated with disinvestment exercise in any other form. Shourie had quoted at length several provisions from the INTOSAI Guidelines on Best Practices for Audit of Privatization.

C&AG Shunglu, did not agree to the proposal and intimated in his letter of 23 November 2000 to Shourie that normal procedure of audit was to conduct an inspection once a year and send the inspection report to the Ministry. In case, there were significant audit findings considered fit for being reported to the Parliament, those cases were included in the C&AG's Audit Report. The inspection reports are issued only to the Ministry and not released either to the press or to the Parliament from C&AG's office. The C&AG, went on to assure the minister that in view of his concern for transparency in disinvestment, his office would be prepared to take up the audit of each disinvestment case as soon as the Ministry was ready with the documents. A separate inspection report would be issued in every case to the Ministry but mention will be made in the Audit Report of those cases only which merit inclusion in the Audit Report, as is the usual practice. The foregoing set out the broad approach to disinvestment audit as it obtained in the time of C&AG Shunglu.

The Secretary of the Department, Pradip Bajjal had written to the C&AG, on 6 August 2001 requesting him to vet a note they had prepared on standardization of valuation methodology for disinvestment. This methodology would be common to all the three business valuers of Air India. After a careful consideration this proposal was not accepted by the C&AG and on 16 August 2001 ADAI informed Secretary DOD Pradip Bajjal accordingly.

NEW APPROACH TO AUDIT OF DISINVESTMENT

On a note submitted by the then DAI (Commercial) raising the issue of formulating a broad approach to Audit of Disinvestment, C&AG

Kaul got this matter examined from the concerned Wing (Report Central) and approved a policy (November 2002) on the subject which has the following salient features:

- ❖ Audit need not review or comment on questions of policy —it is Government's prerogative to formulate policy.
- ❖ Regarding methodology adopted for disinvestment, audit should focus itself on the process of disinvestment and ensure that it was transparent, fair and proper, consistent and containing safeguards to protect Government interest.
- ❖ On valuation, audit scrutiny will be confined to the process of valuation, its appropriateness, and the validity, reliability and consistency of assumptions underlying the valuation.
- ❖ Audit must not substitute the Department's assumption with its own.
- ❖ If a Reserve Price is fixed, audit can examine the manner of its determination and its relationship with the final sale price obtained.
- ❖ Other aspects to be covered in audit are appointment of Global Advisors, the share purchase agreement and shareholders agreement, the bidding process and approvals to various processes, etc.

Certain important administrative decisions were also taken. While the audit of Disinvestment will be undertaken by the PDAESM, under whom the concerned administrative Ministry viz. Department of Disinvestment fell, it was also enjoined that in view of considerable accounting and auditing skill for audit of PSUs that commercial wing AOs/ AAOs have, services of a couple of these officers should be made available to PDAESM.

GUIDELINES ON AUDIT OF PRIVATIZATION

While forwarding the new approach to PDAESM, Headquarters asked him to prepare general guidelines for the conduct of audit of privatization and forward the same to Headquarters for approval and issue. It was also decided that all pending Inspection Reports on Disinvestment would need to be re examined in the light of these decisions.

The draft Guidelines as formulated by the office of PDAESM were approved by C&AG in May 2003. The Guidelines on Audit of Privatization were finally issued by the Headquarters in August 2005. These were based mostly on the experience of 'strategic sale'

and flotation routes disinvestment process. INTOSAI guidelines were kept in view while formulating them. These guidelines supersede all earlier guidelines or instructions on the subject. The Guidelines were circulated to all the stake holders in keeping with C&AG Kaul's philosophy of transparency in auditing systems. Earlier C&AG had asked that INTOSAI Guidelines on Privatization Audit should also be shared with all stakeholders.

The C&AG had a relook at the audits done during 1999–2000 and 2002–03. This involved 9 PSUs¹³. He decided to have the results published.

SEMINAR ON DISINVESTMENT

In October 2001, the then C&AG Shunglu convened a seminar on disinvestment in public sector to have exchange of views between audit, the executive, stake holders and merchant bankers/firms of Chartered Accountants dealing with valuation, etc. The idea was to discuss all the relevant issues and problems relating to disinvestment like valuation—the various facets of valuation, relevance of reserve prices, issue of control premium, role of audit in disinvestment, allocation of proceeds of disinvestment, role of audit in valuation and its role in pre disinvestment phase and audit of post sale commitments and finally developing expertise in the conduct of privatization audit. C&AG emphasized on the need for effective utilization of disinvestment proceeds. He also referred to the clear distinction between the disinvestment and offloading of equity by Government without parting with Management Control. The seminar consensus was for complete offloading of Government holdings. The seminar also briefly discussed decision making process involved in disinvestment.

The seminar had presentations from SP Billimoria & Company on valuation methodology and a presentation by Pradeep Baijal, the then Secretary, Department of disinvestment on Government view point on disinvestment. There were presentations by SBI Capital Markets on valuations.

C&AG emphasized during the Seminar on proper synergy between the Report Central Wing—who are the concerned wing for privatization audit—and the Commercial Audit wing of his office whose expertise in PSUs audit was excellent. (Specific decisions in this regard were issued from Headquarters and special teams of Commercial audit AOs were posted on deputation basis to the office of PDAESM to assist their team in the audit of disinvestment).

JUDICIAL DECISIONS

Two other notable developments concerning Audit of Privatization are worth recalling since they have profound impact on Privatization policy & issues.

Disinvestment policy issues have been subjected to a judicial review in the highest Court of the land, the Supreme Court who¹⁴, categorically said that they would not go into the issues of policy. The Supreme Court decision set several other significant pointers for the future.

Regarding workers interest, the Supreme Court concluded that safeguarding workers interest was one of the concerns of Government and that efforts should be made to try and ensure that the disinvestment process did not adversely affect the workers. The Court expressed its satisfaction about these interests in case of BALCO sale.

The Supreme Court went into the question of transparency and held that 'transparency does not mean conducting of Government business while sitting on the cross roads in public. Transparency would require that the manner in which decision is taken is made known. Persons who are to decide are not arbitrarily selected or appointed'¹⁵

On Reserve Price, the Court held that 'what has to be seen in exercise of judicial review of administrative actions is to examine whether the reserve price which was fixed is arbitrarily low and on the face of it, unacceptable'.

The judgment contains some 'landmark decisions' which can guide audit also in its future work.

Some interesting Paragraphs from the Audit Reports that relate to disinvestment of government companies are discussed below:

Disinvestment of Government Shareholding in selected Public Sector Enterprises during 1991-92: C&AG's Report on Disinvestment of Government Shareholding in selected Public Sector Enterprises during 1991-92 is contained in Report No.14 of 1993 placed in Parliament on 7 May 1993.

The main thrust of Audit Report on this disinvestment is summarized below:

The DPE recommended disinvestment of shares of 41 PSEs out of the 244 existing PSUs. They had certain criteria for picking up the PSEs for disinvestment through which they excluded some PSEs from the purview of disinvestment namely those which were under construction stage, whose Net Asset Value was either negative and

less than the face value of the shares, those which were of insignificant size and where current level of profitability was very low, those falling under section 25 of the Companies Act and those in whose shares of Government were already below 60 per cent, etc. Certain PSUs which were in strategic sector like oil or those that were meeting defence needs were also excluded. Out of these 41 PSEs, 10 were later excluded and therefore finally 31 PSEs were considered for the first set of disinvestment.

The methodology to categorize these PSEs as 'very good' (8 companies), 'good' (12 companies) and 'average' (11 companies) was adopted on the basis of Net Asset Value (NAV) per share vis-à-vis face value of Rs.10. The PSEs whose NAV was Rs.50 and above per share were categorized as 'Very Good' between Rs. 20 and Rs. 49 per share as 'Good' and from Rs.10 to Rs.19 as 'Average'. The valuation of shares of PSEs was done on the basis of guidelines for such valuations formulated by a Committee under the Chairmanship of then Secretary, DPE. Based on this, the NAV and the action to categorise those into very good, good and average was carried out in respect of PSEs. A Consultant was also appointed in 1991 by the Government to advise on the pricing of the shares of the selected PSEs.

The Government had decided that the disinvestment would be carried out in two phases, the level of disinvestment would be from 5 to 20 per cent and in no case, Government shareholding would fall below 51 per cent, the shares should be sold in the form of bundles consisting of 9 PSEs each (3 PSEs from each category i.e., very good, good and average) through a process of bidding and finally shares were to be sold to only mutual funds and investment institutions in the public sector who would off-load these gradually into the market so that they assure a wider holding of ownership of these shares.

The reserve price of shares of each selected PSE was fixed by DPE in consultation with the representatives of the PSEs concerned, Administrative Ministry of PSE and Ministry of Finance in December 1991 for the sale of these shares of 31 selected PSEs.

After the bids were opened on 18 December 1991, the Department of PE found that the bid prices were far below the reserve prices and therefore, these could not be accepted. The Government was therefore, approached and their orders obtained for empowering DPE to sell the shares of selected PSEs by accepting the highest bids including single tendering offers 'so long as these were above an overall of the Net Asset Value (NAV) and Profit Earning Capacity Value (PECV) computed using an overall

capitalization rate of 20 per cent'. However, during evidence before the PAC, it came out that the Cabinet was not apprised in the Note submitted to them about the effect of the revised reserve price and earlier reserve prices; hence, to that extent it was a flawed decision.

Audit had commented about a possible loss by way of under realization of proceeds of Rs.3441.71 crore to the Government as a result of unjustified action of reduction in the reserve price. The PAC asked the Finance Secretary about the audit conclusion to which the Finance Secretary said that he did not accept this conclusion but he conceded that they could always improve on what they were doing. The PAC commented on this specific aspect, stating that while it was clear that the disinvestment entailed loss of shares, the magnitude of the loss could be anybody's guess.

Audit had also made a critical observation on the absence of a claw back clause in the terms and conditions for the sales and this was so despite the recommendation of the Chief Advisor (Cost), Ministry of Finance as well as the Chief Executive of the BPCL, both of whom were members of the Evaluation Committee. Such a clause was incorporated in Great Britain where they were undergoing this process of disinvestment. The PAC came down heavily on this too and the Government conceded the point.

Audit was very critical of the system of bundling of shares especially including the shares of certain companies like Cochin Refineries and Andrew Yule which were already listed in the stock exchange. The PAC also commented on this adversely. From the proceedings of the PAC however, it comes out that despite the fact that the response to the bidding invitation was considered poor, the Government did not go for rebidding {(even though such advice was rendered by the JS (Investment)} because of the fact that Government was in a terrible hurry to raise the additional resources urgently and in any case before the end of December 31, 1991. The PAC commented adversely on this and in their view most of the problems and the shortcomings could have been avoided if the Government had not chosen to push through disinvestment in hurry to raise resources by the end of December 1991. The Committee was not satisfied about the extraordinary pressure which necessitated such grave urgency resulting in incalculable loss due to the under realization on the sale of PSU's shares.

The Committee also agreed with audit about the role of Valuation Committee and the lack of participation by other members in the committee.

Sale of HCI Hotels in Mumbai: C&AG's Report on the sale of two hotels, Juhu Cenatur and Airport Cenatur at Mumbai is contained in his Audit Report 'Union Government Transaction Audit Observations—No. 2 of 2005'. The main audit thrust in these two cases was that the sale transactions of both the hotels which were conducted in March 2002 (for Juhu Cenatur) and April 2002 (for Airport Centaur) became 'sole bidder cases' without the benefit of competition. Audit was of the view that 'the efforts of the Government in generating adequate competition and maintaining the competitive tension were not evident from records'. Valuation of the properties and fixation of reserve price were not consistent with the practice followed by the Ministry in other cases. Various relaxations allowed to the bidder and interventions by the Ministry to facilitate the sale, were also viewed unfavourably by Audit. In the case of Airport Centaur, Audit found inconsistent approach in fixing reserve price. The Evaluation Committee came in for particular comments by Audit because of its inconsistency in approach fixing base case value in respect of two hotels in the second round of bidding. Audit called this approach 'peculiar'. Proper efforts to balance the need and urgency to sell the properties and to obtain the best possible price from the sale were seen as lacking. Audit was also harsh on the grant of repeated extensions and relaxations to the bidder of Juhu Cenatur to facilitate the sale.

C&AG's Audit Report on Disinvestment of PSUs: The performance audit of major transactions relating to disinvestment of Government Shareholding in Selected Public Sector Undertakings during 1999–2003 in 9 PSUs are contained in a stand alone volume (No.17 of 2006). Audit scrutiny of disinvestment of 9 PSUs namely, Modern Food Industries Limited (MFIL), Bharat Aluminium Company Limited (BALCO), Hindustan Teleprinter Limited (HTL), Computer Maintenance Corporation Limited (CMC), Hindustan Zinc Limited (HZL), Videsh Sanchar Nigam Limited (VSNL), Indo Burma Petroleum Company Limited (IBP), Indian Petrochemicals Corporation Limited (IPCL) and Paradeep Phosphates Limited (PPL) revealed that clear objectives for each case of disinvestment were not laid down although, broad objectives of overall disinvestment programmes were indicated. Audit Report, amongst others, stated that there was: absence of clear accountability regime for the disinvestment process, shifting responsibility for aspects of valuation and post disinvestment issues among the PSUs, Administrative Ministry and Department of Disinvestment, lack of critical

assessment of work done by global advisors. Also there were several areas where good practices needed to be instituted, post-closing adjustment clause in the share purchase agreement needed a more critical review for its efficacy, there was need to justify in a transparent manner each major assumption affecting valuation of PSUs and finally all essential preparatory work to disinvestment needed to be completed before calling for expression of interest. The delayed decisions by the Government on crucial questions relating to financial health of PSUs including restructuring of the capital could be reasons that adversely affected the generation of more interest and keenness among prospective bidders. The Government had no mechanism to ensure that post disinvestment, the strategic partners had in fact, brought in the technology and finance for all round improvement of the disinvested PSUs. After disinvestment, three PSUs namely MFIL, HTL and PPL were referred to BIFR. In the case of HTL and PPL, strategic partners had made claims of the same order of magnitude to that of sale values on the government. In the case of VSNL, the Government could not derive any benefit from the surplus land in the possession of the company. In the case of BALCO, VSNL, PPL and IPCL, inadequate attempts of the Government to get the title deeds to the lands and buildings and remove the encumbrances impacted the valuation adversely as the asset valuer discounted or did not consider the value of such properties. The audit examination revealed that conservative assumptions made by the global advisors in 7 out of 9 PSUs were made for valuation under discounted cash flow methodology. This had impacted adversely the business valuation.

SECTION 'C' — ENVIRONMENT AUDIT

Of the new and emerging audits of the Comptroller and Auditor General, perhaps the most challenging is environmental audit. Audit of environment had attracted attention of INTOSAI since 1990s and it has constituted a Working Group on Environmental Auditing of which India is a member. The Working Group has various Research Committees and so far 9 papers on different aspects of Environmental auditing have been brought out. These serve as guidelines on Environmental Audit.

Environmental issues attracted the attention of world community as early as 1972 when the first major international event in this area took place under the auspices of United Nations – this was the UN Conference on Human Environment held in Stockholm in 1972. The momentum however, picked up during 1990s, after 1990s and beginning of the new millennium. Several International Conferences were held, each one concentrating on a specific environment related aspect. In 1992, the Earth Summit was held in Rio de Janeiro formulating possible strategies for protecting the future of life on earth along with Action Plan and blue print for sustainable development in the twenty first century. The Kyoto Protocol, signed in 1997 was a commitment of the 166 countries to reducing or restricting green house gases emissions. The world summit on sustainable development in Johannesburg in 2002 was yet another land mark in this context. The summit analysed the achievements so far and proclaimed again for collective commitment to sustainability.

In India, the awareness about environmental related issues and its approach to sustainable development have been high on the agenda. A number of legislations were enacted towards Environmental Protection. In 1986, the all encompassing Environmental Protection Act was proclaimed empowering the Government to bring out appropriate regulations to address any pressing environmental concerns. Under this Act, the Environmental Protection Rules were framed in 1986, the Biomedical Waste (Management and Handling) Rules in 1998 and the Hazardous Wastes (Management and Handling) Rules in 1989 and a host of others like rules on Ozone Depletion, Municipal Solid Wastes and the Noise Pollution which were all proclaimed in year 2000. The Government has also set up regulatory institutions and standards for ambient air, water and waste disposal.

APPROACH OF C&AG IN ENVIRONMENTAL AUDIT

Chapter 19 of 2002 edition of C&AG's Manual on Standing Orders (Audit) deals with various facets of Environmental Auditing. In the very beginning, it defines audit objectives of this audit as 'to ensure that appropriate and adequate policy and procedures are in place and are duly complied with to achieve the goal of sustainable development'. The INTOSAI Working Group on Environmental Audit had prepared guidelines and standards for assisting SAIs in conducting Environmental Audit with financial, compliance and Performance audit frameworks. The Manual also sets out an audit approach for Environmental Audit which would be conducted within the broad framework of Regularity and Performance Audit.

ROLE OF REGIONAL TRAINING INSTITUTE (RTI), MUMBAI

RTI, Mumbai (established in 1980) caters to the training needs of the 16 offices of the IA&AD situated in Mumbai, Pune and Goa. The Comptroller and Auditor General of India designated RTI, Mumbai as a nodal training institute and centre for excellence for Environmental Auditing in 2002. As a nodal institute, it was to play lead role in the area of Environmental Audit. The institute as a first step decided to go for capacity building in the area of Environmental Auditing. A Principal Director (AG level) was posted as head of the Institute in September 2003. In December 2003, it organized a five days training programme on Environment Audit basically, for the cutting edge level officers. On the directions of C&AG of India, the institute developed a Structured Training Module (STM) in 2004. In this STM on Environmental Audit important inputs were taken from INTOSAI Working Group on Environmental Auditing papers, training material developed by IDI and India's experience in Environmental Audit. The Institute organized 'training for trainers' and the first training programme for trainers based on the revised STM was organized in June 2004 for 3 days which was inaugurated by the C&AG of India.

RTI, Mumbai also collaborated with other RTIs and RTCs in organizing training in Environmental Audit in their respective institutes. According to the estimates of RTI, Mumbai, the total officers trained in Environmental Audit upto the end of 2005 was 566 which included 49 Group officers.

The Institute compiled and disseminated a good deal of literature on Environmental Auditing to all the training institutes under C&AG

as well as Audit offices and iCISA and National Academy at Shimla. These include:

- ❖ STM on Environmental Audit;
- ❖ Compilation on 77 Environmental audits undertaken by SAI India;
- ❖ Central legislations on Environmental Audit;
- ❖ Nine International Environmental Accords signed by Government of India;

In 2006, the institute disseminated to all the above institutes the following products:

- ❖ WHO Water Quality Publication;
- ❖ Training material on Clean Development Mechanism;
- ❖ Compendium on the First and Second Workshop on Natural Resource Accounting (NRA) organized by the institute

The institute is actively participating in Natural Resource Accounting work and it organized a workshop on NRA in February 2006 in collaboration with Central Statistical Organization, the nodal agency in development of statistical system and data in India and in November 2006, a second workshop on NRA at iCISA, Noida for Principal Directors/Principals of RTIs/RTCs and Group Officers of the Audit Department. The institute had designed and developed an Environmental Audit Manual and presently it is awaiting approval of the Headquarters. The institute has also prepared Structured Training Module on Natural Resource Accounting which is pending approval from Headquarters.

ENVIRONMENTAL AUDIT—SAI INDIA'S EXPERIENCE

INTOSAI Working Group on Environmental Audit Guidelines has classified Environmental Audit into five distinct categories:

- ❖ Compliance Audit of Environmental laws
- ❖ Performance Audit of Environmental programmes/schemes
- ❖ Environmental impact of any programme or activity
- ❖ Evaluation of environmental policies and
- ❖ Audit of Environment Management Systems (EMS)

C&AG of India has already conducted audit of first three categories and brought out results of the same in his Audit Reports. As regards, the fourth viz. evaluation of environmental policies, the C&AG's role is limited to providing inputs through his audit findings for policy improvements like policy formulation and designing of

programmes. IA&AD's initial attempts on Environmental Audit began in C&AG Somiah's time when two or three important audit reviews on environmental aspects were brought out. Of these, mention can be made of Ganga Action Plan which was conceived as a flagship programme for cleaning the river Ganga of all pollutants and a report on 'Afforestation of waste land and agro-forestry' which the C&AG brought out in his 1995-96 Audit Report on Haryana Government. The emphasis on Environmental Audit took a significant jump in Shunglu's period when a series of Environmental Audit related reports were brought out. Of these, C&AG's Report on Ganga Action Plan (revisit) contained in his report for the year ended March 2000 Union Government (Scientific Departments) was a major review on this highly ambitious centrally sponsored scheme and the results of the C&AG's audit were brought out both in the Central Report as well as in the Audit Report of the concerned State Governments. In 1995-96, Audit Report of Maharashtra Government, featured a review on Pollution Control Board of Maharashtra. In 2000-01, Audit Report an important Environmental Audit related review called 'Implementation of Environmental Acts relating to Water Pollution' was brought out which was in the category of Compliance Audit.

A big fillip to Environmental Audit came after C&AG Kaul, recognised the importance of this emerging audit. He also designated the office of PD (Scientific Departments) as the nodal office for undertaking Environment Audit and commissioned RTI, Mumbai as a Centre of Excellence in Environmental Audit. During his period, already there has been a spurt of studies on environmental issues and one of the striking features of these reports is that they comment on the environmental impact of non environmental programmes. For example in C&AG's Report No.4 of 2006 on Defence services which contains Performance Audit Report on three naval projects, audit has also commented upon the environmental impact of certain actions namely on coastal ecosystems, destruction of flora, fauna and degradation of beaches. Similarly, in his Performance Audit Report on Railways—2006 which features, interalia medical and health services also non maintenance of the prescribed standards for drinking water and food products and non-conformity in disposal of bio-medical waste management in railway hospitals are highlighted. Incidentally, the report also has given recommendations on creation of such facilities. In Audit Report No. 11 of 2007, audit has commented that railway did not have an environment policy to dispose off e-waste and the obsolete or unusable computer hardware

were disposed off like any other ordinary scrap. It has been recommended that a policy for disposal of e-waste in line with international practices needs to be defined urgently in view of the quantum of e-waste generated by the Railways. Similar comments have been made in C&AG's Report (No. 2 of 2006) on Department of Atomic Energy where the authorities have not installed incinerator systems even after nine years causing thereby environmental hazard by inefficient nuclear waste management. Similar comments have been made by C&AG in his audit of BHEL regarding delay in commissioning of Air Pollution Control System in one of the plants in BHEL. In 2006 however, C&AG brought out a full fledged Environmental Audit Report titled 'Conservation and Protection of Tigers in Tiger Reserves'. Similarly, AG West Bengal has undertaken Environmental audit of arsenic alleviation programme in 2006 Report. AG, Himachal Pradesh has brought out an impact of Government commercial and trading activities on air, water, soil pollution.

This heartening feature of environment related reports appearing in defence, railway or civil reports of the C&AG is specially praiseworthy because 'EA reports were a rarity in SAI India's non-civil reports before 2004, unlike environmental concerns being increasingly reflected in recent reports.' The Performance Reports on Environmental Audit conducted now are well structured in line with the INTOSAI Performance Audit framework as adopted in SAI's Performance Audit guidelines.

In 2007, an exclusive Performance Audit was brought out on Environment Audit of Mumbai Port Trust.

AG Maharashtra brought out a Performance Audit Report as a Stand alone volume on the theme 'Floods in Maharashtra—Preparedness and Response' (Report laid in 2006). The Report included an examination of Disaster Management Plan also.

NOTES: CHAPTER-15

¹ Discussion Paper of Planning Commission titled 'Approach to Regulation of Infrastructure : Issues and Options

² C&AG's D.O. of August 9, 2004 to Nripendra Mishra, Chairman, Telecom. Commission and Secretary, Department of Telecom.

³ Shri Kanwal Nath, DGA (P&T)—For TRAI; Dr. A.K Banerjee, DGACR—For IRDA; PDAESM—For CERC

⁴ Shovana Narayan

⁵ Audit of Regulatory Bodies—Bridging the Competence Gaps

⁶ Guidelines on Performance Audit of Regulatory Bodies

⁷ The Commission was headed by Chairman and had amongst others 4 part-time Members.

⁸ S.K. Bahri who was then Dy. Director

⁹ The officer of the rank of Deputy Director was in fact a key person in the disinvestment process

¹⁰ The Committee was set up under the Chairmanship of Sir John Bourn, British C&AG. India was one of the members of the group.

¹¹ Shares were sold to Sterilite Industries

¹² This involved 12 more companies

¹³ Modern Food Ind. Ltd., Bharat Aluminium Company Ltd., Hindustan Teleprinter Ltd., Videsh Sanchar Nigam Ltd., Indo-Burma Petroleum Ltd., Indian Petrochemicals Pvt. Ltd., Paradeep Phosphates Ltd., Computer Maintenance Ltd., Hindustan Zink Ltd.

¹⁴ The decision of Supreme Court was on the various writ petitions challenging the decision of the government to disinvest 51 per cent shares in BALCO including a PIL.

¹⁵ Gist of the judgment of Supreme Court was brought out by PD (RC) in his note dated 27 December, 2001 submitted to C&AG.

LIST OF KEY EVENTS-SECTION 'A'

28 March 1997	The Telecom Regulatory Authority of India Act, 1997 published in the Gazette. Section 23 of the Act prescribed audit of the accounts of the Authority by the C&AG.
2 July 1998	The Electricity Regulatory Commission Act, 1998 published in the Gazette. Section 32 and 34 of the Act provided for the audit of the accounts of Central Commission and State Commission respectively.
19 January 2000	C&AG wrote to Prime Minister that a Group on Telecom and I.T. is in the midst of finalizing its conclusions abridging the role of audit and this has the potential of drawing government into controversy without serving any purpose.
January 2000	An 'Explanation' was added under Section 23 of TRAI Act, 1997 that the decisions taken by TRAI in the discharge of its functions under Clause (b) Sub-section 1 and Sub-section 2 of Section 11 in addition to section 13 were excluded from the audit scope of C&AG.
April 2001	Audit of Regulatory Bodies discussed in the Accountants General Conference.
7 May 2003	C&AG ordered that the Action Plan for skill development can be adopted since we are mandated to audit Regulators unless barred by a specific provision in a statute.
29 May 2003	C&AG wrote to Minister of Disinvestments, Communication and I.T. requesting his intervention in the matter so that legislation is harmonized with the prevailing position on the accountability of economic regulators, other than TRAI.
January 2004	Chairman, PAC wrote to Prime Minister stating that the matter was discussed by the PAC on 21 January, 2000 and the members were exercised about the proposed ordinance contemplating to do away with audit and accountability to PAC and Parliament. He hoped that patently wrong directions being taken is set right.
4 and 5 August 2004	Rajasthan Electricity Regulatory Commission and Tamil Nadu Electricity Regulatory Commission protested against the Performance Audit of Electricity Regulatory Commission.
6 September 2004	Principal Director (AB) wrote to DG (Training) iCISA that course design and delivery for skill development for the performance audit of regulatory bodies is to be carried out by iCISA.

- 18 November 2004 It was decided that respective field offices would identify and develop their own training resources in consultation with Regulatory Bodies and specified training institutes.
- 29 December 2004 Instructions issued to field offices that audit of accounts of Electricity Regulatory Commission would include performance audit but orders passed by the Commission in exercise of quasi-judicial functions would not be within the scope of audit.
- 22 June 2005 ADAI wrote to Chairman, Central Electricity Regulatory Commission that examination of the matter in consultation with Ministry of Law revealed that audit can comment on economy, efficiency and effectiveness of Electricity Regulatory Commission.

DOCUMENTS

1

No. 2-C&AG/2000.
January 19,2000

V.K Shunglu
Dear Prime Minister,

The Group on Telecom and IT constituted by Government on 13 December 1999 is in the midst of finalizing its conclusions on a variety of issues. What prompts this letter is a report in the Indian Express of 18 January 2000 suggesting that there is broad agreement on abridging the role of this office. Informal inquiries reveal that this report is not unfounded.

Before this issue becomes another controversy, I believe that some crucial facts ought to be taken into account. In my opinion, the Tariff Regulatory Authority has two major functions (i) to adjudicate on disputes and (ii) to set tariff. The first function has hitherto not been performed within Government; it is a quasi judicial function and to that extent requires a judicial review rather than any jurisdiction for audit. The second function of setting tariff was an executive function, which it is now proposed, the Regulatory Authority should discharge without accountability to Parliament by keeping it away from the ambit of my audit. This function howsoever worded, remains in the main the same as what Government used to do. Hence, all audit provisions, which were available in relation to this function, prior to the establishment of TRAI, must remain. Since nothing has changed nothing must change regarding accountability and this is the crucial issue. Any other interpretation can only be seen as trying to conceal from the people and from Parliament something which they are entitled to know. I am not getting into the substantive portion of the enactment because this would be differently framed by different people. I am merely drawing your attention at a crucial stage to an issue which has the potential of drawing Government into controversy without serving any purpose.

With regards,

Yours sincerely,
SD/-
(V.K. Shunglu)

Shri Atal Bihari Vajpayee
Prime Minister of India,
New Delhi

2

VIJAYENDRA N. KAUL

No.145-C&AG/2003/AB
May 29, 2003

Dear Minister,

Kindly recall our conversation regarding the amended provisions of the TRAI Act 1997, which abridged the scope of audit by Comptroller and Auditor General.

The function of economic regulation is a critical element of the privatization process. Such regulation is generally understood as exercise, by the State, of control or influence over service providers, whether publicly or privately owned. This is an area of growing importance to citizens and governments because the function of economic regulation is performed in public interest.

Elsewhere in the world, Supreme Audit Institutions carry out Performance Audits of economic regulators, and this results in increased efficiencies in the supply of regulated services. The central orientation of Performance Audits is to ascertain whether a regulatory body is achieving its objectives efficiently. These audits are carried out by SAIs in countries with varying levels of economic development and different political structures. For instance, the National Audit office in the United Kingdom has carried out pioneering work in this regard. SAIs in Thailand, Peru and Zambia have also carried out audits of regulators.

Performance audits of economic regulators in India is an evolving era for audit and generally the C&AG's jurisdiction has not been questioned as my audit enhances accountability and enables Parliamentary scrutiny so essential for democratic functioning.

However, on account of some misgivings regarding the nature of audit in relation to the telecom sector, Section 23 of the TRAI Act 1997 was amended by the insertion of an Explanation. By virtue of this amendment, several functions of TRAI, unlike those of other regulators, have been excluded from audit scrutiny. For instance, action taken by the TRAI in matters relating to laying down standards of quality of service and the conduct of periodic survey of such services have been excluded. As a result, the scope of Performance Audits has been significantly and unjustifiably curtailed by keeping several records beyond the range of audit examination. This situation, even if strictly legal, is singular within the Indian Statutory framework for economic regulators and is against the current of international developments.

The restrictions contained in Section 23 of the TRAI Act also attract attention because there is always a need for the regulatory body to be accountable for its operations, in order to develop legitimacy in the eyes of the public. This aspect is particularly significant in view of Section 25 of the TRAI Act which makes the Authority answerable to the Central Government by making it obligatory to comply with Ministerial directions. As a result, the functioning of the Authority is clearly marked by executive characteristics.

The need for legitimacy becomes compelling because, telecom service suppliers have the right of appeal to courts against the regulator's decisions while the consumer does not possess symmetrical rights under the TRAI Act.

It is against this backdrop that I wish to draw your attention to the potentially damaging implications of the Explanation to Section 23(2) of the TRAI, Act 1997. I would request your intervention in this matter so that the legislation is harmonized with the prevailing position on the accountability of economic regulators, other than TRAI, both in India and abroad.

With kind regards

Yours sincerely,
Sd/-
(Vijayendra N. Kaul)

Shri Arun Shourie,
Minister of Disinvestments,
Communications and IT,
Electronics Niketan,
6, CGO Complex,
New Delhi

3

S.S. Rajvi IAS

D.O No. 603
Date: 4/8/2004

Dear Shri Bhati

This has reference to your letter No. 178-191/Rep (AB) 101-2003 dated 5.07.04 addressed to the Chairman, RERC seeking suggestions on the departmental publication titled 'Guidelines on Performance Audit of Regulatory Bodies'.

As desired, our comments on these guidelines are made as under:

- (i) These guidelines seem to have been framed to cover all regulatory bodies and may be relevant to some of them. The Regulatory Commissions in Electricity Sectors are statutory bodies set up under specific Acts. The Rajasthan Electricity Regulatory Commission and other Electricity Regulatory Commissions have been set up under the Electricity Act 2003 and have to perform functions entrusted to them under the Act. Under subsection (2) section 104 of the Electricity Act 2003, the Comptroller and Auditor General of India is required to audit the accounts of the State Commissions. Therefore, so far as State Electricity Regulatory Commissions are concerned, the guidelines should confine to audit of accounts only.
- (ii) For performing its various functions, the State Regulatory Commissions have to frame regulations as required by the Electricity Act 2003. The regulations for various purposes have to be framed through a transparent process of their previous publication and are public documents available to any person.

It is requested that the guidelines may kindly be revised looking to the scope of audit of the Electricity Regulatory Commissions under the provisions of the Electricity Act 2003.

With best wishes

Yours sincerely

Sd/-

(Surendra Singh Rajvi)

Shri R.K. Bhati

Dy Director (Exam/AB)

Office of the Comptroller & Auditor General of India,

New Delhi-110002

4

TAMIL NADU ELECTRICITY REGULATORY COMMISSION

No. 17, ThirdMain Road, Seethammal Colony, Alwarpet, Chennai-600

018Phone: ++91-044-2435 9156/2435 9215/2432 2037 Fax: 91-044-2435 4982

R. Balasubramanian,

Secretary

To,

The Deputy Director (Exam/AB)

Office of the Comptroller of Auditor General of India,

10, Bahadur Shah Zafar Marg,

New Delhi- 110 002

Letter No. TNERC/DT/TC/F. Act 2003/D 609/2004, dated 5.08.2004

Sir,

Sub: Guidelines on Performance Audit of Regulatory Bodies-suggestions

Ref: Your D.O. Letter No. 178-191-Rep(AB)/101-2003, dated 5.7.04

(1) Performance Audit of Electricity Regulatory Commission is not envisaged in the Electricity Act 2003.

(2) As per Part XI of the Electricity Act 2003, (Central Act 36 of 2003), the Appellate Tribunal for Electricity can hear and dispose any appeal against the orders of the Electricity Regulatory Commission and issue instructions, directions to the Electricity Regulatory Commissions for the performance of the statutory functions under the Act. Any performance audit by the Comptroller and Auditor General will be not only inconsistent with the Act, but also will be construed as transgression into the powers of the Commission / Appellate Tribunal.

(3) The guidelines communicated to the Commission for suggestion cannot be made applicable to Electricity Regulatory Bodies and hence dropped.

Sd/-

Secretary

Tamil Nadu Electricity
Regulatory Commission

Vijayendra N. Kaul

No. 69-C&AG/2004
August 9,2004

Dear Shri Mishra,

This is with reference to my telephonic conversation with you regarding audit of TRAI by the C&AG. You may be aware of the provisions which were exceptionally introduced under the TRAI Act by an amendment in January 2000 regarding which I have already written to Shri Maran, Minister of Communications and IT vide my D.O. letter dated 10.6.2004.

As an interim measure, keeping the existing provisions of the law in mind, I have formulated performance audit guidelines of regulatory bodies. These guidelines are based on INTOSAI guidelines and benchmarked to best practices being followed in other mature democracies like US and UK. I am enclosing a copy of these guidelines for your information. I would appreciate if these are communicated to regulators in your Ministry so that they are aware that these have been framed to avoid any confusion or doubt in the minds of both the auditors and auditees about the audit mandate. These guidelines are not for annual financial/regularity audits but for performance audits and they are indicative and not exhaustive.

I had earlier sent a copy of these guidelines to all regulators including Chairman, TRAI. The Chairman, TRAI has welcomed the guidelines. He has suggested that before we take up performance audit of TRAI, the concerned auditors must acquire core in-house skills and he has offered assistance in training. The problem raised by him is addressed in Chapter -2 of the guidelines. I have particularly studied the nature of audits by public auditors of telecom regulators in other countries like UK to ensure that practices in our country strike a balance between accountability and the autonomy of the regulator.

With regards,

Yours sincerely,
Sd/-
(Vijayendra N. Kaul)

Shri Nripendra Mishra,
Chairman, Telecom Commission &
Secretary, Department of Telecommunications,
Sanchar Bhavan,
New Delhi

6

Copy of letter No.212-Audit(AP)/30-2004 dated 30.11.2004 from Shri N.R. Rayalu, Director General (Audit), Office of the Comptroller & Auditor General of India, New Delhi addressed to All Directors General / Principal Accountants General / Accountants General (Audit) / Principal Directors of Audit.

Sub:Audit of Regulatory Bodies.

Sir/Madam,

I am to invite a reference to Headquarters letter No.133-Rep(AB)/101-2003 dated 1 June 2004 forwarding therewith a copy of 'Guidelines on Performance Audit of Regulatory Bodies'. The position was reviewed in the light of the provisions as contained in the Explanation below Section 23(2) of the TRAI Act, 1997 (as amended in 2000) which stipulates that the decisions of the Authority that are appealable to the Appellate Tribunal are not subject to audit by C&AG. The Guidelines issued by this office are general and executive in nature and cannot supplant the legislations by which the regulatory bodies, like TRAI and IRDA have been set up. The guidelines are only supplement to the statutory provisions of the TRAI Act.

C&AG has therefore ordered that while taking up audit of Regulatory Bodies, it should be kept in mind that the audit should be within the sphere of the Provisions made in the relevant Act regulating such bodies in order to avoid any confrontation between the Act and the guidelines.

Yours faithfully,
Sd/-
(N.R. Rayalu)
Director General (Audit)

7

Copy of letter No.384-Audit (AB)/8-2004 dated 29.12.2004 from Shri N.R. Rayalu, Director General (Audit), Office of the Comptroller & Auditor General of India, New Delhi addressed to All Directors General / Principal Accountants General / Accountants General (Audit) / Principal Directors of Audit.

Sub:Audit of Regulatory Bodies.

Sir/Madam,

In continuation of Headquarters letter No.212-Audit(AP)/30-2004 dated 30.11.04 on the subject cited above, the matter was reviewed in the light of references received from different Electricity Regulatory Commissions challenging the authority of the C&AG of India for auditing the matters other than the annual accounts.

It has been decided that audit of accounts of Electricity Regulatory Commissions and Audit Report thereon would include performance audit of these Commissions. It may, however, be noted that orders passed by the

Commissions in exercise of quasi-judicial functions (as its legality and justiceability) would not be within the scope of audit.

The above instructions are equally applicable to other regulatory bodies (like TAMP etc.).

Yours faithfully,
Sd/-
(N.R. Rayalu)
Director General (Audit)

8

M.S. SHEKHAWAT

D.O NO 145 Dir(L)/3/2004/Misc/Rep(AB)
Dated:22.06.2005

Dear Shri

Kindly refer to Shri P.K. Mehrotra's, Member, Forum of Indian Regulators D.O. Letter No. 1(2)/C&AG/FOIR dated 02.03.2005 addressed to Shri V.N. Kaul, Comptroller and Auditor General of India, regarding the applicability of the 'Guidelines on Performance Audit of Regulatory Bodies' issued by the C&AG. In the letter he had requested that the Electricity Regulatory Commissions should be kept out of the purview of the above guidelines.

All the points mentioned in your d.o. letter under reference have been examined by us in consultation with the Ministry of Law, (Deptt. of Legal Affairs) who have opined that while auditing Regulators under the Electricity Act 2003, the auditor can comment on their economy, efficiency and effectiveness in the audit report to be placed before the Parliament /State Legislature. The Law Ministry has also further opined that the guidelines are not bad in law.

I hope this will now settle the issue and the Electricity Regulatory Commissions will extent full cooperation to Audit in performance of its statutory obligations.

Shri A.K. Basu
Chairman,
Central Electricity Regulatory Commission,
6th Floor, Core-3, Scope Complex,
7 Industrial Area, Lodhi Road,
New Delhi-110003

Yours sincerely,
Sd/-
(M.S. Shekhawat)

Date: 22.1.2000

N.D. TEWARI,
Chairman, Public Accounts Committee
Dear Prime Minister

We have recently seen a spate of newspaper reports giving disturbing message that the Telecom, Regulatory Authority of India (TRAI) Act is being amended by an Ordinance under issue shortly. It is also reported that the Comptroller and Auditor General would not have auditorial jurisdiction on TRAI except for the insignificant area of the expenditure incurred by TRAI in the pay and allowances, etc.

2. The present TRAI Act empowers C&AG to audit all activities and functions of TRAI as in the case of any Government Department. Primarily, the TRAI deals with tariff setting and thereby ensures receipts for the Consolidated Fund of India and also adjudicates the disputes between parties. While it is understandable that adjudicatory decisions of the Authority need not be brought under the purview of C&AG's Audit and Public Accounts Committee, there is no justification for the tariff fixing, revenue sharing, conditions of licensing, etc. prescribed under section 11 of the Act being excluded from the purview of Audit and the PAC. Fixing tariff and other attendant functions result in receipt to Government and therefore, exclusion of these activities from accountability to the Parliament and PAC on the basis of C&AG's Audit is unconstitutional. This would also tantamount to negation of the powers and duties of C&AG as prescribed in the Constitution.

3. Creation of an appellate tribunal and provision to appeal to Supreme Court on these matters of revenue cannot take away the powers of C&AG to audit them and report to Parliament and the PAC. These functions are actually executive in nature and were being done by the Government all along. By entrusting to the Authority, these functions do not become quasi-judicial and such a contrived definition cannot be the basis for doing away with the Audit of C&AG and accountability to the Parliament. There exist Appellate Authorities and Tribunals in the country for Income Tax, Customs, Central Excise, Sales Tax and other receipts and these receipt collections are also justiciable in the High Courts and Supreme Court. Such provisions for appeals have not made the C&AGs audit, and accountability to the Parliament and PAC vanish in these cases.

4. I would also like to point out that in our country, as in other developing countries, cross subsidy between long distance and local calls, expansion of telephone facility to villages and non-revenue earning areas and increasing the tele density are matters of public policy and the Government must have the last word in such matters. Such decisions will affect the tariff, revenue sharing, terms of contract, inter linking with the country's major telecom operators, namely, Department of Telecommunications, Mahanagar Telephone Nigam Limited (MTNL) and Videsh Sanchar Nigam Limited (VSNL). As long as Government is the decision maker for public interest, I do not see how it can be argued that C&AG, PAC and Parliament should not be in the picture. Even with all the hopeful expansion in private sector, DoT would continue to

be the dominant service provider up to about 80 percent for the coming 10 years. When such is the case, it is quite improper to leave TRAI from C&AG's audit and Parliamentary scrutiny because they would decide on the revenues of the Government that would have impact on the Government telecom policies that aim to bring the facility to common man. Further the decisions of TRAI will also have far reaching impact on the functioning of DoT, MTNL and VSNL.

5. I understand that in many of the developing countries and even some European countries, the functions that are entrusted to the Authority vest with the Government or remain under governmental control. We are no different and an attempt to be so would mean taking decisions well before their time. Dyarchy, through part time government members would hardly be sufficient redressal of these concerns.

6. This matter was discussed by the PAC on 21 January 2000 when examining the Audit Report on DoT and the members were quite exercised about the proposed Ordinance contemplating to do away with existing audit of C&AG and accountability to PAC and the Parliament. Mere audit of the Budget of the Authority as would be provided in the Ordinance does not mean anything, as mentioned above. I hope that it does not become a controversy and I am sure that with your commitment to Parliamentary democracy, you would take immediate steps to ensure the patently wrong directions being taken is set right so that TRAI remains as much accountable to Parliament through C&AG's audit as already provided for in the Act.

Yours
Sd/-

Shri Atal Bihari Vajpayee,
Prime Minister of India,
South Block,
New Delhi

LIST OF KEY EVENTS-SECTION 'B'

September 1992	PDAESM carried out first disinvestment audit.
September 1998	Headquarters decided that in future audit of disinvestment be done by DGACR being Principal Audit officer of the Ministry of Finance.
23 November 2000	C&AG wrote to Minister of disinvestment that audit of each disinvestment would be taken up as soon as Ministry was ready with documents. Inspection report will be issued but mention would be made in Audit Report of those cases only which merit inclusion therein.
15 December 2000	Audit of disinvestment was entrusted to PDAESM after formation of Department of Disinvestment as a nodal ministry for disinvestment in 1999.
10 December 2001	Landmark decision of Supreme Court on PIL filed on disinvestment of Government shares in BALCO (issues-disinvestment policy, worker's interest, transparency, reserve price and valuation, tribal land issue, PIL).
November 2002	A policy formulating broad approach to audit of disinvestment approved by C&AG.
May 2003	C&AG approved Guidelines for audit of Disinvestment.
31 August 2005	Issue of Guidelines for Audit of Disinvestment of Government shareholding in Public Sector Undertakings.

10

V.K. SHUNGLU

No. 80-C&AG/2000
November 23, 2000.

Dear Minister,

I have received your D.O. letter No. PC/MOS/(P&P1/44(D)/2000 dated November 14, 2000 regarding the audit arrangements for the disinvestment cases.

Our normal procedure of audit for the Central Ministries is to conduct an inspection once in a year and send the Inspection Report to the Ministry. In case there are significant audit findings considered fit for being reported to the Parliament, then those cases are included in the Annual Audit Report issued by this office. Our Inspection Reports are issued only to the Ministry, and not released either to the Press or to the Parliament from our end.

In view of the concern you have expressed for transparency in disinvestment, our office would be prepared to take up the audit of each case as soon as your Ministry is ready with the documents. A separate Inspection Report will be issued in every case. Mention will be made in the Audit Report of these cases, only if they merit inclusion.

With regards,

Yours sincerely
Sd/-
(V.K. Shunglu)

Shri Arun Shourie,
Minister of State,
Planning, Statistics & Programme Implementation
Administrative Reforms & Public Grievances and
Disinvestment, Govt. of India,
Yojana Bhavan,
New Delhi

11

No. 836-Rep (C)/Misc-2000 Disinvestment
Office of the Comptroller
And Auditor General of India,
New Delhi
Date: 15 December 2000

To
Shri H. Pradeep Rao,
Principal Director of Audit Economic and Service Ministries

Sub.: Audit of Department of Disinvestment
Sir,

In supersession of the instructions contained in PD-RC's D.O. No. 814-Rep (C)/129-98 dated 23 September 1988, I am directed to state that consequent upon formation of Department of Disinvestment in the Government of India

in December 1999, the function of audit of disinvestment shall revert to the office of the Principal Director of Audit, Economic and Service Ministries, New Delhi, PDA-ESM will be the Principal Auditor of the Department of Disinvestment.

DGA-CR will transfer all files, papers and documents relating to audit of Department of Disinvestment to PDA-ESM.

Yours faithfully,

Sd-

Niranjan Pant

Principal Director (RC)

CC:

Director General of Audit, Central Revenues, New Delhi. He is requested to transfer all files, papers and documents relating to audit of the Department of Disinvestment to PDA-ESM.

Sd/-

Principal Director (RC)

LIST OF KEY EVENTS-SECTION 'C'

- 2002 C&AG designated RTI Mumbai as a Nodal Training Institute and Centre of Excellence for Environmental Auditing.
- 2004 RTI Mumbai developed Structured Training Module on Environmental Auditing.

GLOSSARY OF ABBREVIATIONS

BALCO	Bharat Aluminium Co. Ltd.
BHEL	Bharat Heavy Electrical Ltd.
BIFR	Board of Industrial Financial Restructuring
BRPL	Bongaigaon Refineries and Petrochemicals Limited
CBI	Central Bureau of Investigation
CCD	Cabinet Committee on Disinvestment
CERC	Central Electricity Regulatory Commission
CGS	Core Group of Secretaries
CMC	Computer Maintenance Corporation Ltd.
CPCL	Chennai Petroleum Corporation Limited
DOD	Department of Disinvestment
EMS	Environment Management Systems
HCI	Hotel Corporation of India
HTL	Hindustan Teleprinter Ltd.
HZL	Hindustan Zinc Ltd.
IBP	Indo Burma Petroleum Ltd.
IPCL	Indian Petrochemicals Corporation Ltd.
IRDA	Insurance Regulatory & Development Authority
ITDC	India Tourism Development Corporation
KRL	Kochi Refineries Limited
MFIL	Modern Food Industries Ltd.
NAV	Net Asset Value
NDA	National Democratic Alliance
NRA	Natural Research Accounting
PECV	Profit Earning Capacity Value
PPL	Paradeep Phosphates Ltd.
PSEs	Public Sector Enterprises
RTCs	Regional Training Centres
RTI	Regional Training Institute
SEBI	Securities and Exchange Board of India
SERCs	State Electricity Regulatory Commissions
STM	Structured Training Module
TRAI	Telecom Regulatory Authority of India
UTI	Unit Trust of India
VSNL	Videsh Sanchar Nigam Ltd.

Computerisation and Information Technology Audit in IA&AD

The process of computerisation started off initially in the Public Sector. The Railways were one of the first to introduce computers in their accounting work towards the end of 1960s. Audit was quick to respond by getting some of its officers trained with the assistance of IBM Ltd. The aim was to keep pace with the computerisation in government by evolving a suitable IT audit policy. In 1971, instructions were issued for conducting audit of the computer-based accounting systems in the Railways. In a major policy decision, the Ministry of Finance issued instructions in 1973 on C&AG's request (made in December 1972), that any proposal for computerisation in Central Government offices or undertakings should be processed only in consultation with IA&AD. This was a unique decision by which C&AG could have kept pace with IT developments in the Government. No such understanding with the State Government was, however, made. The HQrs did create a post of OSD (Computer) and posted an IA&AS officer¹ in 1971. This officer also prepared a comprehensive paper on strategy of Department for audit of computerisation but strangely, no action was taken on that. Eventually, the post was abolished in 1972 when the officer was posted as Joint Director (Tech.) in HQrs Office. The opportunity, therefore, was not utilised and audit mostly continued in conventional manner in the organisations, which had installed computers and there was no attempt to get audit done through the computers for a long time. This was due to the fact that audit was able to secure from the auditee organisations hard copies of files like print outs, etc. which allowed the Department to audit them in conventional manner.

FIRST COMPUTER POLICY

A Computer Policy for the Department was laid out in mid 1987 for the first time. Prior to this, Department's response to computerisation in the Government was mostly based on ad-hoc decisions taken in regard to the developments in particular department(s). Prior to finalisation of the computer policy, the C&AG, in July 1986, laid down broad guidelines which focussed on active involvement of field offices, co-ordination with states in accounting matters, regular training programmes at the operational and senior management level and composition of the audit parties. While approving the policy, C&AG also made it clear that the computerisation will not result in any reduction in staff strength and adjustment in the sanctioned posts will be made only against vacancies to be filled in by fresh recruitment. In general, so far as audit function was concerned, computerisation policy was unlikely to have any adverse impact on staff strength, since the objective was to enter new areas of audit i.e. audit in a computerised environment. One could, therefore, rightly say that a formal computerisation policy of the department was given shape in 1987. It was comprehensive. It had the in-built guidelines of the C&AG and a safety net for the employees.

The Policy identified possible areas of computer applications and the requisite audit expertise in relation thereto in three distinct areas of department's functioning namely, auditing, accounting and administrative. For each of these, a detailed programme was drawn including the kind of training for different levels of expertise needed in the department. The policy also covered guidelines for the purchase of hardware and staff implications.

REVIEW OF 1987 COMPUTER POLICY

Some of the important directions/ decisions arising from a review meeting taken by C&AG in March 1988 on the implementation of computer policy of the department were as follows:

(a) *Computerisation of accounts*: Reacting to the apprehension that computerising the civil accounts would trigger the take over of accounting functions by State Governments once they computerised their accounts at the treasury level, (and also NIC's plan for district level computerisation), the C&AG emphasised that a clear picture of computerised status and plans in each state should be obtained and an attempt made to computerise only the second level namely,

the consolidation of accounts which could then be integrated with computerisation in the treasury to avoid duplication of efforts and wastage of resources.

A few years later when the Department went for VLC after a detailed comprehensive discussion in the AG's Conference in 1996, conscious decision was taken to implement the VLC in the IA&AD irrespective of the status of treasury computerisation in various States. Therefore, while a formal coordination with the State Government Treasury Department was not established, care was taken to apprise the Finance Secretaries of a number of State Governments of this new system. This was done through extensive discussions with them in two high level seminars on the subject held at Chandigarh (presided by Dy. C&AG (Accounts) and at Shimla (presided by C&AG) in the year 2000. In these Seminars presentations on the VLC system were made before the State Finance Secretaries followed by extensive discussions on these systems. The inputs of the State Governments were, therefore, duly taken care of in the VLC system. However, very recently arising out of Business Process Reengineering study report, it is under consideration by the IA&AD to take up the study on user requirements and decide modalities for integration of VLC systems with computerised treasury systems through Bridge Software.

(b) *On training*, the C&AG reiterated, what is the most important yet most abused principle that the trained personnel must be properly deployed to make best use of their expertise and for this purpose a proper co-ordination between the personnel division and the computer group at HQrs was necessary.

In the initial stages of introduction of computers, the Department mainly aimed at assisting administration by ensuring that:

- ❖ the software was designed to secure correctness and completeness of accounts with capacity to display any errors etc.
- ❖ procedures were carefully laid down to rectify the errors
- ❖ there was adequate security of computer systems

Besides, the Department continued its routine functions of examining the economy, efficiency and effectiveness of the expenditure on the purchase and use of computers. Several Audit Reports of the period highlighted instances of uneconomic and inefficient purchases of computers, their poor utilisation and upkeep and maintenance and finally very little use of the computer facilities.

REVISED COMPUTER POLICY

In November 1989, two years after the first policy, a revised computer policy statement was formulated with three broad objectives:

- ❖ Qualitative improvement of A&E functions
- ❖ Efficient planning and management of audit
- ❖ Audit of computerised systems

The Policy defined the training needs with reference to objectives in order to develop appropriate training plans. It also talked of specifying viable monitoring and review arrangements for implementing the plans.

STAFF ASSOCIATION APPREHENSION

Even though, an assurance was incorporated in the computer policy that there would be no retrenchment of the staff or any adverse impact on the promotion prospects of the existing staff, staff associations across the country in all field offices had grave apprehensions about attempts for computerisation, on account of their fear that this would lead to either curtailment or freezing of staff strength. The All India Audit & Accounts Association to whom the computer policy paper of 1989 was sent, in response, requested the Department (January 1990) to abandon the policy for fear of staff curtailment. They did not wish to be a party to a scheme without fully understanding its effects on staff. The Department, therefore, gave to the staff side of the Departmental Council (JCM) a copy of 'An Approach Paper on Computerisation in IA&AD' which had the approval of the C&AG. There was a visible impact of this because the Associations had realised that computerisation was in no way, detrimental to their interests as subsequent developments showed, it resulted in creation of EDP posts in many offices.

EDP STEERING COMMITTEE

1989 also marked another very important development and this was the setting up of an EDP Steering Committee in Headquarters (October 1989) consisting of eight senior officers from Headquarters and field offices representing different streams within the Department to guide EDP related activities effectively. Subsequently, EDP Committees were set up in many field offices too. The functions of the committee included procurement of hardware and software,

organise EDP training, ensure post training utilisation of trained personnel, monitor the computerised accounting and audit system, and acquaint itself of the progress made by SAIs of developed countries in computerised accounting and auditing. It was also to monitor the progress of EDP in the department. The EDP Committees went about their job in a systematic manner and identified computer applications needed in the A&E and Audit Offices, and standardisation of software packages. With regard to software, all offices were advised to use only standardised software for developing applications. During this period several State Accountants General developed software applications for various functions like compilation of monthly civil accounts, Finance and Appropriation Accounts, pension authorisation as well as for tracing of unposted items to correct accounts etc. GPF accounting softwares were also developed.

Meanwhile, the Steering Committee reviewed in 1991-92, the implementation of the Govt. of India order of 1973 which envisaged that all Central Govt. departments should refer proposals for computerisation for clearance to C&AG in two stages (i) after system design but before programming, and (ii) after testing but before implementation. The Committee decided that Departments' capability to clear such proposals from both the Central Government and the State Governments should be built up within two years. In October/November 2003, ADAI addressed Finance Secretary and Expenditure Secretary Government of India, Secretary Department of Information Technology and the Chief Secretaries of various States/UTs regarding involvement of Audit in various phases of system development in three stages namely: (i) after the work of the system design is completed but before the computer programmes are written up; (ii) after the computer programmes are written up and tested but before the new system is introduced; and (iii) after the system is introduced at pilot stage but before it is replicated. C&AG issued several guidelines to help the field offices in carrying out the above responsibility. Headquarters circulated IT Audit Guidelines issued by ASOSAI. C&AG also prepared an Audit Check List Brochure meant to assist the audit offices involved in audit of phases of systems development of auditees.

Some proposals recently received by the IT Audit Wing at iCISA on the new IT systems from State Governments of Karnataka and Maharashtra for comments of the C&AG which were duly sent; the Controller General of Accounts also sought comments of C&AG on a new computerised accounting system.

For EDP audit, it was recognised that most important factor was to equip audit personnel with the requisite expertise to audit computer-based systems. For carrying out this objective, it was decided that development of EDP skills must be attempted through structured training programmes, provision of standard materials and development of in-house EDP audit courses with assistance from other INTOSAI members, like GAO, NAO, Office of Auditor General of Canada etc. The plan recognised the need for intensive training inputs for the staff as well as for the IA&AS officers emphasising that 'all officers should have at least a basic awareness of computers and potential of the standard software packages like Lotus 123, dBase IV and MS Word'. Training for IA&AS officers covered the officers on Probation, promoted officers (immediately after their promotion) and other officers who were clubbed in three categories depending on their work experience. The institutions for imparting the training were RTIs and NAAA, Shimla (for all IA&AS officers). It was also open to use the training facilities offered by well-known institutions like NIC, NIIT, CMC Ltd., etc. The eventual goal, however, was to have in-house training facilities to the extent feasible.

AUDIT OF COMPUTER BASED SYSTEMS

It was in the beginning of 1990s that the Department seriously started attempts at EDP auditing because it was realised that the comfort of continuing with the traditional audit skills on the basis of documents such as printouts for the audit trail would no more be available in coming days. The initial steps were to create a database of auditee profiles and auditing computer based systems. Computer audit groups were to be set up in all offices but initially sixteen offices were identified based on training capacity. Training infrastructure was strengthened.

In August 1991, Dy. C&AG N. Sivasubramanian addressed all the Accountants General (Audit), all the Principal Directors of Audit (Civil) and Railways and Principal Directors and MAB in Commercial Audit giving detailed instructions on initiating IT audits. The letter asked the field offices regarding the necessity of identifying specifically in the context of computerized systems in the auditee units on the following:

- (a) the method of documentation;
- (b) change in procedures, and

- (c) the steps in audit process and the detailed checks which have been rendered impracticable, inoperative or redundant.

The letter asked them, inter-alia, to identify the audit checks necessary vis-à-vis computerization in the auditee organizations as regards each computerized auditee and also class of applications. Field offices were directed that computer trained persons in their offices must be sent to the auditee organizations along with the audit party or even separately to understand the procedures in force for computerized processing and then formulate and write out revised audit checks mentioned above. A progress report was also to be submitted by the field offices to the HQrs every month. The reports from the field offices made it clear that most of the audit offices would face the question of audit of applications in offices, which had been computerized. This would require development of revised audit techniques. Headquarters, in May 1992 recognizing this, he decided to set up 'Computer Audit Group' soon in these offices. The idea was to create institutionalized arrangements for audit of computer-based accounting systems of the auditees. Specific directions issued by Dy.C&AG (N. Sivasubramaniam) in this regard in May 1992 were:

- (i) A hand picked 'Computer Audit Group' in each office of three persons one Auditor, two AAOs from the existing strength,
- (ii) The task of this Group were spelt out,
- (iii) The knowledge and skills needed by this Group were also spelt out, and
- (iv) About 12 weeks training was prescribed for the members of the Group—mostly in identified RTIs. The areas where training was needed were also clearly spelt out.

The Computer Audit Groups were to be supervised by a suitable Group Officer with a positive approach towards use of computers. The officer was also to be trained for basic computer applications.

Initially, 32 Computer Audit Groups were set up during 1992–93 and 1993–94. Upto the end of March 1999, 61 such groups had been formed.

A letter written in May 1995 by Assistant C&AG (Commercial) to then Principal Director of Commercial Audit, Madras² (now Chennai) reveals that a team under his leadership had prepared a report on 'Techniques for Accounts Audit where the auditee had

computerized systems'. HQrs, while appreciating the report decided to circulate the guidelines to all MABs asking them to attempt such an audit of at least one or two PSUs to start with and subsequently as they gained experience in using IDEA and other software packages, they could broad base the coverage.

The IA&AD procured in March 1991, an Interactive Data Extraction and Analysis (IDEA) software for use in audit of computer based systems.

Within the Department, action was initiated for software development for financial and accounting purposes, GPF and pension and strengthening the training facilities.

COMPUTERISATION OF ACCOUNTS & ENTITLEMENTS

The First Action Plan on computerisation was for the period 1992–93 and thereafter, an Action Plan was prepared for 1994–97. Subsequently, a three year Action Plan for computerisation was prepared for the years 1997–2000. In the first two Action Plans, the focus was on computerisation of pension, GPF and accounts compilation. The 1997–2000 Action Plan had given priority to the accounts computerisation through what is known as Voucher Level Computerisation (VLC). In a nutshell, computerisation efforts in the 1990s focussed on A&E offices.

- ❖ *General Provident Fund (GPF) Computerisation:* Computerisation was initiated in 1989 and by the year 2002–03, computerisation had been completed in all the 19 State AG offices that were involved in this function. The Department developed applications using different versions of the GPF software and within the versions, changes were made locally to the software application leading to further variations across the offices. These applications were developed using FoxPro/dBase. Under the VLC scheme, Oracle based GPF module was to be developed and implemented in a phased manner. Out of 19 State A.G. Offices, 16 offices have completed implementation while remaining three were in the process.
- ❖ *Pension Computerisation:* Beginning in 1990, computerisation of the pension authorisation slips in all the 20 offices involved in this function was completed by 2002–03. The platform used was dBase, but there is no standardisation in this application. In 2005, it was decided to develop standardised Oracle based pension authorisation and implement the same across the country. The

pilot project was completed in March 2007. Implementation has since commenced in many offices.

- ❖ *Accounts Computerisation:* Initial attempts in computerising accounts made in late 1980s and early 1990s were limited to secondary level compilation with the input data being compiled accounts and not vouchers. The big shift came with the IT plan of 1997–2000, when project VLC was launched, which uses the Voucher as the primary source. VLC is now implemented in 26 out of 27 states whose accounts are compiled by the Audit Department. The monthly accounts of Karnataka are computerised and efforts are on to generate Annual accounts through computers. This software has been developed in Oracle and the VLC package follows an integrated modular approach.
- ❖ *Computerisation of house keeping functions:* Most of the offices have implemented computerisation of various house keeping functions like pay roll, stock records, service records/ gradation lists, monitoring of receipt, disposal of dak, various returns to HQrs, control statements, monitoring complaints, library information system, autonomous bodies information system, IR monitoring, database of sanctions for audit etc. Almost all the offices had completed these house keeping functions by March 1999 except a few offices where some of the items were in the process of completion. Headquarters advised the field offices in December 2003, that software application which were being used in various offices of the department shall migrate in a phased manner to MS Access/Oracle in a specified period.
- ❖ *Audit functions computerisation:* The Action Plan identified following items for computerisation for which guidelines were issued to the heads of department in the IA&AD;
 - (a) IR monitoring
 - (b) Audit planning
 - (c) Monitoring of recoveries at the instance of audit
 - (d) Profiles of auditee organisations
 - (e) Autonomous Bodies Information System
 - (f) World Bank aided projects
 - (g) Database of Important Points –newspaper/ other sources
 - (h) Database of sanctions

Most of the items had been completed by all the offices by the year 2000.

INFORMATION TECHNOLOGY PLAN

A comprehensive Information Technology Plan was released by C&AG in June 2003 for the period 2003–06 outlining the projects that IA&AD would undertake in the three years of the Plan 'to harness the power of Information Technology'. This IT Plan focused on certain issues in Accounts and Entitlement Wing and Civil Audit Wing, which comprises 80 percent of the audit personnel. The plan focused on enhancing the quality of service functions and professionalisation of core functions through enlargement of personnel information, increase in employee participation and empowerment through knowledge management. The Plan defined the mission of the proposed IT Plan in terms of four goals namely upgradation of the quality of data maintained by the department to meet the information needs of the external consumers of the data maintained by the IA&AD (goal 1); to meet the information needs of the personnel within the organisation (goal 2); to meet the information needs of the management (goal 3) and to create enabling environment for use of Information Technology (goal 4). The Plan had, further, broken down the tactical plan into 15 specific projects. Project 1 for improved GPF applications (19 States), Project 2 for improved pension authorisation applications (19 States), Project 3 for gazetted entitlement functions applications (9 States), Project 4 aimed at consolidating and strengthening VLC system, Project 5 for AG's office website, Project 6 related to Interactive Voice Response System for GPF, Project 7 was for the development of Intranet for C&AG's office to act as a platform for information sharing, Project 8 was for implementing office intranet, Project 9 aimed at digitising manuals, Project 10 related to Audit Management System aimed at computerising the audit process in the Central and State Civil Audit, Project 11 related to creation of network of infrastructure in the field offices, Project 12 was for meeting the hardware/ software requirement of IT Audit Plan of the department, Project 13 dealt with use of digital signature, Project 14 was for exploring the possible use of open source software (OSS) and Project 15 was meant for capacity building through training.

This comprehensive IT Plan was to cost approximately Rs.30.5 crore.

PUBLICATIONS

The Information Systems Wing brought out and circulated the following publications/documents in the Department:

1. Systems Development Methodology in IAAD (June 1997)
2. IT Security Guidelines in IAAD (February 1998)
3. Information Systems Security Handbook for Indian Audit & Accounts Department (December 2003)
4. Backup Policy (January 2005)
5. Guide on Installation and Configuration of MS-Windows Small Business Server 2003 (June 2006).

STUDY OF BUSINESS PROCESS REENGINEERING (BPR) &
BUSINESS PROCESS MANAGEMENT (BPM) IN SELECTED
OFFICES OF IA&AD

The objectives of the study were (i) to achieve a sustainable and efficient work place with optimised Total Cost of Operation (TCO) and IT resources utilisation and devise new work norms in selected offices and (ii) integration of IT application on heterogeneous platforms with a unified view for access and ease of use by applying System Usability, Human Computer Interface (HCI) standards for effective management.

For carrying out the study, Accountant General (A&E) and Pr. Accountant General (Audit) / AG (Audit) offices at Bangalore, Gwalior and Bhopal were selected. The C&AG appointed a Consultant to conduct the study in selected offices and to prepare a vision document to implement and sustain a new modernised 21st century office.

The Consultants gave their recommendations in April 2007 which were accepted by the C&AG. He also desired that the recommendations be assigned to the concerned DG/PD at Headquarters who would also be the project owner for the purpose. Four project owners were nominated for the purpose namely DG (AEC), DG (Audit), PD (Staff) and Director (IS). The project owners were to examine the recommendations and draw an Action Plan for implementation in consultation with Director (IS). Earlier a Task Force Committee under the chairmanship of ADAI which included, amongst others, DDG (NIC) as members had discussed the recommendations of the consultants and suggestions of the Committee were forwarded to the consultant in December 2006 for submitting his final BPR Report and strategy document for implementation and changed management plan.

AUDIT MANAGEMENT SYSTEM (AMS)

A highly significant component of IA&AD Perspective Plan was Audit Management System. This important project was to target State Civil Audit initially since this is the largest single unit of Audit in the IA&AD. The AMS would develop a single comprehensive application with multiple modules which would include the complete audit process within the audit office to cater to :

- a) Audit Planning
- b) Audit Documentation /Presentation
- c) Monitoring /Analysis; and
- d) Follow up action.

WORK FLOW AUTOMATION

C&AG Kaul decided to computerise comprehensively all functions of Headquarters office as well as field offices. The Work Flow Automation Project (WFAP) is being implemented initially in the Headquarters office with the primary objective of integrating/interlinking of all wings and sections of C&AG's office and eventually linking all the field offices with C&AG's office. The ultimate aim is that WFAP would act as a pilot for a paperless office and expectations are that this could be implemented in the new building of the C&AG which is under construction. The objectives of WFA Project are:

- ❖ To get the optimum utilisation of the available IT resources
- ❖ To integrate all software applications available in the C&AG's office
- ❖ To remove the redundant activities in the manual system
- ❖ To bring in transparency by designing a file tracking system
- ❖ To improve productivity and performance of the office
- ❖ To fix responsibility on the users
- ❖ To bring in paperless work flow

A detailed plan for Work Flow Automation Project for Headquarters office was presented to C&AG in February 2005. The plan contained Work Flow Automation for Indirect Taxes and administration wings in the first phase. The Work Flow System to be designed would have data and document management features, integrated with intranet (iC&AG) to comprehensively cover all the functions of respective wings. The look and feel of the system would be uniform and user friendly. System flexibility for future requirement was provided. The rollout of the administration module

to the Field Offices could also be planned after implementation in HQrs office. The programme selected was Microsoft SQL server as database, Biztalk server for integration of existing applications and Share Point Portal Server for Intranet. This platform could be integrated or interfaced with all the existing applications as well as the new applications like Audit Management System (AMS) without any problem.

In November 2005, a micro plan for rollout of WF Automation System to other Audit Report Wings was prepared which contained the activities, end date/ period, role of officers, etc.

Currently, the WFAP is operational in Indirect Taxes wing, Administration wing, Works & Project Section, Railway Audit wing and Report (Central). The Users Requirement Specifications (URS) of Report (SCS) and Report (States) Wings are being finalised.

For implementing the WFA in Headquarters office, a vendor of repute was selected.

INFORMATION TECHNOLOGY AUDIT

Despite the fact that an EDP Audit Guide (New Audit Guide Series) was brought out and circulated to all audit offices by the end of 80s, the development of IT Audit was initially somewhat uneven in the department. Although, initial attempts in this direction were made in early 1990s by the formation of Computer Audit Groups and subsequently providing intensive training for skill upgradation, effective IT audit commenced much later. The following extract from an address by the then C&AG C.G. Somiah in September 1995, aptly sums up his perception of the status of EDP in the Department and his word of caution:

'Most of the participant Accountants General are conversant with computer applications. This is an area about which I must confess that I am less than happy. I was hoping that our offices would take to EDP very swiftly, since the personnel at all levels are exceptionally intelligent and talented. It is a great pity that our audit methodology and our accounting still make so little use of the computer...Our effectiveness, even credibility, and I repeat, our relevance, may be in peril if we pay insufficient heed to this important area.' Yet the measures taken in 1990s laid the solid foundation for a knowledgeable, trained manpower, the results of which came little later. The Department prepared its first IT Audit Manual in 1996 along with IT Audit Training Manual. A momentous decision that made a big difference in the development of IT Audit

was the setting up of IT Audit Centre. The proposal was, as mooted initially in October 2000, that a IT Audit core team may be set up in HQrs Office comprising one PD level Officer and 3 group officers. The fast emerging developments in IT and passing of IT Act 2000 along with the fast growth in computerisation of auditee organisations necessitated strengthening IT Audit set up in IA&AD. In pursuance of recommendations of 20th conference of Accountants General for constitution of a centre of excellence in computer research and data management in the Department, a working group set up to examine the proposal recommended that the proposed centre of excellence in IT should be headed by an AG Level Officer to be assisted by Group Officers. It would be the one stop centre, which will have entire sartorial requirements of IT in audit and accounts. Quite clearly they would have adequate knowledge of computers, accounts, audit and overall working of the Department.

C&AG, Shunglu while approving these proposals in October 2000 decided that the proposed IT Audit Centre would be located at International Training Centre at Noida. To the question whether the officers to be posted to this Centre should be IT experts from outside or officers of the Department, C&AG opted for the latter option. However, given the complexity of the task and the high standards of achievement expected from the Centre, selection of the candidates from the available talent was to be carefully done. C&AG emphasised that, considering that IT was a very rapidly changing sector, remaining up-to-date with the changes and consequential systems improvements would require continuous build up of core competency. The C&AG was of the view that 'while it will be wonderful to extract talent from within the Department, it would be undesirable to exclude outside experts.'

The setting up of IT Centre under PD (IT Audit) prompted the C&AG to clearly demarcate the functional areas amongst three persons involved in the IT related activity in the Department viz. (i) Director, EDP (now called Director, Information System), (ii) PD/DG, iCISA, and (iii) DDG, NIC.

In December 2000, when these decisions were being taken, IT application in Department had 3 distinct aspects viz. (i) use of IT for house keeping and other inhouse functions like word processing, audit planning, e-mail, financial management functions, (ii) use of IT in accounts and entitlement functions, and (iii) audit of IT systems of various auditees in the Union Government, State Government Offices, PSUs and other bodies that come within the ambit of C&AG's audit.

The first two areas mentioned above were being dealt with by Director (EDP). The functions relating to audit of IT systems was given to PD (IT Audit) who was given the following main responsibilities:

- (a) Carry out a survey of the impact of IT on financial statements and finance related operations of entities under the C&AG's audit jurisdiction.
- (b) Design a detailed checklist for the above purpose.
- (c) Assess the implications arising out of the survey and prescribe the appropriate audit programmes.
- (d) Where the appropriate audit programme involves the use of CAATs, identify the proper methodology, software and resources and exercise supervision over implementation.
- (e) Plan & supervise VFM audits of IT systems.
- (f) Process reports arising out of audits carried out on this basis.

A detailed list of functions being performed in IT Audit Wing is at Annex.

It was emphasised that Director (EDP) and PD (IT Audit) would not function in watertight compartments and would have freedom to interact as and when needed. The position was to be reviewed after one year.

The 3rd IT functionary in the Department is DDG (NIC) who works as an IT Adviser to C&AG and the Department. For him, the principal role is that of advising both the wings viz. IT (Audit) and Director (EDP) on developments in the field of IT. In fact, DDG (NIC) was posted to the C&AG office by the National Informatics Centre currently under the Department of Information Technology on the specific request of IA&AD. This officer of PD level in audit parlance reports to Dy. C&AG and works as IT Adviser to C&AG and the Department with the following broad objectives:

- (i) Creation of ICT Infrastructure, Capacity Building and devise IT and IT Audit Plan.
- (ii) Establishment of Government Informatics Network (NICNET) node and NIC Cell at IA&AD.

DEVELOPMENTS IN IT AUDIT

While intentions to carry out IT Audit had been expressed right from the computer policy paper of 1989, it would be more correct to ascribe the advent of IT audit to the formation of Computer Audit Groups in Audit offices. Along with this, EDP profiles of auditee organisations were updated under IR Monitoring of audit functions

in each Accountant General office. The Computer Audit Groups had the responsibility of conducting EDP Audit of computer based systems. Their findings were reviewed from time to time in HQrs for qualitative improvement.

The personnel in these Computer Audit Groups were also provided intensive training at the NAO UK initially in two batches—first batch of 15 officers in May 1995 and second batch, also of 15 officers in September 1996. In September 1997, a third batch of 15 officers were trained in NAO UK in IT Audit. These trainees were 'core group' and they prepared subsequently practioners guide to IT audit and also IT audit training Manual. They also acted as resource persons for IT Audit Training Programmes.

The initial output from the field offices on IT Audit was subject to thorough review at HQrs. The bottlenecks identified in this regard mainly related to data downloading from Main Frame and Mini Computers. Around 1999, however, Computer Audit Groups had started IT Audit which were vetted at HQrs and as a result these were modified/ considerably improved.

DEVELOPMENTS IN IT AUDIT POST 2001

It would be fair to say, however, that with all the efforts, only sporadic IT Audit output was coming out. The important change in this context was as detailed above the establishment of a separate IT Audit Wing at Noida in 2001 as part of C&AG office, which gave a fillip to the IT Audit development. This IT Audit Centre acts as a nodal point and gives central direction and ensures uniform standards. Creation of iCISA will rank as one of the key contributions that C&AG, Shunglu made towards Department's march on IT Audit path.

The present system of IT Audit will indicate the close involvement of IT Audit Centre in the development of IT Audit skills and publication of IT Audit Reports.

To begin with, the Wing published a General Principles Monograph on IT Audit in December 2001 for use of Department. This was a guidance for IT Audit in the Department and intended to replace the 'EDP Audit Manual'.

DATA BASE OF IT SYSTEMS

There were also attempts at making a database of all the IT systems with the auditees. Accordingly, an information gathering checklist was developed and circulated to all audit offices in December 2001.

The responses to this checklist were received from the field offices and compiled in the IT Audit Wing. It was found that approximately 3500 IT systems were available in the country on various platforms and pertaining to different applications/systems from a simple payroll system to assessment of tax in Income Tax/Commercial Tax to Passenger Reservation System (PRS) in Indian Railways and ERP System in various public sector undertakings. The exercise was further repeated in 2004–05. This database with the Criticality Assessment Tool (CAT) developed by the wing in 2004 was utilised for IT Audit Plans of the field offices.

IT AUDIT RESOURCE MATERIAL

IT Audit wing has brought out several publications relating to IT auditing for use by the audit offices as resource material. These were:

- ❖ IT Audit—General Principles, Monograph (2001)
- ❖ Preliminary IT Audit Information Gathering Checklist (2001)
- ❖ Database on Auditee applications (2002)
- ❖ Inventory-checklist (2002)
- ❖ Strategic IT Audit Plan (2003)
- ❖ Training Material on IDEA (2003)
- ❖ IT Audit Reporting Guidelines (2003)
- ❖ Audit Checklist for Audit of Systems Under Development (2004)
- ❖ IT Audit Training Material for ASOSAI (2004)
- ❖ Criticality Assessment Tool (2004)
- ❖ Pursuit; the IT Audit Journal (2005)
- ❖ IT Audit Manual (2006)

STRATEGIC IT AUDIT PLAN

C&AG Kaul has repeatedly observed that he gives highest priority to the IT Audit as the audit of the future. In line with this thinking, he has given great thrust to the development of IT Audit in the department. He was helped in this by the Report of the NAO UK Consultant. C&AG commenced with formulation in 2003 of Strategic IT Audit Plan for five years with the following goals:

- ❖ To establish and enhance IT audit functions in IA&AD.
- ❖ To develop IT knowledge and infuse relevant skills among IT auditors.
- ❖ To acquire appropriate IT infrastructure for supporting and enabling IT audit processes in the audit department.

- ❖ To evolve best practices in IT audit, and to adopt and refine results of research in the leading edge technologies for IT audit.
- ❖ To prepare and disseminate fully researched and integrated audit documentation, to establish structures and processes for quality assurance, and to improve qualitatively and quantitatively international representation.

There were efforts on preparation of various handbooks, checklists and guidelines for assistance of the IT audit parties. Two batches of two officers each were sent to the General Accountability Office of the USA for three months training in IT audit. They were subsequently posted in the C&AG office for giving the impetus to the development of IT audit efforts of the Department. And this yielded the checklists for the audit of an inventory system (2002), a training material on Interactive Data Extraction and Analysis (IDEA) (2003), IT Audit Reporting Guidelines (2003), Checklists for Audit of Systems under Development (2004). SAI India was also involved in the ASOSAI project on development of the IT Audit Training Material, which was developed in 2004.

A landmark decision in creating resource personnel for the IT Audit was impetus on acquiring professional qualification-Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), Certified Information Security Manager (CISM) examination. At the top executive level the department was thus able to have 27 CISA qualified, 10 CFE qualified and 5 CISM qualified resource personnel in addition to similar officials at the middle level of hierarchy (as of September 2007).

A major exercise undertaken was to streamline the efforts of the field offices in IT audit planning and execution. Accordingly, it was decided to update the database of the IT applications in the audit offices and also to grade all the IT systems. A criticality assessment tool on the lines of what was being used in the NAO, UK was developed where the IT systems were given scores on 23 aspects. Based on the total scores, the systems were to be graded as 'A', 'B', 'C' or 'D' with A being the most critical. Thus, a risk assessment tool was developed and was put to use as a tool assisting in the IT audit planning. This went a long way in prioritising the resource deployment in the IT audit field.

The Department also adopted four CAATs for use in the department and efforts were increased to train as many personnel of the department as possible who would be engaged in IT audits. The CAATs included IDEA, Structured Query Language (SQL), MS

Access and MS Excel. The Regional Training Institutes of the IA&AD took upon themselves and started IT audit trainings on the request of field offices. The International Centre of Information Systems and Audit also undertook various IT audit trainings.

To give a uniform direction to the IT audit approach in the Department, CoBIT (Control Objectives for Information and related Technologies) framework of ISACA was adopted for IT audits by the department. The framework was disseminated to the IT audit parties in the field through various training programmes through RTIs and the iCISA. Subsequently in the year 2006 the wing came up with the IT Audit Manual (three volumes) for use in the Department. The manual contained detailed checklists on specific audits and information on use of CAATs apart from the description of the IT controls.

In the year 2005–06, it was decided to train one team from each field audit office under the Accelerated IT Audit Training Initiative (AITATI). The training had vertical integrated course for Group 'A' and Group 'B & C' officials for enhancing basic IT Audit skills of field offices. The IT Audit horizon was intended to widen through 13 AITATI programmes which included one programme on Training for Trainers also. An additional objective of imparting the training through AITATI was to bring in uniformity in IT audit approaches and also to 'demystify' and clarify the concepts of IT audit.

The IT audit efforts did start with the creation of the wing and by identification of few offices located in Mumbai, Delhi and Chennai to conduct IT audits.

The flow of the results of IT audits in the form of reports started in 2003–04 when 98 IT audits were attempted and 17 of these were cleared by IT Wing and also incorporated in the Audit Report. The year 2004–05 saw a big leap in the conduct and reporting in the IT audits. Overall 105 IT audits were attempted, 49 of these were cleared for inclusion in the C&AG's reports by the IT Audit Wing and 41 ITA Reports were finally incorporated in C&AG Reports. The next year, i.e. 2005–06, the number of IT Audit conducted and cleared for inclusion in the C&AG's report, were 131 and 70 respectively with 47 eventually incorporated in C&AG Reports. Thus efforts of the wing, various field offices and the IT audit parties, since 2001–02, had started yielding fruits. The target for the wing was that all the field offices should be doing at least one IT audit and should aim at completing the IT audit of important IT systems within a fixed timeframe.

In March 2006, HQrs formulated a procedure (after a meeting of all the functional heads in HQrs—DAIs and ADAIs) that, comprehensively deals with planning, monitoring, processing and approval of IT Audits in the IA&AD. It had the following important points.

Monitoring of the IT Audits in the field offices was to be done by IT Audit Wing.

Planning for IT Audit was to be a combined exercise involving IT Audit Wing who would initially select the topic in consultation with field offices and functional wings at HQrs.

IT Audit Wing would carry out evaluation of pilot studies, finalisation of guidelines, mid-term appraisals, etc. In all these activities, the concerned functional wings would be kept informed.

PROCEDURE FOR PROCESSING OF IT AUDIT REPORTS

Regarding processing and approval of the IT audit material, the instructions³ clarify that IT Audit Wing shall process the material received from the field through the first journey and second journey and hold discussions with the field offices. However, in processing the material and approving the same, the IT Audit Wing would clear it from IT materiality angle to ensure that the material is fit for inclusion in the Audit Reports. The functional wing to whom the material will be forwarded by the IT Audit Wing would not change the portion containing IT audit output without the concurrence of IT Audit Wing. After this, the functional wing will process the material and submit to the concerned Dy. C&AG or Addl. Dy. C&AG.

In summary, therefore, IT Audit output would be a joint responsibility of both the IT Audit Wing and respective functional wing; no doubt the IT Audit Wing shall bear the sole responsibility as regards IT materiality.

Regarding classification of IT into Performance Audit or Transaction Audit, the functional Wing may take a final decision on the suggested classification given by IT Audit wing. The instructions also enjoined that functional wings would participate in the workshops conducted by IT Audit Wing, for which purpose, functional wings should be informed well in advance.

The instructions also contained the importance of coordinating on draft IT audit reports with the concerned report section to avoid any undue delay in its final output.

The IT Audit Wing continues to evolve with the changes in the IT environment and the newer systems and applications, which are seeing the light of the day. The IT Audit Wing has overseen audit of ERP systems, e-procurement systems, PRS of Indian Railways, etc. already and is geared up on all fronts to meet the emerging challenges in the realm of IT audit.

ANNEX

WORK IN THE IT AUDIT WING

The tasks presently being performed by the IT Audit Wing are as under:

- (i) To plan, monitor and co-ordinate all IT Audit related activities of the department.
- (ii) To make annual IT Audit Plan of IA&AD.
- (iii) Conducting IT Audit Workshops. This year one workshop for all the Railway Audit Offices for topics likely to feature in C&AG Report 2007 was concluded on 16 June 2006 in headquarters office. Such workshop for Commercial and other functional wings are to be finalized.
- (iv) To develop methodologies and guidelines for auditing Information System covering auditing the planning process of the Information Systems, and their operation, maintenance, quality and security.
- (v) To develop procedures to collect electronic evidence.
- (vi) To develop procedures to use Computer Assisted Auditing Techniques
- (vii) To develop reporting standards for IT Audit reports
- (viii) To plan and conduct IT Audit of selected Complex IT Systems
- (ix) To assess the quality of IT audit reports of the department
- (x) To guide the teams of field offices conducting complex IT Audit.
- (xi) To disseminate knowledge of technology
- (xii) To draw up suitable training plans and updating training courseware
- (xiii) Developing expertise in the operating system, RDBMS etc. used in the department (Application packages are not covered in this)
- (xiv) Other items as may be identified or assigned by ADAI/DAI/ C&AG.

NOTES: CHAPTER-16

¹ The officer posted was Dharam Vir

² S.B. Pillay

³ Issued vide U.O No. IT Audit/2005-06/Policy dated 22.3.2006 to all field offices of IA&AD under Circular No. IT Audit/Policy/2005-06 by Ghazala Meenai OSD (Trg. Research and IT Audit).

LIST OF KEY EVENTS

November 1989	Formulation of revised computer policy.
March 1991	C&AG procured IDEA software developed by Auditor General (OAG), Canada for use in audit of computer based systems.
1992-93	Action Plan for 1992-93.
19 May 1992	Decision to set up 'Computer Audit Groups' in each audit office.
May 1995	15 persons got training in IT audit in UK. 30 more were trained upto 1997.
May 1995	MAB Chennai prepared a report on 'Techniques for Accounts Audit where the auditee has computerised system'
17 August 1999	ADAI (RC) requested DAIs/ADAI's of functional wings to formulate audit strategy for their wings as per deliberations at ITC Ghaziabad.
9 November 1999	DGs/PDs auditing Union Government Accounts instructed to set up IT Audit Groups, prepare IT profiles of auditees, identify necessary hardware/software and send their Action Plan
November 2000	C&AG decided to set up IT Audit Centre at International Training Institute, Noida.
2001	Publication of General Principles monograph on IT Audit
24 July 2003	C&AG prepared IT Plan (2003-06) outlining IT projects to be undertaken during 2003-06.
2006	Procedure for processing and approval of IT Audit Reports and their categorisation was issued.
2006	Revised and Comprehensive IT Audit Manual in three volumes released.

DOCUMENTS

1

No. F. 10 (20)-8/73
Government of India, Ministry of Finance,
(Department of Economic Affairs)
11th June, 1973

OFFICE MEMORANDUM

Sub.:Introduction of computer-based accounting system in Government Department

The undersigned is directed to state that the Comptroller and Auditor General of India has pointed out that the Ministries/Department etc. are not following a uniform procedure in regard to the manner and the stage at which reference seeking his concurrence to the introduction of Computer based accounting system by them should be made. It has been suggested by the Comptroller and Auditor General of India that proposals regarding introduction of the computer based system should be referred to Audit at the following two stages:

- a) After the work of systems design is completed but before the computer programmes are written up; and
- b) After the computer programmes are written up and tested but before the new system is introduced;

The above suggestions have been made with a view to avoiding the need for costly system modification and re-programming as a result of audit observations. In this connection a copy of letter No. 624/74-O&M/72 dated 12 December, 1972 together with its enclosures from the Comptroller and Auditor General of India endorsed to this Ministry is forwarded herewith.

2. The Ministry of Agriculture etc. are requested to note the contents of the enclosed letter carefully and process proposals regarding introduction of computer based accounting system etc. In the manner desired by the Comptroller and Auditor General of India. The information listed in the annexure to the enclosed letter must invariably be supplied at the relevant stage, to the Comptroller and Auditor General of India along with the other papers containing the proposals .

Sd/-
S.Mathur

Under Secretary to the Govt. of India

To
All Ministries/Department of the Government of India
Copy forwarded for information to the Comptroller and Auditor General of India, New Delhi with reference to his letter No. 624/74-O&M/72 dated 12.12.1972 and No. 64-O&M/74-72 dated 13.3.1973.

Sd/-

ANNEXURE

The following information should be supplied to Audit at first stage of reference. Detailed analysis of the existing systems, bringing out:

- (i) Scope and functions of the systems.
- (ii) Volume, type and periodicity of transactions;
- (iii) Records maintained in the system, with specimen copies of forms used;
- (iv) Flow of information through the system;
- (v) Significant weak points in the system and bottlenecks experienced in the actual operation of the system;

Detailed description of the proposed system indicating clearly:

- (i) The functions which will be transferred to the computer;
- (ii) The functions which will continue to be performed manually and the extent to which and manner in which these are proposed to be modified in the context of introduction of computer;
- (iii) The records to be maintained manually with specimen copies of forms in which they are proposed to be maintained; and
- (iv) An overall narrative description and accompanying flow chart of the general flow of information through the system;

The design specifications, which describe the logic of the proposed system, including:

- (i) Flow charts showing the significant operations to be performed by each proposed computer run;
- (ii) For each computer programme, a brief description of the functions to be performed, types of input and the resulting products;
- (iii) Input and output forms and file lay-out, including the descriptions of physical characteristics of the data elements to be contained in the transaction records and data files and the media (punched cards magnetic tapes etc.) to be used;
- (iv) The system of codification and the compatibility envisaged between different types of codes;
- (v) The time-schedule of operations, with specific target dates prescribed for each operation and ;
- (vi) Description of controls to be provided over data-
 - a) Inputs, including the types and purpose of edit and other purification and validation routines;
 - b) Processing, including the plan for back-up operations;
 - c) Storage, including plans for reconstruction of data files; and
 - d) Outputs
- (vii) deviations from the provisions of the relevant rules, codes or manuals.

Any changes in procedures or rules considered necessary or desirable in the context of computerisations or otherwise.

After the programmes have been written up and debugged, and the system as a whole has been tested, the design specifications as finally firmed up should be sent to audit at the second stage of reference. The other information required to be supplied to audit at this stage would be as under:

- 1) the test data used for programme testing and system testing and corresponding printed outputs;
- 2) the results of experimental operation, which should clearly indicate, on the basis of the live data processed through the system, the following viz.
 - (i) the extent to which the system fulfilled the planned objectives;
 - (ii) the extent to which the programmes worked and were able to cater to the data;
 - (iii) based upon (i) and (ii) above, the extent to which the system could be relied upon for timely and accurate processing of data;
- 3) the plan of switch over to the new system, including -
 - (i) the phased programme of conversion;
 - (ii) any special difficulties anticipated in conversion, and the measures proposed to be taken to overcome them with particular reference to the special action, if any necessary for cleaning up or purification of manual records before transfer to computer;
- 4) copies of Procedure Officer Orders, Procedure, Manual etc. prepared in connection with the new system.

2

T.R. Krishnamachari
Director (O&M)

D.O. No. 1471-1566/11-EDP/89
Dated: 28-11-1989

Dear Shri

Please refer to Shri. Sampath Narayanan's D.O. letter No. 1-JD/SD/Policy—Comp/86/Pt I dated 2.7.1987 forwarding therewith 'PAPER ON COMPUTER POLICY IN IA&AD'. The Comptroller and Auditor General of India has approved a computer policy statement. A copy of the statement titled 'Indian Audit & Accounts Department—Computer Policy' is sent herewith for your information and guidance. Its receipt may please be acknowledged.

Yours sincerely
Sd/-

Encl: As above
Endst No. 1567-1583/11-EDP/89 Dated: 29-11-1989
Copy along with a copy of enclosure forwarded to:
1. All ADAIs/Directors in Headquarters Office

2. The Director (Staff). A spare copy of the statement referred to above is sent here with which may please be sent to the Staff Side of the Departmental Council (JCM).
3. AC (P)/AC (C)
Encl: As above

Sd/-
(T.R. Krishnamachari)
Director (O&M)

INDIAN AUDIT AND ACCOUNTS DEPARTMENT COMPUTER POLICY

Back ground

Government organisations and public sector undertakings are increasingly relying on computer-based systems. In order to enable us to undertake comprehensive audit of such systems we need to adopt our methods and techniques of audit to the new technological environment. The Department has also to consider developing computerised systems in the area of financial accounting, which requires speed and flexibility of processing to be of real value to the user. Similarly, the use of computers to improve the quality of our entitlement work needs no emphasis. The planning and conducting of our audits, in keeping with the changing work culture and environment, will entail identification of appropriate computerised systems. In the light of the experience gained so far, our objectives and means are stated below.

Objectives

- To use computerised systems in accounting and entitlement functions for qualitative improvement keeping in view the manpower resources and the practicability of switch over without avoidable loss of time;
- To undertake comprehensive audit of computerised systems;
- To use computerised systems to plan and undertake our audits more efficiently;

Means

- Defining our training needs with reference to our objectives and developing appropriate training plans;
- Specifying viable monitoring and review arrangements for implementing the plans.

Personnel

Computerisation in the department will not result in retrenchment of staff nor will it adversely affect the existing promotion prospects of personnel serving in the IAAD. Upgradation of skills to meet the growing needs of computerisation of accounts and entitlement functions and of audit of computerised systems will provide opportunities for personnel to be redeployed in more meaningful jobs, leading to a qualitative improvement in our work as a whole.

3

N. Siva Subramanian
Dy. Comptroller & Auditor General

No. 726-EDP/24-91 Vol. II
Dated: August 16 August 1991

Shri

It is very likely that many auditee organisations under audit control have computerised their Financial, Stores accounting system or payroll or Provident Fund, referred to as 'application' when done using computer (programmes) which are within the purview of audit. It is necessary to go by application areas computerised and not by mere existence of a personal computer (PC) in an office. The enclosed list of computerised auditees obtained from your office some time back, some more names may have to be added or more applications might have been brought on the computer. The list may kindly be updated and sent to us by 15.9.1991 for record. It will be useful for you also to get information in the enclosed Performa again from each auditee using computers, to know all applications coming under computers, presently.

2. The audit of organisations, done in terms of provisions of DPC ACT 1971 as amended from time to time, are conducted generally as per instructions in the Manual of Standing Orders (Technical) Volume I, other instructions issued from headquarters office, and special Manuals of your own office. These manuals were written in the context of manual compilation/processing of accounts. In the changed context of computerised processing, many of the audit checks in these manuals might be inoperative or impractical. The audit checks may also be ineffective in the computerised environment. Therefore, it is necessary to identify specifically.

- a) the method of documentation,
- b) change in procedures, and
- c) the steps in audit process and the detailed checks which have been rendered impracticable, inoperative or redundant.

3. Under the computerised system, the identification of changes in audit process and in the scope of audit needs to be done with specific reference to each audit check—prescribed for check at headquarters or during local audit (Inspections)—as has been affected by the computerisation in the auditee organisation. They will be specific to an auditee or class of auditees. Therefore, the revised or new audit checks to be carried out on the computerised applications have to be formulated and incorporated in the various local manuals by way of a supplement to the manual or as a set of new instructions, covering individual computerised auditee or class of computerised applications.

4. Though the principles of audit and the objectives of audit do not change, there would be no uniformity in the detailed steps which Audit should follow in checking the computerised accounts or area of application of computers. This arises from the varieties of hardware, software, and innovations in the method of computerised processing in the individual organisations. The task of identifying the changes in audit checks vis-à-vis computerisation in the

auditee organisation will, therefore, have to be undertaken locally in your office, for each computerised auditee and class of applications.

5. A list of computer trained persons in your office is enclosed. This list also needs to be brought up to date and a copy sent to this office for record by 15.9.1991. These persons may be deployed on the 'task of identifying the revised or new audit checks that need to be exercised in the computerised processing of accounts, etc. in the auditee organisations'. For this purpose these officials may have to visit the auditee organisation along with the audit party or separately to understand the procedures in force for computerised processing and to formulate and write out the revised audit checks referred to in para 3 above. This task may be undertaken on priority basis and a copy of revised or supplementary set of instructions as will be appended to the Manuals may be sent to us. This may be done in instalments starting from 15.10.1991 if large number of auditees are involved. Progress may be reported to Principal Director (O&M and EDP) monthly.

4

D.O. Letter No. 337-352-EDP/24-92
N. Sivasubramanian
ADAI

Date: 19 May 1992

Dear Shri

Kindly refer to my D.O. Letter no. 726-EDP/24-91 Vol. II dated 16.8.91 regarding the audit of computer based systems of auditees. From the information received so far from most offices, it is clear that audit offices will soon come face to face with audit of applications which have been computerised and appropriate revised audit techniques will need to be used. Every audit office may, therefore, need a computer Audit Group' very soon. Such specialist group may be needed because the number of line auditors may take time to imbibe knowledge, skills and experience needed to audit computerised systems in an auditee office without assistance from a core group.

In order to create institutionalised arrangements for the audit of computer-based systems used by auditees, the following decisions have been taken:

- a) Every audit office may form a hand-picked 'Computer Audit Group', comprising one AO and two AAOs/SOs (AAO and SO are interchangeable) out of the existing staff. For the present, no new posts will be sanctioned for this purpose. Where hand-picked Auditors or clerks are preferred for the composition of the computer audit group, they may be added to the group if their computer-expertise will be useful and they can be attached to the group by internal arrangement.
- b) The tasks of the Computer Audit Group are spelt out in Annexure-A
- c) The knowledge and skills needed in members of the computer audit group, to discharge its functions, are spelt out in Annexure-B.
- d) For acquiring necessary knowledge and skills, the members of the computer audit groups will need to undergo about 12 weeks of training in several short spells. The intervening periods would be devoted to on-the-job work and

experience in computer audit. The duration and content of training are spelt out in Annexure-C.

- e) RTIs at Allahabad, Jaipur, Madras and Nagpur will be organising training for the members of the groups for 12 weeks in five different spells. The Calendar of Training Programmes for 1992–93 of the RTIs contains the dates of courses and slots allotted to your office. Kindly get in touch with the Principal of the RTI concerned to nominate your staff of the courses.

Nomination:

3. While nominating the personnel for the Group and training, the following criteria may kindly be kept in view:

The nominee should

- a) possess sound knowledge and practical experience of conventional audit procedures and techniques;
- b) have an aptitude for EDP-related work; and
- c) have atleast five years service left before superannuation.

4. The Computer Audit Group may be placed under the supervision of a suitable Group officer with a positive approach to use of computers and learning about them. He may be assisted in becoming familiar with:

- a) PCs and software packages like Dbase and Lotus 123;
- b) Structured Systems Analysis and Design; and
- c) Auditing computer-based systems.

Knowledge of programming and familiarity with UNIX and concept of RDBMS (Relation Data Base Management System) or willingness to learn them will help. If no such officer is available, the AO heading the Group may report to AG/PDA directly and seek assistance from Director (EDP) in Headquarters.

Reporting:

5.
 - a. Details of the nominees to the Computer Audit Groups (Name, Date of Birth, Date of Commencement of Service, current designation, Date of appointment to the current Grade, Audit experience) and Group Officer may kindly be sent to Director (EDP) in Headquarters by 15.6.1992 and later changes made in consultation with him if unavoidable. The nominations may also be communicated to the principal of the RTI which is organising their training, as per the Calendar of Training Programmes for 1992–93.
 - b. Action Plan and action taken note on Annexure—A may kindly be sent to Director (EDP) by the beginning of the second quarter of 1992–93; for item (b) of Annexure-A, data may be sent in a floppy as Dbase IV files containing the structures specified in Annexure – D. Quarterly change floppies may be sent on important changes, if any. (The floppies will be returned to you quarterly).

Role of other Auditors:

6. Apart from setting up the Computer Audit Groups, all line auditors would have to be trained to handle relatively simple aspects of auditing computer-based systems. All line auditors would also need to be instructed to notify the

computer audit group whenever they come across any computerised output or system in the auditee office. The line auditors would have to be trained, or given a questionnaire, by the Computer Audit Group on how to conduct a survey of the computerised system to determine its impact on audit. When the audit of the computerised system is beyond the competence of the line audit party, the specialist computer audit group's assistance or guidance will need to be extended.

7. Kindly acknowledge receipt of this letter.

Yours sincerely,
Sd/-
N. Sivasubramanian

5

No. IT Audit/Policy/2005-06

Date 23 March 2006

To

All Audit offices in IA&AD as per mailing list

Sub.: Formulation of a procedure for processing and approval of IT Audit Reports and their categorisation

Sir/Madam

I am to forward herewith a copy of the order of the Comptroller and Auditor General of India on the above subject for information and compliance.

Yours faithfully

Sd/-

(GHAZALA MEENAI)

OSD (Trg. Research and IT Audit)

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
NEW DELHI

Sub.: Formulation of a procedure for processing and approval of IT Audit Reports and their categorisation. The Comptroller and Auditor General has approved the following procedure for planning, monitoring, processing and approval of IT Audits in IA&AD:

1. Planning of the IT Audits

The selection of topics for IT Audits will be done by the IT Audit wing in consultation with the Field offices and the Functional wings.

2. Monitoring

Pilot studies evaluation, finalisation of guidelines, holding workshops, mid terms appraisals etc. would be done by the IT Audit wing. The concerned functional wings would be kept apprised of the developments.

3. Processing and Approval

After the IT audit material is received in the IT Audit wing, the IT Audit wing shall process the same through the first journey; second journey and hold

discussions with the field offices. The IT Audit material will be examined in the IT Audit wing with reference to the parameters of IT Audit reporting. In regard to processing and approval of the IT audit material, the IT Audit wing would clear it from the IT materiality angle and ensure that the material reaches a stage to be fit for inclusion in the Audit Reports. This would include, as is being currently done, full KD verification (manual and electronic).

- (i) IT Audit wing may indicate to the functional wing the portions/ issues in IT audit outputs where the functional wing may be requested to take a view or also look into conversely the functional wings may also consult the IT audit wing if the situation demands. In order to avoid breakage of the logical links in the reports, concurrence of the IT audit wing may be obtained for any changes made in the report by the functional wings before submitting it to the concerned DAI/ADAI.
- (ii) In so far as the audits that are not part of the Annual IT Audit plans and have utilised CAATs for data analysis only, the output would be the responsibility of the functional wings. However, the functional wing may consult the IT Audit wing, if required.
- (iii) Thus IT Audit output would be the joint responsibility of both the IT Audit wing and the respective functional wing. As far as IT materiality is concerned, this shall continue to be the sole responsibility of the IT Audit wing.

4. Classification of the IT Audits

The IT Audit wing would suggest classification of the IT Audit material as Performance Audit or Transaction audit while forwarding the same to the functional wings. However, the functional wings may take the final decision.

5. Information to the functional wing of the Workshops

The functional wings would be informed of the workshops being held, well in advance. It would be desirable that the functional wings participate in the workshops.

6. Dates of submission of the IT Audit reviews

The schedule of dispatch of the draft IT Audits from the field offices will be synchronized with that of the concerned Report of the respective functional wings so that undue delays are not experienced. The dates of submission of IT audits would mean the date of submission of the IT Audit paras/reviews to the functional wing by the IT Audit wing for being included in the Bond copy. However, IT Audit wing shall on receipt of bond copy dates from all the functional wings work out the detailed schedule of submission and intimate to the field offices and the functional wing.

Sd/-

(M.S. Shekhawat)

Deputy Comptroller and Auditor General (LB/AEC)

U.O No. IT Audit/2005-06/Policy dated 22.03.2006

GLOSSARY OF ABBREVIATIONS

AITATI	Accelerated IT Audit Training Initiative
AMS	Audit Management System
CAAT	Computer Assisted Audit Techniques
CMC	Computer Maintenance Corporation Ltd.
CoBIT	Control Objective for Information and Related Technologies
Dir. (IS)	Director (Information Systems)
EDP	Electronic Data Processing
GPF	General Provident Fund
IDEA	Interactive Data Extraction and Analysis
ISACA	Information Systems Audit and Control Association
MAB	Member, Audit Board
OSD	Officer on Special Duty
OSS	Open Source Software
PSUs	Public Sector Undertakings
Report (SCS)	Report (Special Category States)
RTI	Regional Training Institute
SQL	Structured Query Language
TCO	Total Cost of Operation
URS	Users Requirement specifications
VFM	Value for Money
VLC	Voucher Level Computerisation
WFAP	Work Flow Automation Project

Accounts

The duties and powers of the Comptroller and Auditor General in relation to accounts are contained in Section 10, 11 and 12 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Earlier it was contained in the Government of India (Audit and Accounts) order 1936 in pursuance of Government of India Act, 1935, according to which Auditor General was responsible for keeping the accounts of the Federation and of each Province.

In 1976, the President relieved C&AG of the responsibility of compiling the accounts of the Union Government in terms of proviso under section 10 of the Act. The Act confers similar powers to the Governor of a State in respect of State Government Accounts. However, except the State of Goa, where accounts compilation is not with the C&AG, in all other States, accounts compilation remains the responsibility of the C&AG.

Under the Act the Comptroller and Auditor General is now responsible for compiling the accounts of:

- (a) All States (except Goa);
- (b) The Union Territories of Chandigarh, Dadra and Nagar Haveli; and
- (c) Indian Audit and Accounts Department.

C&AG is responsible for preparing the two annual accounts viz. Finance Accounts and the Appropriation Accounts of the States and of Union Territories Government as the case may be. While, the former shows annual receipts and expenditure during the year in question, the latter depicts the allocations made by legislature and the expenditure against these during the year.

Under Article 150 of the Constitution the accounts of the Union and the States are kept in such forms as the President may, on the advice of the Comptroller and Auditor General of India, prescribe. These provisions have a great significance because they ensure a uniformity in the structure of the accounts of the Government of India and the State Governments.

The Comptroller and Auditor General also helps the State Governments or the Governments of Union Territories with such information as they may, from time to time, require, and render such assistance in the preparation of their 'Annual Financial Statements' as they may reasonably ask for.

C&AG bifurcated (from March 1, 1984) the combined Audit and Accounts Offices that existed earlier, into two separate independent offices, one for Audit and the other for the Accounts and Entitlement functions. This separation ensures that an independent, separate office audits the accounts of the State Government prepared by the AG (Accounts & Entitlements).

C&AG compiles the monthly Accounts on the basis of initial accounts rendered by Treasuries or Pay & Accounts offices (where these offices perform such functions). The treasuries render such accounts to AG twice a month through a list of receipts and payments along with challans and vouchers. Public Works Divisions and Forest Divisions render compiled monthly accounts to Accountant General. Similarly, in some States, where treasury functions are performed by Pay & Accounts Offices, they render compiled accounts/accounts to the Accountant General. Each month in 27 States, 750 treasuries send 7 million vouchers and 5500 Public Works Divisions and 2200 Forest Divisions render compiled accounts to the Accountants General of the respective States. If one compares the expenditure accounting work, it would be seen that the State Accountants General still compile accounts for 65 per cent of the total civil expenditure of Union and States, excluding expenditure on payment of interest, grants-in-aid, loans and advances to State and Union Territory Governments and public debt, which are compiled by Central Pay & Accounts Offices.

DEVELOPMENTS IN STATE ACCOUNTS & ENTITLEMENT FUNCTIONS—1990s & THEREAFTER

In the beginning of the decade of 1990s, one of the more pressing issues to engage the attention of C&AG was the arrears in the closing of annual accounts in several State AG (A&E) offices. Apparently,

the 1984 restructuring of the Audit Department that created separate Accounts offices in the hope of improving quality of accounts had not generated the desired results. C&AG Somiah soon after taking over charge in March 1990 realized this and took several steps to tackle this problem.

First, he took for consideration, the Parmeswar Committee Report that went into accounting issues and gave their Report in 1989 and referred them to the AGs conference of 1991 for discussion.

Parameswar Committee Report: The Committee in their Report of April 1989, came to the conclusion that the desired improvements had not taken place even after 4–5 years of the restructuring. The recommendations of Parmeswar Committee were discussed by XVIII Conference of Accountants General held in 1991 as a self contained item called 'Strengthening of Accounts and using it as an Aid to Management'. The various recommendations of the Committee discussed in the conference related to deployment of computers for secondary compilation of accounts, Standing Committees to tackle delays in Receipt of Accounts and submissions to the State Government by AG, appreciation note on the monthly accounts by AG, the problem of suspense accounts and strengthening of reconciliation of receipts and expenditure.

Measures for Improving Quality of Accounts: Following the recommendations of above Conference, Headquarters issued instructions prescribing following improved procedures:

- (i) introduction of a check list for the Accountant General (A&E) for watching against deficiencies in the monthly Civil Accounts.
- (ii) Preparation and submission of an 'Appropriation Note' to the State Governments on the monthly accounts providing management information to State Governments. (This Note has much more contemporary relevance after the introduction of Voucher Level Computerization in State AG offices and enactment of Fiscal Responsibility and Budget Management Act by several States). The Format prescribed in 1991 instructions giving items on which AGs will comment in their Appropriation Note, was revised by the Headquarters letter of October 2003.
- (iii) For control of suspense balances relating to DAA Suspense, PAO Suspense and Provident Fund Suspense, instructions spelling out the measures to be taken had been issued.

- (iv) Formation of a State Level Committee consisting of representatives of Accountant General Office/ RBI/ Agency Banks/ State Government was advised for effective reconciliation of differences under Reserve Bank Deposits (State).
- (v) A training module was supplied to all Accountants General (A&E) for providing guidance in organizing Training classes for upgradation of skills of the dealing hands engaged in compilation of accounts.
- (vi) A State Level standing Committee comprising representatives of the Accountant General (A&E) and of the State Government departments was advised to be formed to expedite timely rendition of accounts by accounts rendering units, to tackle effectively reconciliation of departmental figures with those of Accountants General, to ensure timely issuance of re-appropriation and surrender orders by departments and timely closing of annual accounts.

But the main worry of the C&AG at that time was to get rid of arrears in Annual Accounts and in easing the mounting balances in suspense Accounts. C&AG undertook an extensive tour of concerned States' AG offices where these problems were acute and gave detailed directions. These pro-active directions of C&AG as contained in his Tour Notes¹ show his anxiety in the matter.

A look at the state of affairs concerning status of accounts compilation in various States at that time reveals that broadly all the North-Eastern States were in arrears in closing the annual accounts by as much as 1–3 years, other defaulting States were Rajasthan, West Bengal, Maharashtra, Uttar Pradesh, Karnataka, Tamil Nadu in varying degrees from 1–2 years. Thus in 1991 during the first year of C&AG Somiah's tenure the accounts and the concerned Audit Report thereon from NE States were received for C&AG's signatures for the year 1986–87 between June 1990 to June 1991 and for the next couple of years it was received in case of Andhra Pradesh, Arunachal Pradesh, Bihar, Gujarat, Maharashtra, Rajasthan, Mizoram, Manipur, Nagaland after delays varying between 10 months to 2 years.

Things started improving, albeit slowly but surely, since delays in finalization of accounts and concerned audit reports were cut down in the course of next three years. Submission of Audit Reports and Accounts from the financial years 1992–93 (whose 'due date'²

for presentation was March to May 1994) improved dramatically when most of the State Accountants General got printed copies signed in 1994 itself except Bihar (signed in May 1995) and Jammu & Kashmir (signed in March 1995). Most of the States had got C&AG's signature on the printed reports and accounts by September 1994 for the year 1993-94. Things became even better when practically all the 26 States got the printed copies of audit reports and related accounts signed well in time mostly between March and May 1995. This was a remarkable improvement in pulling up the accounts arrears and these had become practically current and timely. C&AG Somiah's efforts had finally yielded the desired results.

In the first Conference of Accountants General which he convened in January 1991, he pointed out to the delay in submission of accounts and Audit Report and one of the reasons he discovered was the abnormal delay in printing of Audit Reports and Accounts—he cited a case where Bond Copy of the Audit Report was approved by C&AG one year before he got the printed copy to sign. A scrutiny of such printing delays revealed that in the case of Arunachal Pradesh C&AG's Audit Report of 1987-88 took 14 months for printing after the approval of draft Audit Report by C&AG. In the case of Bihar, Vol. II of their Audit Report was signed nearly two years after the approval of the draft Audit Report. A delay of one year was occurring in many other states also and a delay of 5-6 months was usual.

While the arrears in the annual accounts preparation were got over, the next big ticket in the C&AG's reform agenda was reducing the balances under 'Suspense Heads'. The Accountants General Conference of 1991 had discussed the question of suspense balances as a part of the overall topic 'Strengthening of Accounts and using it as an Aid to Management'. C&AG's concern over this subject can be gauged by the fact that during the session on Control and Suspense Accounts, he was present throughout the proceedings and expressed his grave concern on these huge outstanding balances in suspense accounts. The Conference discussed all the important suspense heads like the Departmental Adjusting Accounts suspense (DAA), PAO suspense, Cash Settlement suspense and suspense head relating to Cash Balances of Government i.e. RBI suspense. The Conference also discussed huge balances under Provident Fund suspense.

Detailed instructions for these were issued vide Headquarters circular of 24 April 1991 after the Accountants General Conference

for DAA suspense. What has been the eventual outcome of these recommendations as regards the clearance of balances under the various suspense heads is not easy to establish because no proper evaluation of the problem was conducted on an aggregate basis. However, the current practice of conducting quarterly monitoring of the suspense balances has proved effective.

The recommendations on accounts computerization was about intermediate stage computerization i.e. from the compilation sheets or from classified abstracts. These were initiated in a few Accountants General offices with very limited results; eventually the Audit department had to go for a big computerization programme which was Voucher based in 1997. This decision was taken as a follow-up of the recommendations of the Conference of Accountants General held in 1996 which had advocated computerisation of Accounts from the primary input viz. the vouchers through a scheme Voucher Level Computerization (VLC). VLC would rank perhaps as the most important development of 1990s in the accounting area. A detailed description on this subject is under the subhead that follows.

Every year a time schedule is approved for finalization of annual accounts including their certification by Accountant General (Audit) and printing. With the stabilization of VLC of accounts in the offices of Accountants General (A&E), over the years, the annual closing of accounts and its submission has significantly improved. Not only the arrears in the submission of annual accounts were over taken but also the date of accounts finalization and their submission was targeted by September each year. An analyses of data regarding finalization of annual accounts State-wise from the year 2001-02 to 2005-06, indicated that in majority of States, the Annual Accounts (Finance Accounts and Appropriation Accounts) were signed by the C&AG between September and December with only a very few State accounts slipping over to next year. In most cases accounts were available to state governments during their budget preparation period.

With a view to provide a broad view of governmental activities as reflected in the annual accounts, from the annual accounts of the 1998-99 Accountants General (A&E) are issuing annually a publication titled 'Accounts at a Glance' to follow the presentation of the annual accounts. In Assam, Andhra Pradesh and Tamil Nadu this publication is issued in regional language also.

VOUCHER LEVEL COMPUTERIZATION

Attempts at computerization of State Accounts have a first time mention in the July 1987 Computer Policy of the Department as approved by C&AG. In the forwarding letter to the Document on Computer Policy, the following remarks are made regarding the compilation of State Accounts. 'Before our Department takes up Computerization in the offices of Accountant General (A&E) of the Compilation of Accounts of States, it is necessary to enlist the support of the State Government for this project'. At that point of time, compilation of accounts of Nagaland for 1985–86, was being done on turn key basis by CMC. The Policy clarified that a similar turn key system will be attempted for accounts computerization in Jammu & Kashmir—this was also entrusted to CMC in April 1988 and further modifications were made in 1990. In this system, data entry was done by AG's Staff and processing on AG's hardware in his premises was done under CMC's supervision and guidance. However the experiment was put in abeyance due to disturbed conditions in the valley.

There were several instances of intermediate level computerization of accounts e.g. AG (A&E) Maharashtra who was preparing Finance & Appropriation Accounts through computers from Classified Abstracts that were manually compiled. This was for 1988–89. Other Accountants General who were producing Computerized intermediary level accounts were Nagaland, Andhra Pradesh, Bihar, Rajasthan, Karnataka, Punjab, Tamil Nadu and Himachal Pradesh.

However, all the efforts mentioned above did not yield the desired results, mostly because these were not meant for the Computerization of accounts from the primary document viz. Vouchers and Challans. Resultantly primary accounts continued to be compiled manually. This issue was discussed at length in November 1996 in the XIX Conference of Accountants General on the basis of Action Plan for Computerization for the period 1997–2000, which endorsed the Action Plan for Computerization of accounts from Voucher Level which would also generate DDO—wise and grant wise information. The Conference of course suggested upgrading the technology from the then prevailing dBase to a Relational Data Base Management System like ORACLE. The Conference made several other suggestions also in this regard.

After the C&AG Shunglu approved these recommendations Voucher Level Computerization was executed in the Department

with great vigour with C&AG personally taking keen interest and doing close monitoring of the progress. The VLC Project was the most ambitious project of the 1990s and was meticulously planned with attention given to details. The basic planning for VLC was done at 3 levels:

- ❖ Strategic Plan at apex level (C&AG),
- ❖ Macro Plan at Zonal Level, and
- ❖ Micro Plan at individual field office level.

It was decided that all the A&E offices in the country be grouped into seven zones for simultaneous implementation of VLC scheme at zonal level. In March 1997, C&AG approved following line of action for the project:

- ❖ Use of Relational Data Base Management System (RDBMS) Platform,
- ❖ The User Requirement Specifications (URS) to be formulated by involving the nodal center at Hyderabad and 12 A&E offices,
- ❖ After the URS was formulated, tenders were to be called for software development from software development companies of repute.

A key decision taken was that in selecting the software development companies, there should be no compromise on the quality and therefore, companies of national repute and those having previous experience in similar large projects were to be invited. It was decided that the entire work should not be given to one company and may be given to a number of companies on zonal basis. This was necessary because it would not be feasible for one software company to execute the work in 24 offices due to geographical dispersion. It was also decided that in the software development, more and more Accountants General should get involved. Therefore, at the zonal level one AG was nominated as Project incharge and he was to be assisted by a team leader and the select systems group set up in various offices. One IT auditor for each zone was also nominated for assisting the Project to ensure that proper controls are built into the systems at the initial stage itself.

At the Zonal level, the responsibility for coordinating with other Accountants General of the zone rested with the Project incharge. They were asked to float open tenders to short listed software development companies of repute. This process started in December 1997 through publicity in the leading newspapers. Each zone had a separate Committee constituted by Project Incharge to deal with

the selection of vendors. Finally, all the seven zones sent their recommendations regarding their choice of the Vendor to Headquarters. Before sending these names, the Zonal Project Managers had a lot of interaction with the representatives of the software companies to sort out all the issues that were there. The time frame given and agreed by all the firms for completing the work of software development was 6 to 8 months.

Headquarters constituted a High Level Committee consisting of DGACR, PD Staff and PD Railways to:

- (i) Examine whether the provisions of the contracts were acceptable,
- (ii) Discuss with vendors and exploring the possibility of reducing the cost,
- (iii) Consider the recommendations of the seven projects in charge.

The Committee did a commendable job and gave recommendations, which were in line with the recommendations given by the Project incharge as regards the choice of vendor. However, the High Level Committee was able to get substantial reductions from some of the vendors who were quoting very high prices and in addition, they were also able to make them agree to remove certain conditions laid down by the vendors which were not acceptable to Headquarters. The total cost of the software development was about Rs. 354 lakh. The award of work to the vendors, inter-alia, included development of software, involvement of IA&AD's select groups/ IT audit teams in the process of development, installation of the programme, its trial runs, successful completion and training of about 20 people in ORACLE from each zone. The vendors also undertook warranty of the software for one accounting cycle and the time frame for computing the entire work was 6 to 8 months except in North East, where it was 11 months. C&AG approved the selection of vendors in March 1998.

Technical Requirement Specifications (TRS) which actually set out details of the actual work to be done by vendors was prepared by the vendors in consultation with the concerned Accountant General which was finally approved by Headquarters in each case. The success of the programme was to a large extent dependant on the meticulous drawal of the TRS document. In that context, the contribution from Headquarters was not only substantial but proved very useful in as much as it ensured that no office missed out on any important aspect of TRS.

*Implementation in the Accountant General Offices:*The process of organizing a successful implementation programme for the VLC required detailed workout on various aspects. For this purpose, each office was equipped with a 'Core Group' which was involved in development of required infrastructure, training needs and implementation process of VLC. The Core Group consisted of representatives from functional areas and also computer experts. It was a link between the users and the software developers. The Core Group consisted of not only Group 'A' officers but selected Group 'B' officers as well as Group 'C' officials. Along with this, simultaneous attention was required and given to physical infrastructure necessary for housing the computer setup and, more important, to the training requirements. Firstly, Core Group was trained by various Regional Training Institutes and reputed external IT Firms. These persons, in turn, trained local staff inhouse. The training was comprehensive and covered EDP training courses as well as special training courses which included training on ORACLE and ORACLE Database Administration. The System Requirements Specifications (SRS) was prepared by vendors, based on the URS and detailed discussions with the users i.e. 'Core Group' of the concerned office. A review in Headquarters of SRS of each zone was also conducted and on that basis a revised SRS was prepared for each office by the concerned vendor. The System Design Document was also subjected to a review not only at the zonal level but also at the Apex (Headquarters) level. In the review of system design document, a member of the ORACLE Corporation of India was also associated.

An extensive process of testing on implementation was also prescribed and it was decided that various modules (about 16) will be implemented in phases. An IT Auditor was associated with the entire process of testing and implementation. It was his job to monitor the system development process, review the data flow diagram, review in-built input, processing, output control and audit trails. He was free to report to Headquarters or consult Headquarters whenever he thought it necessary.

VLC was completed in different AG offices mostly, as per the schedule but the testing and stabilization time varied from office to office. Operationally, the VLC was divided into four phases for implementation purposes:

- ❖ Phase-0, which covered all Masters and Security Modules;
- ❖ Phase-I covering modules leading to generation of monthly Civil Accounts;

- ❖ Phase-II covering modules leading to generation of annual accounts i.e. Finance Accounts and Appropriation Accounts;
- ❖ Phase-III covering all Subsidiary modules meant for aiding AG's accounting functions like broad sheets, loans, deposits etc.; and
- ❖ Phase-IV GPF module and interfaces.

By April 2007, out of the 27 States where the VLC project was to be implemented, in 14 States VLC Project had been fully implemented, while in 13 States, upto Phase-II, the Project is complete and Phase-III is in progress with some segments completed and some yet to be completed. In Karnataka, only Phase-I had been completed.

*Major Benefits Expected in VLC System:*The VLC commenced in 1998 and by 2003 was operational in most of the States. It was expected to bring in a qualitative difference in the record and accounts compilation. Following major advantages as compared to the existing system were expected:

Additional Data: In addition to the existing major head-wise generation of data, it can generate DDO-wise, object head-wise expenditure for the entire Government or any specific department for various schemes, and for individual grants. Importantly, these accounts provide for automatic generation of a string and inter-related data bank which will contain data for several years facilitating time series analysis.

Speedy Compilation of Accounts: The expectation was that after the system stabilizes, the time required for compilation of accounts would be considerably reduced and it would be possible to generate consolidated annual expenditure data on various items within four months of the completion of the accounting year.

Aid to Financial Management of States: The VLC package was expected to generate a host of information and data for various types of analysis for financial management purpose by the State Government. A major output expected of VLC was the provision for generation of scheme—budget link across the budget and over more than one budget year.

Aid to Audit: VLC could also be used to develop additional information relating to vouchers, challans, projects, schemes, etc. which would be helpful for Audit in their work. It was also to help the Accountant General in their Entitlement functions by integrating the VLC with entitlement functions in a phased manner. Finally, one of the important objectives of VLC was to have a Budget Plan Link based upon the State Budget Plan document. However, the

Budget Plan Link success was dependent upon State Governments providing necessary cooperation.

OUTCOME OF VLC

VLC has resulted in substantial improvements in quality of accounts, timely rendition of accounts, generation of Financial Reports that help State Administration in better Financial Management and finally its use for Audit purposes is immense but the full potential was yet to be realized. Finance and Appropriation Accounts for the year 2005–06 of all the concerned States were signed by C&AG V.N. Kaul by the first week of January 2007 and were available to State Governments during the crucial period of budget preparation.

AUDIT USE OF VLC DATA

One of the objectives of VLC was to help audit in their work by drawing upon the information and data provided by the VLC system. For this purpose, the provision existed in the concerned module but for a considerable time even after stabilization of VLC not much use was made of VLC data for audit purposes.

To remedy this and lay a roadmap for the use of VLC data in the audit work, a Committee under Smt. A.L. Ganapathi³ was appointed in July 1999. Ganapathi Committee's Report laid out a roadmap for use of VLC data in audit. Headquarters issued detailed directions on the effective utilization of VLC data base in audit in July 2002 and February 2004. In its circular of July 2002, Headquarters asked the field offices to use the VLC data in annual audit planning. Use of the DDO—wise information was advised to be adopted immediately. The offices were also asked to make use of, besides expenditure profile of DDOs, details of purchases, stock position, transfers to PD Account for purpose of local inspections. Use of the data was also recommended for audit of schemes and for updating portfolio files.

A monthly progress report on the use of VLC package was asked for in the initial phase and after the system established, a quarterly progress report was to be sent by each Principal Accountant General/Accountant General (Audit).

In terms of 2004 directions, which were a kind of supplementary instructions, the Accountants General (A&E) were asked to help the Audit Offices in their efforts to use the VLC data for audit use by following methods:

- (i) The effective use of VLC data base by the Audit Offices was dependent upon the provision of functional efficiency of the Nodes earmarked for audit which will be used by the Audit Offices to extract relevant information based on their requirements as well as areas identified by Principal Accountant General, Tamil Nadu.
- (ii) The Audit Offices will have a right to access the VLC data but it should be seen that this access was limited so that the A&E office data does not get corrupted/ edited. Hence, a need to address security concern in the matter as per local requirement was emphasized.
- (iii) The offices were provided a list of 24 items (areas) which were identified to begin with from Mrs. Ganapathi's report for effective utilization of VLC data in audit. In a pilot study in Accountants General, Punjab and Haryana offices, these areas were tested. While enclosing the write-up on the experience of the Haryana office on the pilot study, the A&E offices were requested to help the Audit Offices in designing the queries and reports since most of the Audit Offices did not have much experience in RDBMS (ORACLE).

One of the projects listed in the Perspective Plan 2003–2008 is to harness the full potential of VLC in improving the quality of Central audit and planning for field audits in the States. Specific goals in this regard say that State audit offices would use CAATs in Central Audit. Many States are adopting CAATs in their Central audit functions. The efforts to improve the value of VLC data by using it as data mining facility for audit did result in some improvement. However, the full potential of use of VLC data in audit is yet to be realized and efforts in that direction are being made.

MIGRATION TO ACCRUAL ACCOUNTING SYSTEM

Given the limitations of the cash based accounting system and the variety of needs of the users other than the conventional users of the government accounts and financial reports, over the years there has been a long felt need to have a relook at the existing accounting system.

As early as 1996, a sub-group of the Working Group on Expenditure Policy set up by the Planning Commission in January 1996 headed by A.C. Tiwari, former DAI considered for the first time the feasibility of supplementing cash based system or replacing

it by an accrual based system and matters related to its transition. The Committee on Fiscal Responsibility Legislation, under the Chairmanship of Dr. E.A.S. Sarma, (January 2000) also deliberated on the possibility of introduction of accrual system as part of FRBM initiatives. The RBI Advisory Group on Fiscal Transparency under Montek Singh Ahluwalia, too considered feasibility of accrual accounting in Government.

Within IA&AD, the subject came for discussion even earlier: in November 1993 when in a meeting of DAIs/ADAs to discuss future course of action in respect of O & M and Research Studies, seven research projects were suggested in phase I of studies. This included, 'A study of accrual accounting in Government accounts in other countries vis-à-vis position in India.' It seems this project never took off.

Broadly, these Committees/ Sub-group supported accrual accounting but as an interim measure, suggested additional MIS Statements as initial steps in transition towards accrual accounting.

The Perspective Plan of IAAD, 2003-08 also proposed a 'comprehensive study on the relative merits of cash and accrual accounting'. The C&AG in July 2004, commissioned a study by D.N. Ghosh, former Chairman, State Bank of India and presently, Chairman, ICRA Advisory Services, on 'Conceptual Framework of Government Accounting System in India'. The objective of the study as stated in the Report of D.N. Ghosh was 'to develop a framework for, and evaluate the technical feasibility of reforming the Government accounting system in India so that it evolves into a more transparent and user—friendly system—one that enables users to make better-informed decisions. The focus of the study has been on analyzing the technical changes that are required in the accounting and budgeting processes, with a view to understanding the limitations of cash-based accounting that can be overcome by a more appropriate system'

The terms of reference *interalia* were to:

- (i) study and assess the existing cash based system of government accounting followed by the Union Government and the States,
- (ii) review the international best practices on government accounting including the reforms undertaken by the governments of New Zealand, UK, USA, Australia and Canada,

- (iii) evaluate the feasibility of integrating international best practices into the Indian Government Accounting System Standards,
- (iv) identifying the linkage of the accounting systems with the budgeting and planning process of government and highlight the areas that require modification,
- (v) based on the findings of the sample, departments/ States evolve a framework for implementing an accounting transition that can be used as a template for other departments of government,
- (vi) formulate a road map detailing the starting point, the end-state objectives and a broad trajectory to achieve the changes to the accounting systems including the profile of transition to reach the end-state.

ICRA in consultation with the office the C&AG identified departments of Revenue, Railways, Posts and Urban Development in the Union Government and some departments in the four states of Andhra Pradesh, Bihar, Assam and Gujarat for a sample study. The draft report was submitted by ICRA to the office of the C&AG in December 2004.

The report delineates the existing Government Accounting System and the limitations thereof in view of accounts maintenance being on cash basis. The ICRA report strongly advocates the need for change from cash-based accounting system to a more transparent and user-friendly 'Appropriate Accounting System'. In the Report, road map for the implementation of the suggested reforms has been discussed. Drawing conclusions from the experience of the countries which have already undergone similar reforms by switching over to the accrual based accounting, considered fundamental to the reform process, the consultants expect the entire reform process to take around 12 years to stabilize.

It was the Twelfth Finance Commission (TFC) recommendation for adoption of accrual basis for the Government accounting that finally clinched the vote for this system. The Finance Minister in his explanatory memorandum to the Parliament as to the action taken on the TFC recommendations stated in February 2005 that 'the Government has accepted this recommendation in principle. The Government Accounting Standards Board in the office of the Comptroller and Auditor General of India would be asked to draw detailed road map and operational framework for its implementation'. Pursuant to the decision of the Government of

India, the Government Accounting Standards Advisory Board (GASAB) in the office of the Comptroller and Auditor General of India has suggested a roadmap and an operational framework for migration to accrual accounting. As an interim step for transition to accrual accounting, the TFC has suggested inclusion of additional MIS statements consistent with the recommendation of the Tiwari Committee.

The C&AG lauded the Government decision to migrate from the cash based system of accounts to accrual based as timely. He expressed his view to the Finance Ministry in a communication in February 2006, that he felt for a long time that the cash based system of accounting was 'not the most informative way of presenting government accounts'. He detailed out several other disadvantages of this system. Amongst others, he made the very important observation that 'the greatest weakness of the cash system is that it promotes a bias in favour of short term policies. A bias that is very evident in our system'.

C&AG, Kaul also listed in the same letter some 'major risks' to the smooth implementation of the accounting reform programme, which required consideration by the Ministry of Finance. These included:

- (i) Need for corresponding budgetary reform alongwith the accounting reform—if not done the benefit from the accounting reform will substantially be detracted. While praising the introduction of 'output' budgeting, he advocated full fledged resource accounting and budgeting initiatives.
- (ii) Secondly, he advised the need for co-ordination amongst the various ministries and departments of Government of India 'in the matter of accounting reforms'. He mentioned about the somewhat delayed progress of work programme of GASAB. Partly this was due to jurisdictional issues raised by CGA which was more due to 'an element of professional and territorial rivalry' which 'further exacerbated the problem'. Luckily these problems were resolved quickly and amicably thanks to Finance Ministry's intervention.
- (iii) C&AG emphasized the need for training in accrual accounting amongst various accounting departments of Government of India and the States.

He also advocated for the necessity to sensitize secretaries of important ministries to the issues involved.

GOVERNMENT ACCOUNTING STANDARDS ADVISORY BOARD (GASAB)

GASAB, constituted by the C&AG with the support of Government of India (Ministry of Finance) in August 2002, has a small history behind its constitution. When the incumbent C&AG V.N. Kaul joined office in March 2002, he had been a witness to the several corporate scandals involving accounting juggleries and mis-reporting of material information. He showed his concern about absence of any formalized standards for government accounting. It was true that there existed, as it does today also, detailed set of accounting manual issued by the C&AG (MSO Accounts & Entitlement) and on the Central side CGA has issued accounts code, while similar accounts manuals/ codes have been issued by Railways, Defence and Post and Telecom organizations which has separate accounting functions. But the necessity of integrating the accounting systems and procedures and treatment of accounting transactions under the umbrella of a Uniform Common Accounting Standards was missing as far as Government Accounts were concerned. The then DAI (Accounts) K.N. Khandelwal after discussing the matter with the C&AG and his colleagues on the audit side, drafted a proposal from C&AG to Government seeking their approval for establishment of Government Accounting Standards Board.

The subject of absence of uniform government accounting standards had been felt across all the accounting authorities in the Government of India namely Controller General of Accounts, Controller General of Defence Accounts, Financial Commissioner Railway and member incharge of Postal and Telecom accounts besides of course the C&AG's organization. Even the Institute of Chartered Accountants of India had taken cognizance of this and set up a sub-committee on Government Accounting Standards sometime in early 2002.

Quite clearly, therefore a number of separate uncoordinated efforts were being made towards evolving Government Accounting Standards. In such a scenario therefore, the initiative taken by the C&AG was very timely and appropriate and under his umbrella (he is the supreme audit authority of the country) GASAB was set up with representation from all the important accounting authorities of the Central Government, representative of Ministry of Finance,

Reserve Bank of India and Finance Secretaries of State Governments (four by rotation each year) besides representative from ICAI and NCEAR were also drafted in. The proposal for the constitution of the Board sent by DAI in June 2002 got a supporting nod from Ministry of Finance in August 2002 suggesting inter-alia that the composition of the Board to be as under:

Deputy C&AG, as Chairperson
Controller General of Accounts
Financial Commissioner, Railways
Controller General of Defence Accounts
Addl. Secretary (Budget), Ministry of Finance, Government of India
Deputy Governor, RBI or his nominee
Director General, NCAER, New Delhi
President, ICAI or his nominee
Principal Secretary (Finance) of four States by annual rotation
Principal Director (Accounts), C&AG's office-Member Secretary

The Board, at present, is busy formulating Government Accounting Standards within the frame work of Cash Based Accounting. Up till now, three standards, which are christened as Indian Government Accounting Standards have been finalized for issue by the Ministry of Finance by necessary notification These are: IGAS I—Guarantees given by Government: Disclosure Requirements and IGAS II: Accounting and classification of grants in aid. IGAS IV: General purpose Financial Statements of Government. Besides, eighteen other subjects have been identified for standard setting and the work is in various stages of development.

GASAB is currently also engaged in a very important task assigned to it regarding suggesting a road map and operational framework of transition to accrual accounting. As brought out elsewhere Government of India, on the basis of 12th Finance Commission Recommendations, accepted introduction of accrual accounting in principle in February 2005 and assigned the task to GASAB. GASAB has already finalized the road map and operational framework which was forwarded to Ministry of Finance in May 2005 and February 2007 respectively.

GASAB has conducted a seminar to sensitize parliamentarians to accrual accounting in May 2007 at the behest of Rajya Sabha Secretariat. The Finance Minister has re-emphasized the

government's commitment to move towards accrual accounting. In an effort to sensitize the state governments for transition to accrual accounting, so far nineteen States have agreed to the suggestion of GASAB to introduce accrual accounting in principle and for this purpose seminar-cum-workshops were held in ten States; while eleven States have agreed to carry out pilot studies on accrual based accounting in some departments. Three states have constituted task forces for monitoring and transition. The seminars are usually attended by Finance Minister of the State and the top management in the Finance and other departments. Incidentally, Andhra Pradesh has agreed to attempt a pilot at district level to make all the accounts at district level on accrual basis. A primer on accrual accounting has also been compiled by GASAB secretariat for use in Seminar-cum-workshops.

GASAB has had a smooth sailing barring on some occasions when certain issues, quite unnecessary in fact, regarding the seniority of the head of certain Accounts organization vis-à-vis the Chairman of the GASAB were raised. The matter was resolved when the C&AG requested Ministry of Finance to take suitable measures in this regard.

COMBINED FINANCE AND REVENUE ACCOUNTS OF THE UNION AND STATE GOVERNMENTS IN INDIA

Combined Finance and Revenue Accounts (CFR) were being prepared in the past under the provisions of para 12 of Audit and Accounts Order 1936 as adopted by the Government of India (Provisional Constitution) Order 1947 read with Article 149 of the Constitution of India. Even though, it is no longer the statutory responsibility of the C&AG to prepare this document, yet a conscious decision was taken by C&AG to continue the publication of this document, since it was considered a very informative and useful compilation that presents the accounts of Union and State Governments on a common and comparable basis. The compilation is prepared mainly on the basis of the respective Finance Accounts of the Governments concerned.

The revised format of the document is much leaner as a result of recommendations of a Committee⁴ constituted in December 1997 to examine various Accounts in this compilation from the point of view of their utility and format. This compilation is now prepared in three volumes: The first volume contains major-head-wise summary of receipts and disbursements of various Governments

from the Consolidated Fund, the Contingency Fund and the Public Account; the second volume contains Subsidiary Accounts relating to Economic Services and the third volume contains Subsidiary Accounts relating to the General, the Social Services, etc. The Subsidiary Accounts give details generally by minor heads of the figures shown in the General Accounts in volume-I. Scheme-wise details, which are available in the concerned Finance Accounts of the respective Governments are not given. Detailed Accounts relating to Public Account are also not given. A statement containing details of outstanding balances under Suspense Heads is also given. From the year 2001-02 an overview is included which provides a birds eye view of the operations of the Government on some defined parameters and at the same time provides better analysis and linkage of financial and economic data. This was revised in 2002-03 to enhance the quality of information for various stakeholders.

The CFR Accounts have been prepared up to 2005-06.

TREASURY INSPECTION

The inspection of treasuries which was with the AG (Audit) earlier was transferred to AG (A&E) by the C&AG effective from April 1991. This was in view of the fact that main objective of Treasury inspections is to ensure whether the various checks and procedures prescribed for preparation of initial accounts are duly complied with by the treasuries and also in consideration of the fact that the annual report on the working of treasuries is being prepared by the Accountants General (A&E).

In the XX Accountants General Conference held in April 1999 various recommendations were made on the strengthening of Treasury Inspection by the Accountants General (A&E).

In January 2004, Reserve Bank of India constituted a Committee to explore feasibility of linking treasuries with the offices of the Accountants General (A&E). It recommended submission of accounts by treasuries in electronic format to the Accountant General, which would be accepted by the latter and till such time the system is established to ensure security and accuracy, hard copy of accounts shall also be sent. The Accountant General's office would be required to furnish to the treasuries the details of inter state adjustments directly taken in accounts by the Accountant General. Likewise where pension is authorized by the Accountant General, the Pension Payment Order data shall be made available to the treasuries in the electronic format. The report containing

recommendations of the core group on computerization of treasuries and online connectivity to get information on Government receipts and payments was forwarded by the C&AG's office to all Accountants General (A&E) in June 2006 for their comments.

The Report of the RBI however has not been furnished to the Central Government so far for acceptance and further necessary action by the state governments. The recommendation of the RBI Committee on linking treasuries with AG offices, at the moment, looks tentative because computerization of treasuries in many states is in nascent stage.

C&AG AND ACCOUNTS OF PANCHAYATI RAJ INSTITUTIONS

A significant development was the substantial role assigned to C&AG, in the accounting and auditing of PRIs and ULBs in the wake of entrustment of technical guidance and supervision of PRIs and Urban Local Bodies to him, pursuant to XI Finance Commission recommendations which extensively dealt with various facets of finance and accounts of the Panchayati Raj and Urban Local Bodies Institutions in the Report. The Commission observed that though states had made general provisions for the maintenance of accounts by the panchayats and municipalities and for the audit of their accounts, in many states the formats and procedures for maintenance of accounts by these bodies continued without any improvements over the years. The Commission suggested that the C&AG should be entrusted with the responsibility of exercising, control and supervision over the proper maintenance of accounts and their audit.

A separate office headed by a Dy. Accountant General/Sr. Dy. Accountant General was created in many States under the Pr. Accountant General/ Accountant General (Audit) of that State to look after local bodies audit and accounts including PRIs and ULBs.

ENTITLEMENT FUNCTIONS

The entitlement functions which embrace regulation and authorization of pay and allowances of Gazetted Officers, reporting and authorization of pension payments and maintenance of provident fund accounts of officers and employees of the State Government as per the respective laws, regulations and orders are exercised by the C&AG for certain historical reasons and he carries them out in the nature of an agency function (but free of charge). The burden on this account on the Department over the years in

respect of Pension and GPF functions has increased, while this is considerably reduced as far as pay authorization, etc. to Group 'A' employees is concerned. For example, during 1999–2000 final payment of GPF was authorized in 1,38,031 cases which gradually increased and during 2005-06 final payment of GPF was authorized in 1,67,786 cases. Like-wise authorization of pension, family pension and revision of pension cases which numbered 2,86,329 in 1999–2000 rose to 3,75,379 in 2005–06.

Pension Authorization by state Accountants General is done in 18 states viz. Andhra Pradesh, Assam, Bihar, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa, Punjab, Tamil Nadu, Tripura and West Bengal.

Pursuant to the guidelines of the C&AG's office issued in July 2002 a highly participative programme of Pension Adalats and Pension Awareness Programmes in association with the State Government and the District Administration is regularly held by the Accountants General (A&E) in various districts of the states where the pending pension cases are taken up for on the spot settlements. The results have been encouraging. During 2005–06 Accountants General (A&E) conducted 41 Pension Adalats at 34 locations and authorized pension in 2248 cases. A booklet containing pension documentation guidelines for the state government officers has been circulated among field offices for distribution amongst the state government offices.

GPF Account is maintained by C&AG in respect of employees of 19 states viz. Meghalaya, Uttar Pradesh, Maharashtra, Haryana, Assam, Chhattisgarh, Himachal Pradesh, Gujarat, Kerala, Tripura, Madhya Pradesh, Nagaland, Uttarakhand, Andhra Pradesh, Manipur, Karnataka, Orissa, West Bengal and Tamil Nadu, while 9 states have their own arrangements in that regard.

In Assam, on the request of the state government, GPF accounting for around 2.5 lakh provincialised teachers on their confirmation as Government Employees was taken over by the Accountant General (A&E) in a phased manner.

The annual accounts statements are sent to the subscribers by end of July each year. To facilitate online inquiries by serving or retired state government employees in regard to their pension and GPF accounts Interactive Voice Response System (IVRS) was started in states of Gujarat, Haryana, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh. The project is being launched in the remaining states also. IVRS has elicited an enthusiastic response. Information

regarding GPF accounts is also made available on the website hosted by Accountants General (A&E), Andhra Pradesh, Harayana, Karnataka, Maharashtra, Orissa, Tamil Nadu and Uttar Pradesh.

In four States of Kerala, Manipur, Meghalaya and Nagaland authorization of pay and allowances to Gazetted Officers continues to be with the C&AG. In the states of Assam, Bihar, Karnataka, Jharkhand and Tamil Nadu authorization of pay and allowances of specified levels of Gazetted Officers in some departments is done by the C&AG. The emoluments of high-ranking dignitaries like, Governor, Judges of the High Court, MLAs, MLCs, are processed in the Accountant General (A&E) offices.

DEVELOPMENTS IN ENTITLEMENT FUNCTIONS

Post 1990, the major area of development concerns computerization of GPF and Pension authorization.

GPF computerization, initiated in 1989, was completed in 16 offices involved in this function and in three offices this was in progress (as of April 2007). An improved software has also been implemented now in most of the states. Similarly, Pension computerization which started in 1990, has been fully implemented in all the 18 offices involved in this function. In 2005, it was decided to develop a standardized Oracle based Pension application and implement the same across the country.

Even though the workload on these functions has tremendously increased over the years, thanks to improved work methods, availability of new technology and a strict monitoring from Headquarters backed by C&AG's personal interest in the expeditious disposal of entitlement cases, the present system ensures speedy settlement.

There has been increased awareness in the C&AG's organization that its role as service provider must be performed with efficiency and in a timely manner with a view to minimize the grievances on this account. C&AG has personally shown a great interest in this and often issued suo-moto directions towards improving systems and procedures to enhance the efficiency and promptness of delivery. He has also introduced a system of evaluation of performance of AG offices in these areas- some of these are:

- (i) System Review of Maintenance of GPF: An objective review was detailed in Headquarters D.O. letter of 6 January 2004, as amplified by Director (Accounts) letter of 19 August 2004.

- (ii) C&AG also rates Accounts & Entitlement offices work in relation to accounting as well as entitlement functions done by them in terms of Performance Indicators that are transparently intimated to all Accounts and Entitlement offices.

A Citizen's Charter was adopted in April 2003 by Accountant General (A&E) offices for providing better entitlement services to the serving and retired government employees. The Citizen's Charter is displayed in all the Accountant General (A&E) offices performing these functions.

The department has initiated action as of March 2006 for hosting key indicator/ information on the monthly accounts of the 25 state governments on C&AG's website.

OTHER DEVELOPMENTS IN ACCOUNTS

Delinking Finance Accounts & Appropriation Accounts Presentation from Audit Reports: Earlier, Finance Accounts and Appropriation Accounts were presented to State Legislature alongwith Audit Report (Civil). This meant that Annual Accounts even if ready for submission could not be submitted till Audit Report on that was also ready. In February 1999, C&AG took a decision to delink the presentation of Finance Accounts & Appropriation Accounts to the Legislature from the Audit Report (Civil) beginning from the year 1997-98. After the C&AG has signed these Accounts, these can be sent to Government for placement in House.

Certification of Net Proceeds of the Taxes and Duties: In terms of Article 279 of the Constitution, C&AG is made responsible for ascertaining and certifying the net proceeds of taxes collected by the Union but distributed between the Union and States. Accordingly, C&AG issues every year, certificates of net proceeds of (a) Income tax, other than Corporation Tax under Article 270, (b) Union Duties of Excise under Article 272 and the Estate Duty under Article 269(1)(b).

However, enactment of 80th amendment to the Constitution in June 2000, (applicable from 1 April 1996 onwards), had important implications for C&AG's certification of the net proceeds. C&AG was requested by Government of India for issue of certification of net proceeds for the years from 1996-97 onwards afresh in accordance with the amended article 270 of the Constitution.

The taxes and duties, which have been brought within the purview of certification by C&AG office, in addition to taxes and duties on (a) Income Tax other than Corporation Tax, (b) Union Duties of Excise and (c) Estate Duty, are:

- (i) 0020—Corporation Tax
- (ii) 0023—Hotel Receipt Tax
- (iii) 0024—Interest Tax
- (iv) 0028—Expenditure Tax
- (v) 0032—Taxes on Wealth
- (vi) 0033—Gift Tax
- (vii) 0037—Customs Duty
- (viii) 0044—Service Tax
- (ix) 0045—Other taxes and duties on commodities & services

On receipt of the request of the Ministry of Finance, Government of India (July 2000) for issue of certificates of net proceeds for the years from 1996–97 onwards afresh in accordance with the amended Article 270 of the Constitution, C&AG decided to issue certificates in respect of Direct Taxes & Services and other Expenditure Taxes for the years 1996–97, 1997–98 and 1998–99 subject to qualification that CGA may adopt applicable rate for states share accordingly. (This qualification was necessitated by the non-receipt of Presidential Orders despite several reminders to Ministry of Finance regarding the share of net proceeds). These certificates for the years 1996–97, 1997–98 and 1998–99 in respect of Direct Taxes etc. were issued on the basis of Finance Accounts figures which were also certified by C&AG. In case of the new taxes and duties other than Income Tax, Union Excise Duties and Estates Duty brought within the purview of certification, audited figures were not available and the figures were only available in the Finance Accounts of the respective years. In respect of these taxes and duties it was not found practical and feasible to get the test check of these figures by the field offices at the Zonal Accounts offices at this late stage. Accordingly, decision taken was that for these taxes and duties the gross proceeds may be taken from the Finance Accounts figures for the years 1996–97, 1997–98 and 1998–99 which is also audited and certified by C&AG.

From the year 1999–2000 to 2003–04 certificates of net proceeds in respect of Direct Taxes were issued on the basis of audited figures. As regards Indirect Taxes, for seeking clarification in regard to treatment of non shareable Excise Duties etc. for certification purposes in view of the recommendation No. 6.16 of the Tenth Finance Commission, the C&AG office referred the matter to Budget

Division, Plan Finance Division and Department of Revenue in February 2005 at DAI (LB&AEC) level to Secretary, Department of Revenue, Ministry of Finance. A response to these was still awaited.

World Bank Paper on State Government Accounting and Auditing: A development worth a mention relates to a paper prepared by the World Bank in May 1998 with the avowed intention of stimulating change in the State Government accounting and auditing system in order to make them an effective means of financial management and control. The paper was forwarded by the Ministry of Finance to the C&AG for his views in May 1998. The thrust of the paper that concerned accounting was on the lack of reliability of accounts figures compiled by the State Accountants General, delay in the finalization of accounts and conflict of interest as both audit and accounting functions of the State Government were with the C&AG. The paper had suggested separation of audit and accounts functions, computerization of accounts, doing away with the operation of treasury system, development of Government Accounting Standards and introduction of accrual based accounting. The C&AG's detailed response to this paper in September 1998 indicates the prevailing thinking at that time on the issues raised in the Paper. The C&AG said that the paper was based on assumptions and lacked appreciation of the totality of financial management in the Government. The Government of India was informed about the developments which had taken place or were under way in the Audit Department that had an important bearing on the issues raised in the paper by the World Bank. It is noteworthy that the C&AG at that time was not in favour of migration to accrual accounting system from the existing cash based system for various reasons stated in his reply.

Association of Accountant General (Audit) in Checking of Accounting by AG (A&E): As a follow up of recommendation of the XVIII Conference of the Accountants General on 'strengthening of accounts and using it as an aid to management'. Headquarters office issued directions to all AG (A&E) and (Audit) in January 1992 stating that 'as extension of the year end check and certification of the Finance and the Appropriation Accounts by the Accountant General (Audit), CAP or any other staff of his office could be profitably utilized for test—checking the correctness of the compiled accounts from month to month and for watching, clearance of DAA and other suspense heads.' This was made effective from January 1992. This assigned an important and meaningful role to Central Audit Parties of AG

(Audit) and the expectation was that this would provide a meaningful check on monthly accounts and other basic records that form the basis of final accounts of states. The objective of such checking of accounts that spread throughout the year was to help in timely detection and rectification of errors in compilation and accounting, eventually that would avoid large scale corrections at the year end accounts finalization. A model check list was also prescribed for the purpose. These checks were to be exercised only after the accounts of the month are sent to Government. Any corrections pointed out by Audit check would be carried out in subsequent month

However, with the introduction of VLC system, the exact role of CAP is somewhat diluted in such checking.

NOTES: CHAPTER-17

¹ C&AG Somiah's tour notes were voluminous and contained several points on accounts. There were several queries on deficiencies in the system of accounts. He suggested resolving these through State Level Standing Committees

² Used in the normative sense—there is an internal calendar prescribed though legally no date is prescribed.

³ At that time Principal Accountant General, Karnataka.

⁴ The Committee was headed by K.N. Khandelwal, Addl. Dy. C&AG (Accounts & Entitlement).

LIST OF KEY EVENTS

8–10 January 1991	Accountants General's Conference discussed an item 'Strengthening of Accounts and using it as an aid to Management'.
April 1991	Transfer of the inspection of treasuries from Accountants General (Audit) to AsG (A&E).
1991	Improved procedures i.e. check list, 'Appropriation Note' etc. were introduced. Format of Appropriation Note was revised in October 2003.
January 1992	Instructions issued for involving staff of Accountants General (Audit) in test checking of monthly compiled Accounts and clearance of DAA and other Suspense heads.
January 1996	A sub group of the Working Group on Expenditure Policy set up by the Planning Commission headed by Shri A.C. Tiwari, former Deputy C&AG, considered feasibility of supplementing/replacing cash based system of accounting with accrual based system.
December 1997	A Committee finalized the revised format of Combined Finance and Revenue Accounts.
1998	Introduction of voucher level computerization. By 2003, VLC became operational in most of the states.
1998–99	From the Annual Accounts of 1998-99 Accountants General (A&E) started issuing a publication titled 'Accounts at a Glance'
July 1999	Ganapathi Committee's Report laid out a roadmap for use of VLC data in audit.
June 2000	With 80 th amendment to the constitution applicable from 1 April 1996 onwards, C&AG's certification of net proceeds of taxation was widened to include nine other Taxes and Duties.
July 2002	Headquarters asked field offices to use VLC data (DDO wise information, etc.) in annual audit planning.
August 2002	C&AG constituted Government Accounting Standards Advisory Board (GASAB)
February 2004	Accountants General (A&E) were asked to help the audit offices in using VLC data for audit.
May 2005	GASAB finalized the operational framework of transition to accrual accounting and forwarded this to Ministry of Finance.
April 2006	IRLA System was abolished with effect from April 2006.
May 2007	A seminar for members of Parliament for sensitizing them on accrual accounting was conducted in Parliament House.
November 2007	IGAS IV on General Purpose Financial Statements of Government—another standard dealing with Finance Accounts and Appropriation Accounts, issued to Government after approval by GASAB and CAG.

DOCUMENT

No. 780-41-ADAI (RS)/99 vol-II

To
All Principal Accountants General (Audit)/
Accountants General (Audit)
(As per mailing list)

Sub: Use of VLC data.
Sir/Madam,

I am enclosing herewith the relevant extract of recommendations of Smt. A.L. Ganapathi Committee on use of VLC in field audit offices for your information and guidance on how to make use of this package in our audit work. It has now been decided that these recommendations of using the VLC data in planning annual audit and review using the DDO—wise information on the VLC system may be adopted immediately. Similarly, expenditure profile of the DDOs, details of purchases, stock position, amounts transferred to PD Account may also be made use of during outside audit inspections. The VLC data may also be used for audit of schemes including pattern of release of Central/ State Government funds, delay in release, quantum of unused balance etc. and such data as available in the VLC system may also be collected to update the portfolio files maintained in the Audit offices.

You are also requested to kindly furnish monthly progress reports on use of VLC package in your office to begin with and quarterly progress reports once the system stabilizes.

In case of any technical difficulty to use the VLC package as per the recommendations of the Committee please feel free to seek help from the concerned A&E offices who are being requested separately to extend full cooperation and help in our attempt to make successful use of VLC package in Audit offices as well.

Encl: as above.

Yours sincerely,
SD/-

(M.M. Nim)

Principal Director (RS)

No. 787-41-ADAI (RS)/99 vol-II dated 15 July 2002

Copy to the OSD (RS-SCS) for information and necessary action at his end please.

Principal Director (RS)

GLOSSARY OF ABBREVIATIONS

CAAT	Computer Assisted Audit Techniques
CAP	Central Audit Party
CFR	Combined Finance and Revenue Accounts
CGA	Controller General of Accounts
CMC	Computer Maintenance Corporation Ltd.
DAA	Departmental Adjusting Accounts
DDO	Drawing and Disbursing Officer
GASAB	Government Accounting Standards Advisory Board
ICAI	Institute of Chartered Accountants of India
IVRS	Interactive Voice Response System
MIS	Management Information System
MLA	Member of Legislative Assembly
MLC	Member of Legislative Council
NCEAR	National Council of Applied Economic Research
PAO	Pay and Accounts Office
RBI	Reserve Bank of India
TFC	Twelfth Finance Commission
TRS	Technical Requirement Specifications
URS	User Requirement Specifications
VLC	Voucher Level Computerization

Training

Audit being a knowledge dominated profession requires a high degree of in-depth knowledge and professional competence. The most valuable asset of IA&AD are its employees and their training becomes a key input, far more important than in many other organisations. Since C&AG's audit is all pervasive covering practically all areas of governmental activities, Government auditors need to have knowledge of a wide variety of subjects, Acts, Rules, Regulations, Procedures, prevailing Government systems and more importantly, they need to be updated on audit techniques and methodologies that are ever evolving and fast changing with new techniques. In short, well structured training strategies and activities are needed in the Audit Department to attain the objective of maintaining the credibility and professionalism of audit personnel.

TRAINING SET UP OF THE IA&AD

Training Division at Headquarters: Upto the 1970s, not much attention was given to training, except the basic induction training to IA&AS probationers and some rudimentary inhouse training to the lower staff even though a combined O&M and Training Division at Headquarters was created in the year 1964. From 1964 to 1978, the Division concentrated largely on O&M work. In 1978, C&AG Gian Prakash established a Training Division to deal exclusively with training matters. This gave a boost to training activities in the Department. Three RTIs were opened in quick succession beginning in 1979. From 1978-79, the Division started organising/ sponsoring training programmes for officers of the Department. C&AG, T.N. Chaturvedi augmented the Training Division with a view to enlarging the training activities in early 1986. The Division became

the focal point for formulating training policy, planning and designing training programmes for officers of the department including Group 'A'. C&AG Chaturvedi had been an avowed 'training person' having been earlier Jt. Director, National Academy of Administration, Mussoorie, Director, Indian Institute of Public Administration, New Delhi and he made sustained efforts as C&AG to improve the training infrastructure. He also paid special attention to International Training Programme, which was another important function of the Training Division viz. designing and conducting International Training Programmes for nominees of SAIs of Afro-Asian and Pacific countries. Training got tremendous boost in subsequent periods also specially during C&AGs Shunglu and Kaul's period as detailed in the Chapter. Till January 1997, Training Division at Headquarters was headed by a Director who worked under Principal Director (RIR). The post was upgraded to Principal Director (Training) in February 1997.

The training set up in the IA&AD can be grouped under 4 categories:

- (i) Regional Training Institutes, Regional Training Centres and Training Centres
- (ii) In-house Training by Audit & Accounts Offices;
- (iii) International Centre for Information Systems and Audit (iCISA); and
- (iv) National Academy of Audit & Accounts, Shimla.

Regional Training Institutes: The first Regional Training Institute to impart in-service training to the Group 'B' and 'C' cadres was set up in Chennai in 1979. Subsequently, seven similar institutes were set up in Mumbai (1980), Ranchi (1982), Allahabad, Jaipur and Nagpur (1986), Jammu and Shillong (1989). RTIs are having a Regional Advisory Committee (RAC) for planning, overseeing and co-ordinating training and other activities allotted to the RTI, promoting effective interaction with the related field offices, strengthening the arrangement for evaluation of training programmes and selection of guest faculty etc. RTIs conduct training as per annual calendar of training programme approved by the Headquarters. The RTIs conduct value added training courses on audit methodology, modern auditing techniques and training for trainers apart from conducting seminars and workshops catering to the requirement of field offices. Special programmes for staff who are promoted to the supervisory cadres are designed to enable them to manage new responsibilities. Direct Recruit Section Officers

are also provided induction training in RTIs. Special Computer Courses are also conducted in the RTIs for word processing, database management and IT Audit etc.

Since the RTIs, though geographically well spread, were found insufficient to cater to the training needs, four Regional Training Centres (RTC) were set up at Hyderabad (1997), New Delhi (1997), Bangalore (1998) and Kolkata (1998) to cater to the local training needs for courses of general nature including EDP courses. Their administrative control is with the local PAG. Subsequently, RTC, Kolkata was upgraded as RTI in 1999. At present, there are nine RTIs and three RTCs to impart training to Group 'B' and 'C' officers. Earlier, the Heads of RTIs were called Principals and were officers generally of Junior Administrative Grade level. During 2003, as a matter of policy, the post of Principal was upgraded as Principal Director and headed by an officer of the AG's rank, with separate budget.

Seven Training Centres were set up at Bhubaneswar, Chandigarh, Guwahati, Gwalior, Patna, Rajkot and Thiruvananthapuram during 2000–01. Besides, conducting practical examination in computer system, and 'Data Processing and Computer System' paper of Incentive Examination of AAOs/ SOs of A&E offices, these centres are utilised for conducting in-house training by concerned field offices and small offices not having adequate infrastructure facilities. Each centre is linked to the nearest RTI in relation to training programmes while their administrative control is with the local Pr.AG/ AG.

Committee on Training in RTI: In June, 1989 the C&AG of India constituted a high level committee under the chairmanship of Shri U.C. Agarwal, former Secretary, Ministry of Personnel & Training and Ex-Chief Vigilance Commissioner, Govt. of India, New Delhi to review the functioning of RTIs and suggest measures to galvanise them into effective instruments for training and research. The terms of reference contained:

- (i) examination of the current programme to meet training needs,
- (ii) adequacy of the inputs and facilities of RTIs,
- (iii) to suggest suitable organisational structure, and
- (iv) need for a Training Advisory Committee for each RTI and a Central Advisory Committee for expert advice for proper planning, etc., setting up new

institutes, linkage between RTI, ITC, IA&AS Staff College, Shimla.

In its Report of November 1989, the Committee made 53 recommendations. It recommended intensification of training for all levels of officers, conducting specialised training once in every three years for officials working in the specialised wings of the department, more emphasis on the practical aspects of auditing like vouchers and compilation of accounts, running of at least 40 training programmes of two weeks by each RTI in a year etc. It also advocated specialisation by some of the RTIs in specific area of audit like Commercial, Defence Audit, etc. Setting up of a Central Training Advisory Council headed by the C&AG to oversee and monitor all training activities along with Regional Advisory committee headed by the senior-most AG in the station to coordinate training in RTIs, computer training and the strengthening of the core faculties and general infrastructure of the institutes were some of the other recommendations.

Training Division in March, 1990 issued detailed measures for improvement in training in the RTIs. Each RTI was to organise induction and refresher courses of two weeks each (not more than 12 working days duration) with 30 to 35 participants and special courses of suitable duration as necessary. Greater emphasis on participative methods of training rather than only on lecture method was to be given. Some RTIs were nominated for preparation of course contents and training material.

March, 1990 orders also stipulated constitution of eight Regional Advisory Committees (RAC) of RTIs existing at that time for planning, overseeing and coordinating training and other activities, promoting effective interaction with the related field offices, strengthening the evaluation of training programmes and selection of guest faculty, etc.

Pattern of training in RTIs effective from July, 1990 was also outlined. All the AAOs and AOs of Civil and Commercial audit and A&E offices were to undergo at least one refresher course in the respective RTIs. The objective of the refresher courses was to update the knowledge and skills relevant to the work handled.

In September 1991 the field offices were asked by Headquarters to implement the recommendations of High-Power Committee on training of staff in their own offices. Considering that training needs of Auditors/ Accountants are basically skill oriented, their induction training was to be conducted by field offices in their own offices as

bulk of it will be 'on the job'. The training facilities available in other government training institutes like RTIs, Income Tax, Zonal Training Schools of Railways, Institutes of Chartered Accountants and Cost & Works Accountants, etc. were to be gainfully utilised.

In his assessment, based on the views expressed by State Accountants General incharge of Civil Audit in the Accountants General Conference, the then Addl. Dy. C&AG¹ (Report Central) in his note of 14 July 1993 was critical of the prevailing functioning of RTIs and their contribution to the training in so far as Civil audit offices were concerned. The almost unanimous view expressed by these Accountants General was that RTIs served no useful purpose for their offices, and, they expressed the opinion that they should be allowed to go for extensive inhouse training programmes. In their view, RTI's role should be confined to training objectives and development of training packages. A.K. Mitra analysed the main reasons for RTIs not being useful to Civil Audit Offices – basically it flew from the fact that most of them were attached to A&E offices (except Nagpur and Jammu) and so did not adequately cater to needs of Civil Audit Offices. It was also possible that some of the criticism voiced was on other considerations, notably reluctance of the staff to proceed to outstation RTI. The Addl. Dy. C&AG concluded that RTIs were conceived as important centres within the personnel policy of the C&AG; they must not be permitted to degenerate. He, therefore, while sending this note to Director (Training) at Headquarters, desired early discussions on the various points made by him. These concerns were addressed when the Headquarters discussed these issues in 1995 followed by comprehensive instructions in 1996 as detailed below.

OVERHAULING THE RTI TRAINING SCHEME

C&AG V.K. Shunglu desired in January, 1996 that the case study method of training should be introduced in the RTIs and NAAA, Shimla. And since then it is a preferred method of training in RTIs and NAAA, Shimla.

A major overhauling of the in-service training set up in the IA&AD was done in 1995-96, resulting in the issue of instructions dated 7th March 1996 by the then Addl. Dy. C&AG, I.P. Singh. It gave a reference to November 1995, D.O. of Dy. C&AG which had mooted offloading of some of the training programmes done by the RTIs to the inhouse training facility of field offices. The implication of 1996 letter is that it restored an active role to field offices in the

training of their own staff by organising inhouse training courses. The merit of this decision lay in the fact that firstly, the inhouse training would be designed as per the specific training needs of a particular office and as per their audit plan and priorities, secondly, it would leave RTIs free to conduct lesser number of courses which would be high value added training courses on audit methodology and latest auditing techniques. The letter detailed in an annexure, the courses that were to be transferred from RTIs to the inhouse training facility of the field offices.

The value added courses earmarked for the RTIs were the following:

- ❖ Training for trainers
- ❖ Performance Audit
- ❖ Certification Audit and System based Audit and modern Audit Techniques
- ❖ Information Technology (IT) Audit
- ❖ Induction training courses for AOs and SOs

The letter made it clear that RTIs would continue to conduct EDP courses as per the prevailing pattern as also some other specialised courses/ seminars/ workshops as per the needs of the client offices. It reiterated the need for ensuring proper planning, implementation and evaluation of the inhouse training programmes and submit reports about the progress of implementation of the scheme to the Headquarters.

The recommendations of Annual Conference of RTI Principals held in August 1997 and approved by C&AG in October 1997 provided the overall frame-work like programming, selecting trainings, designing and conducting training programmes with a view to developing the knowledge, skill and aptitude of the audit personnel. Among the important recommendations were formulation of training standards in IA&AD, preparation of annual action plan, holding of workshops for trainees, selection of prospective trainees based on IT awareness and aptitude for IT audit, preparation of case studies, development of expertise in computer and IT audit, assessing participants at the end of every computer/ general course. Also RTIs should act as Facilitators and Training advisers to the concerned user offices and render assistance in course designing. RTI's facilities were also to be utilised for inhouse training, etc.

In June 1998, C&AG desired that the self learning packages should be so designed that the evaluation of the learner was a part of the package. He also desired that LAN could be used for facilitating faculty participant interaction.

During 1989-90 to 2003-04, the various RTIs have conducted training programmes ranging between 193 to 384 each year and trained between 3,218 to 7,963 officers every year in various modules during the same period. This is by all standards an enviable achievement. Similarly, RTCs have conducted general courses ranging between 61 to 100 and EDP courses between 55 to 93 during the period. The number of courses conducted in RTIs and number of participants are tabulated below:

**PROGRAMMES ORGANISED AND OFFICERS
TRAINED IN RTIs**

Year	No. of Programmes organised	No. of Officers trained
1989-90	276	4,946
1990-91	324	5,686
1991-92	278	6,116
1992-93	384	7,402
1993-94	330	7,963
1994-95	312	6,261
1995-96	314	6,359
1996-97	277	5,272
1997-98	227	4,070
1998-99	193	3,218
1999-00	212	3,634
2000-01	233	3,749
2001-02	251	4,065
2002-03	246	3,898
2003-04	260	4,167

EDP COURSES ORGANISED AND OFFICERS TRAINED IN RTIs

Year	No. of Programmes organised	No. of Officers trained
1991-92	61	605
1992-93	103	1,119
1993-94	96	1,142
1994-95		1,512
1995-96	127	1,528
1996-97	151	1,893
1997-98	170	2,312
1998-99	154	2,258
1999-00	256	4,112
2000-01	278	3,970
2001-02	304	4,235
2002-03	331	4,379
2003-04	335	4,482

Today, RTIs are viewed as 'developmental centres for quality courseware for dissemination of inhouse training facilities and training centres'.

HUMAN RESOURCE ISSUES IN TRAINING²

Training received a big push during C&AG V.N. Kaul's time also. An important decision taken by him was to upgrade the heads of RTIs to AG level officer from Sr.DAG level who was earlier functioning under one of the AGs/ Pr.AGs at that station. The change meant that RTIs became a totally independent office under an AG level officer with more administrative and financial powers.

Another important move from C&AG, Kaul was to bring the entire subject of 'Training' that included RTIs, iCISA and NAAA, Shimla under the charge of DAI. It lends to reason that the entire training functions should be with the DAI since he is the principal aide of C&AG in staff matters and human resource policy.

RTIs AS CENTRES OF EXCELLENCE

C&AG V. N Kaul made another significant move when he declared some of the RTIs as Centres of Excellence in December 2002. The necessity for creating centres of excellence was explained in the following note of the C&AG recorded in December 2002. 'There is a need for institutional linkage for issues being discussed in various working groups, research projects and committees of INTOSAI, ASOSAI, UN panel of Auditors, Conferences of Auditors General of Commonwealth, etc. Therefore, while the IR Division will continue

to be the focal point of dealing with all foreign and international agencies and requests received from other countries and no other would be entitled to correspond or contact foreign agencies unless cleared by IR Division, information about and documentation received from foreign and international sources on the subject matters mentioned below would be disseminated to Nodal Officers and the head of the Nodal Institutions:

Sl. No.	Subject Matter	Nodal Officer	Nodal Institution
1.	IT Audit Issues covered by INTOSAI IT Audit Committee, ASOSAI Research Project, other foreign bodies like Commonwealth Auditors General Conference, etc.	PD(IT Audit)	RTI, Chennai
2.	Privatization—Including matters under consideration with INTOSAI Working Group on privatization	PD (RC)/ PD (ESM)	RTI, Jaipur
3.	Environmental Audit—Including issues discussed in INTOSAI Working Group on Environmental auditing and ASOSAI Working Group on Environmental Audit and other such bodies	PD (SD)	RTI, Mumbai
4.	Audit of International Institutions—Including issues relating to INTOSAI Ad hoc Working Group on this subject	PD (IR)	iCISA
5.	Audit of Frauds-Including issues relating to ASOSAI Adhoc Working Group on Frauds and other Groups working on Fraud Guidelines	PD (Comml.)/ PD (AEC)	RTI Nagpur
6*	Accounting Standards-Including INTOSAI Accounting Standards Committee, IFAC Public Sector Committee, etc.	PD (AEC)	GASAB
7*	Strategic Planning Task Force of INTOSAI and Global Working Group	PD (IR)	IR Division
8*	Programme Evaluation—Including INTOSAI Working Group of Programme Evaluation	Economic Adviser	IA&AD
9*	Auditing Standards—Including issues relating to INTOSAI Auditing Standards Committee, Public Sector Committee of IFAC and Commonwealth Auditing Standards of UN	DG(Audit)	IA&AD

* Out of the above list, four namely 6, 7, 8 and 9 are not covered within the scope of DG (Training)'s work.

The coordination of this work will be done as before by IR Division. All contacts with foreign bodies would be through IR Division as is the current practice. The nodal officer will look after the short term implications of the issue involved and the nodal institution would attempt to study the subject and develop it as a specialization. The DAI (Training) will coordinate this work as far as iCISA and RTIs are concerned and PD (IR) will coordinate the work of Nodal Officers and agencies other than RTI and iCISA. Nomination of foreign visits to various Seminars, Working Groups, Committees, etc. has nothing to do with this distribution of work. These will be done as is the practice now, under orders of C&AG³.

Along with the nodal institutions, a designated officer of the IA&AD is the nodal officer for the specified subjects. Generally, he is the concerned Pr. Audit Officer of the designated subject of specialization. The nodal institution is to keep in close touch with the nodal officer before holding any training programme, workshop, etc. The merit of this arrangement is that it is an institutionalised arrangement and the RTIs being basically in the area of training and research are able to devote time and attention to the rather difficult subjects on which they have been nominated as centres of excellence.

As a follow up of C&AG's orders, the IR division separately addressed each head of the nominated nodal institution giving them whatever products on the allotted subjects of speciality were available with them with the request that the nodal institution should further draw up a plan for dissemination of the concerned material through suitable training programmes. For example, in the initial period, International Relations Wing despatched to RTI Chennai (which is a nodal institution for IT Audit), two documents namely Guide to Developing IT Strategies in Supreme Audit Institutions and sixth ASOSAI Research Project on IT Guidelines. Similarly, Pr. Directors of other nodal institutions were given products of international committees/ working groups, etc. for similar purpose. The Headquarters have been updating the information to the nominated nodal institutions on the selected subjects from time to time.

While the initial thrust to the creation of centres of excellence was to be given by the IR Division as indicated above, things actually moved very differently subsequently. The 'coordination' role of IR wing is now limited to passing on 'whatever material is received by them', to DG (Training). In effect, it is DG (Training) who is now the concerned wing for providing various inputs to these Centres

of Excellence. In fact, the Training Division, to whom the above orders of C&AG were conveyed for necessary action and which is the concerned subject division for RTIs added following RTIs as Centres of Excellence in the fields noted against them:

Sl. No.	Nodal RTI	Subject Matter of Specialisation
1.	RTI, Kolkata (December 2003)	Local Bodies Audit & Accounts
2.	RTI, Allahabad (September 2004)	Corporate Governance & Internal Control
3.	RTI, Ranchi (September 2004)	Information Technology Audit and Technological Tracking
4.	RTI, Jammu (March 2006)	Value added Tax

RTI, Jaipur was declared as a centre of excellence for Peer Review in December 2006 in addition to it being a centre of excellence for Privatisation. In effect, of the nine RTIs, eight have been declared as centres of excellence in one area or more.

The Training Division has taken several steps to make these centres more effective:

In December 2006, DG (Training)⁴ addressed Additional Dy. C&AG (International Relations) stressing that a system be evolved to ensure that all materials received by the IR Division which would be related to international developments in the areas of excellence, be sent to the concerned RTIs so that their knowledge level and skill remain upgraded. He also suggested a formal meeting between the two divisions to give effect to above system.

The DG (Training) addressed the Heads of the Regional Training Institutes enclosing a list of websites relating to various INTOSAI Committees, working groups and task forces etc. and advised them to devise a system of regular surfing these websites so that they could download any material relating to their area of excellence. This could be used for updating and improving the training material. The RTIs were also advised to consult IR Division on these, if necessary.

In March 2007, DAI (LB/AEC)⁵ on a review of the functioning of a few RTIs observed that RTIs as centres of excellence should go beyond preparation of Structured Training Modules (STMs)/ training of personnel. In his view, these RTIs as centres of excellence should have the following four specific components as part of their portfolio:

- (i) Development of each RTI as a reservoir of comprehensive knowledge and data in the designated area.
- (ii) Development of core faculty in the concerned area, as well as maintenance of a database of specialists available in the field.
- (iii) Actual organising of training through workshops/seminars;
- (iv) Continuous dissemination of information/research/case studies in the relevant field through newsletters.

This was a good attempt to benchmark, in terms of specific outputs, the role of RTIs as centres of excellence. In the context of four components mentioned above, (i) involved, apart from preparation of training modules on concerned subjects, preparation of a database/literature/research papers/media reports on these subjects (including material already available with the IR Wing). Additionally, each RTI should build up a comprehensive database of audit experiments and experiences (both national and international) in the designated area, develop case studies (atleast six per year) of international standards in that area and prepare and also update 'audit checklist' for use within the IA&AD offices. Under item (ii), the suggestion was that RTI should do all that was necessary to develop the core faculty, if necessary by assigning specific work to retired IA&AD personnel on consultancy/contract basis. It was also desirable that these RTIs interacted with and even shared membership of reputed institutions in specific areas of concern to have access to latest research outcomes by those institutions. Another important point made by the DAI (LB and AEC) and which was agreed to by the C&AG, who desired it to be communicated to the DAI (Administration), was that for courses of training abroad in the concerned discipline, priority to the officers from the concerned RTIs should be given.

On (iii), the important point made was that the workshops could be held jointly with other organisations specialising in the designated field for example, RTI, Nagpur which is a centre of excellence for audit of fraud and forensic audit could conduct its training workshops and seminars in collaboration with CBI(EOW), Police (Economic/cyber crime specialist) etc. and finally, on component (iv), it was desired that the newsletters should be brought out regularly. After first year it was to be a quarterly newsletter. Another important point made was that Headquarters, while finalising their guidelines for audit etc. on the specific subjects, should involve the

concerned subject matter RTI before issuing such instructions. It was also considered necessary that heads of RTIs should interact amongst themselves atleast once every year and this should take place at headquarters in New Delhi.

It is perhaps little early to comment on the success of RTIs as centres of excellence. But, during this period, most of the RTIs have been able to do substantial work in their allotted areas of specialisation. Thus, RTI, Mumbai, which is designated as a nodal training institute on Environmental Auditing has come out with 10 specific products which include structured training module on environmental auditing, compilation of environmental legislations, compilation of environmental accords, conference/ workshop output on various high level seminars conducted by the RTI and compilation of environmental audit reports of the C&AG. The structured training module on environmental auditing incorporates important inputs from INTOSAI working groups on environmental auditing, papers and training material developed by IDI as also India's experiences in environmental auditing. Similarly RTI, Nagpur, which is a declared nodal institute for audit of fraud, has been able to develop and disseminate quality reading material, national and international case studies on the subjects of audit of fraud, courts proceedings and relevant auditing standards viz. ASOSAI guidelines, AICPA guidelines and ICAI guidelines.

Similarly, RTI Ranchi⁶ which was designated as the Centre of Excellence for 'IT Audit and Technology Tracking' in 2004 has done commendable work in this field. It was chosen as the test-bed to carry out a pilot training programme on INTOSAI IT Audit Courseware in the light of underlying changes that were taking place in IT field.

RTI Ranchi conducted a pilot bilateral International Training Programme on IT Audit based on the INTOSAI IT audit courseware for the offices of SAI-Oman and SAI-India in June – July 2005 and subsequently, replicated this in the form of 'Accelerated IT Audit Training Programme' for the Group Officers and IT audit teams of commercial audit offices. Based on the feed back received from pilot training course, the INTOSAI IT audit courseware was updated and eventually approved by INCOSAI in March 2007.

RTI Ranchi was the first RTI to install microsoft small business server (MS SBS) as an intranet portal to enable the core faculty to share the standards, courseware, presentations etc. on a shared work space. It also imparted training for trainers based on specific request from Headquarters and PDs of RTIs wherein the core faculty of all

the RTIs were trained in installation, administration, management and maintenance of MS SBS. It prepared a structured training courseware (STC) on Audit of VLC Data in December 2006 detailing step-by-step procedures for extraction and analysis of VLC data to benefit both A&E offices and Audit offices.

RTI Chennai which was declared centre of excellence for IT Audit has also made strenuous efforts to make the RTI a centre of excellence in the field of IT Audit. Amongst various steps taken in this direction were induction of new topics in the IT audit training courses, changes in the methodology of training in IT Audit to give practical touch and field visit to offices where the trainees get first hand information about data centre, security issues and how these could be handled by the organization. RTI Chennai was the pioneer in conducting course in 'CoBIT' which is the framework adopted for IT Audit in IA&AD. The RTI conducted a workshop on CoBIT 450 for PDs and faculty members of RTIs and RTCs and it has also conducted workshop on network security. The staff skills have been also upgraded by various means. The staff was sponsored to attend various seminars and conferences conducted by reputed institutions. They have also liaised with the other reputed training institutions.

RTI Jaipur, has also done commendable work on privatization by not only bringing out STM on disinvestment/ privatization and valuation of assets but also by organizing workshop of heads of RTIs and RTCs as core faculty members on the subjects. It organised a seminar on privatisation in March 2006 in which participants from user offices and one core faculty member from each RTI were also invited. RTI has also conducted special courses on privatisation in February 2004, January 2005, March 2006, January 2007 and June 2007. RTI, Jaipur was declared centre of excellence for peer review in December 2006. It organised three seminars on peer review and a special course on peer review was also conducted in May 2007. RTI Jaipur also prepared four digital manuals as per requirement of Headquarters office.

RTI Kolkata has made a name in the area of audit of local bodies. Their STM on audit of Zilla Parishad and Panchayat Samiti on audit of local bodies was very well received.

The evolution of RTIs from a mere training institution to centres of excellence marks a big leap forward in the C&AG's quest for quality in the training and dissemination of knowledge.

DEVELOPMENT OF STRUCTURED TRAINING MODULES

In the conference of RTI principals held in September 2003 and 2005, 36 topics were identified for development of structured training modules/training materials by the RTIs. In order to ensure quality of the courseware, each STM was to be reviewed by an expert officer of IA&AD and 'peer reviewed' by another RTI before finalisation.

24 STMs⁷ have been finalised by the respective RTIs and uploaded in the public folder of the C&AG website as of April 2007, as shown in the Annex I. STM on twelve subjects⁸ were under various stages of development by RTIs as shown in the Annex II. These STMs are developed as standard training material on concerned topics for use by field offices but Headquarters have made it clear that field offices may, if they feel the need for it, customise these to suit their requirements.

The preparation of structured training module on various subjects involved good deal of research work by the RTI and eventually was a collaborative exercise where the concerned RTI took the inputs from various quarters. Typically, the exercise would involve collecting all the material on the subject as available internally in the codes and manuals and supplemented by the prevailing practices; in addition to understanding the international systems and practices, relevant material was obtained either from IR division or the training division or the concerned RTIs carried out a research on the internet to obtain this from the websites. An important contribution was made by the Peer reviewers who were experts in the fields. Apart from the peer reviewers, the subject specialists at the PD/DG level were also consulted to give their inputs on the preparation of STMs. For e.g. for preparing STM on corporate governance and internal control DG (Training) requested DG (Commercial) to provide his views/guidelines to RTI, Allahabad who were preparing the STM. The finalised version of STMs were sent to all the heads of departments of IA&AD for their suggestions/comments as also the feed back of the participants on all these STMs to the training division to enable them to determine quality control parameters for each of them for purposes of review and updating from time to time. It would therefore be clear that not only a good deal of effort goes into preparing these STMs on the part of RTIs but both at the preparation stage and subsequently even after these have been put to use, feed back and inputs from various sources including the training participants are obtained and there is a continuous effort to upgrade the quality of these STMs.

TRAINING BY INTERNATIONAL CENTRE FOR INFORMATION SYSTEMS AND AUDIT (iCISA)

Setting up iCISA in 2002 was a momentous decision taken by C&AG of India. iCISA functions both as a training institute and as an IT audit centre. As a training institute it is responsible for conducting international training courses every fiscal year on the subjects of relevance to audit. It has taken over this function from the training division which were earlier involved in conducting this training since 1979 (a detailed account of this is given under the heading 'International Training conducted by the C&AG' in this chapter).

iCISA has also developed into an excellent facility centre for a large number of in-service training courses for IA&AS and other officers. This includes in-service training, seminars and workshops. For IT, it is the principal centre of training.

TRAINING OF IA&AS CADRE

Induction Training: Officers of the Indian Audit and Accounts Service (IA&AS) are recruited through the common examination conducted by UPSC for entry into All India Services and Central Services, called Combined Civil Services Examination. The officers selected are initially placed on probation and undergo a 15 weeks foundation course at the Lal Bahadur Shastri National Academy of Administration, Mussoorie along with probationers of other All India and Central Services.

The foundation course was always held at Lal Bahadur Shastri National Academy of Administration, Mussoorie, ever since Mussoorie Academy was established in 1959. An aberration to this practice was introduced from the year 1989 when, while the IA&AS and IFS Probationers continued to have their foundation course in Lal Bahadur Shastri National Academy of Administration, Mussoorie, other services were divided amongst Mussoorie and training academies like Administrative Academy, Bhopal, S.V.P. National Academy, Hyderabad, H.C.M. State Institute of Public Administration, Jaipur, National Academy of Direct Taxes, Nagpur and Railway Staff College, Vadodara. This meant that officers/probationers of the same batch and also same service were sent for their foundation course training to these institutions including Lal Bahadur Shastri Academy, Mussoorie. (In the case of IA&AS for example, probationers of 1991 batch, including those of 1990 batch who joined in 1991 were sent for foundation training to Nagpur, Hyderabad and Mussoorie). Similarly, IA&AS Probationers of 1992

batch (including those of 1991 batch who joined in 1992 had their foundation training again split into three institutions namely, Lal Bahadur Shastri National Academy of Administration, Mussoorie, NPA, Hyderabad, National Academy of Direct Taxes, Nagpur). This practice was finally abolished in 1998 when the status quo ante was restored and all probationers who were recruited through combined competitive examination received training in Lal Bahadur Shastri Academy of Administration, Mussoorie.

After completing the Foundation Programme, they are imparted intensive professional training at the NAAA, Shimla. The training at the academy is overseen by the DG of the Academy under the guidance of the Central Training Advisory Committee (CTAC) headed by Dy. C&AG which advises on matters relating to the training of IA&AS officers.

National Academy of Audit and Accounts, Shimla (NAAA): The NAAA, Shimla came in existence as IA&AS training school in 1949 in Madras (now Chennai) and shifted to Shimla in 1950. Training Sessions were conducted in the historic Gorton Castle (which houses the office of Accountant General, Himachal) till 1974. Thereafter, it was located in Railway Board Building, (another heritage building, at the foot of the Mall) upto November 2000. The Academy shifted to its present complex near Chaura Maidan in December 2000 where a new academy building consisting of academy block, administrative block, library, canteen and service block and service personnel blocks were constructed. The two computer laboratories in the academy complex where the probationers and the in-service participants are trained, is very well equipped with 21 Pentium-IV machines with multi media kits networked on a SCO Unix platform by two Compaq Proliant 6500 servers. The second computer lab, which is also used as a discussion room is equipped with 10 computers on network. Besides the computer labs, 33 stand-alone systems have been provided at various places in the academy complex. All the rooms of Probationers in Yarrows—the probationers residential block—have been provided with personal computers with Pentium-IV machines which are networked. All the rooms in the adjoining Glen and Cedar hostels have been provided with a network connection. The rooms for guest faculty in the hostels have been provided with computers and for the use of others, a room in Glen has eight computers connected to the internet.

The academy is headed by a Director General who is assisted by four faculty members of the rank of Director.

Officers from Nepal, Oman and Bhutan were also trained by the academy. Currently, two officers from Royal Audit Authority, Bhutan are being trained.

The training pattern in 1990 was that the directly recruited IA&AS probationers, after receiving 17 weeks' foundation training joined National Academy of Audit & Accounts, Shimla for intensive professional training in Audit and Accounts. Subjects at that time included in the syllabus were Accounting and Auditing, Financial Systems and Control, Service Regulations, Costing, Quantitative Techniques, Computerisation, Management, etc. Shimla training was for 61 weeks in two phases of 51 weeks and 10 weeks each. During this training, probationers were also given general exposure to Public Finance and Fiscal Policy, Five Year Plans, Project Appraisal and Management, Commercial Law, Management and Behavioural Aspects and structure and functioning of auditee organisations. The theoretical training was supplemented by practical training in the office of the Accountant General, Himachal Pradesh, Shimla and training in district treasuries, public works divisions, office of the Controller General of Accounts, Reserve Bank of India, Planning Commission, etc. Between the two stages of institutional training in Shimla, probationers were attached in batches to offices of Accountant General for getting practical experience in accounts and audit as Branch Officer in the Accountant General's office and as inspection officer on inspection. A significant change made in their syllabus was introduction of a paper on 'Computer Systems' including theoretical and practical aspects for the first time in November 1991 as a compulsory subject in the departmental examination.

UC AGARWAL COMMITTEE

Comptroller and Auditor General of India set up a high level committee in December 1989 (under the chairmanship of Shri U.C. Agarwal) to review the working of the National Academy of Audit and Accounts, Shimla. The high level committee recommended in its Report (submitted in March 1990) that the Academy should strive at a leadership role in the field of training and development and should be a centre of excellence in training in the sphere of public accounting and auditing. The Committee recommended that the existing training programmes for probationers should be structured better, placing more stress on participative and interactive methods of training. The committee also recommended that the system of evaluation of the efficacy of the courses conducted should be

strengthened by introducing a system of sessional marks and internal assessment, followed by re-fixation of inter-se seniority. The committee also recommended that a system of resident fellows at the academy be introduced.

RAMASWAMY R. IYER COMMITTEE

The Comptroller and Auditor General of India set up a committee of senior officers known as 'Training Review Committee'⁹ (TRC) in June 2004 to review the prevailing training module and the syllabus for the examination of the IA&AS probationers during their initial training at NAAA, Shimla. The Committee in its report of October 2004 agreed with the significant changes in the syllabus that were introduced by the Central Training Advisory Committee (CTAC) sometime prior to the appointment of this committee. The committee, therefore, adopted the syllabus as modified by the CTAC as the base for further review.

The recommendation of CTAC to divide the syllabus into two namely examination topics and exposure topics was endorsed by the TRC with some further refinements in the syllabus and similar refinement in exposure topics.

The syllabus of the papers 1 and 2 of government audit was revised by NAAA, Shimla in line with the recommendations of the CTAC and these were approved by Headquarters in 2005.

The TRC recommended that the teaching of Advanced Accountancy be spread over two semesters and the examination for the paper may be conducted at the end of second semester as part of DE 2. This was also accepted by the CTAC and approved by the Headquarters in April 2005. The internal assessment system was also endorsed by the TRC. Similarly, TRC also recommended that 'while sandwich pattern of training may continue, its time frame may be reduced from 21 weeks to 16 weeks'. This recommendation was implemented. Another recommendation of TRC was that 'on the job' training of the probationers in AG office be reduced from 21 weeks to 16 weeks and it should be divided between A&E and Audit Office. The suggested pattern was also indicated. This recommendation was also accepted by Headquarters.

The TRC recommended that the attachment with NIFM may be increased by 4 weeks to include certain additional topics in management as identified by the committee. However, the CTAC decided to keep the attachment with NIFM to the original period namely 9 weeks only and decided that the training on exposure

topics as recommended by the TRC be conducted at NAAA, Shimla. The TRC recommended certain structuring of phase 2 programme. The 10 weeks programme as recommended by TRC included 2 weeks training in use of ORACLE software, one week on feed back and presentation on the job training, one week for lectures by eminent persons, one week training in communication skills (to be outsourced), one week lectures on administrative aspects of running the AG offices, one week general exposure on the functioning of government, one week devoted to lectures by finance experts by a faculty drawn from the Institute of Chartered Accountants, Banks Financial Institutions, one week for interaction with senior officers in Headquarters through a series of lectures and finally one week attachment with integrated command of defence services at Port Blair.

Largely, therefore most of the recommendations of the TRC were accepted and implemented. C&AG approved the same in November 2005.

C&AG, Kaul had given his own thoughts on the training of IA&AS probationers when in December 2003 he addressed the DG¹⁰, NAAA, Shimla advising for a new orientation to training of IA&AS probationers. In his DO to the DG, the C&AG mentioned the fact that audit practices the world over were converging towards the harmonised international regime and it was necessary that the IA&AD benchmarked their public audit practices to international standards. C&AG wanted that IA&AS officers during their training in Shimla acquire a methodological clarity on public audits and get a good 'exposure to the overall auditing environment both internationally and in India including the role of various standard setting bodies, international best practices and modern techniques of auditing'. The DG of the academy, in response, informed the C&AG that the syllabus for the probationers was modified in 1999 to accommodate the practice being followed after 1998 after making a distinction between VFM audit and certification audit leading to conceptual clarity on audit practices. Further, government audit was being taught as part of global practices and various practices in government audit were elucidated on the basis of Lima and Bali declarations of INTOSAI and ASOSAI respectively.

Currently, the total duration of induction training for IA&AS Probationers is 104 weeks. The scheme of training as obtaining in 2005-06 is as follows:

Sl. No.	Category of training	No. of weeks
1.	Foundation Course	15
2.	Induction Training (Phase-I) inclusive of attachment with NIFM	60
3.	Study Tour	3
4.	Field training in the offices of Accountants General	16
5.	Induction Training (Phase-II)	10

The class room training is supplemented by practical training in district treasuries, public works & forest division, Reserve Bank of India, Bureau of Parliamentary Studies (BPS) and at National Institute of Public Finance & Policy.

The probationers are required to clear two departmental examinations for which the papers are:

Part – I (First departmental examination):

1. Auditing principles and practices
2. Public finance and Indian financial system
3. Government accounts (including public works accounts)
4. Commercial accounting
5. Information Technology—basic skills and security issues (theory and practical)
6. Hindi I and Hindi II¹¹

Part – II (Second departmental examination):

1. Government audit
2. Financial rules and service regulations
3. Cost & management accounts and concepts of financial management
4. IT audit & data analysis (theory and practical)
5. Advanced commercial accounting

INDUCTION TRAINING FOR OFFICERS INDUCTED TO IA&AS FROM GROUP 'B' CADRE

A three weeks orientation training programme in NAAA, Shimla for newly inducted IA&AS officers was introduced in 1979. The training is designed to:

- ❖ impart focused inputs to prepare the officers for their new role and responsibilities and the corresponding attitudinal changes.
- ❖ familiarise participants with computers and develop basic skills in computer applications.

- ❖ introduce participants to IT Audit.
- ❖ expose participants to various developments in the techniques of Government accounting and auditing including VLC.
- ❖ give an overview of disciplinary proceedings.
- ❖ expose participants to gender and human rights issues in the work environment.
- ❖ develop interpersonal and leadership skills.

IN-SERVICE TRAINING COURSES

The Department organises in-service training courses for IA&AS officers at various levels as well as some limited courses for officers of other services at NAAA, Shimla. Some of the standard courses conducted by the academy were on: auditing/ accounting standards, audit methodologies, management development, executive development, fraud and corruption, IT related topics, IT audit, revenue audit courses, risk analysis, statistical sampling, training related courses, etc. The academy also conducts skill oriented training programmes in computer systems, refresher courses in identified areas for serving officers of a specified level, vertically integrated courses to facilitate experience sharing, orientation training programme for newly promoted IA&AS officers, financial management and audit sensitisation sponsored by DOPT, courses for training for trainers and courses for training for outside services/ agencies e.g. for Indian Forest Service, Indian Information Service Officers and Senior Officers of Armed Forces.

HIGH LEVEL SEMINARS

NAAA, Shimla played host to a number of high level seminars over the last several years. A detailed list of these is given in the chapter on 'Developments in Auditing'. These Seminars provided a forum for exchange of views amongst persons with extensive and varied experience in the subjects discussed. As the premier training institution of the IA&AD, the academy has been visited from time to time by various high level delegations from other Supreme Audit Institutions.

TRAINING METHODOLOGY

The academy uses a variety of training methods in imparting training, depending upon the training needs, nature of training and the target groups. Important of these are group discussions,

exercises, case studies and assignments designed to hone probationers analytical skills and in-depth exploration. They are asked to make presentations. Assignments, internal tests and departmental examination are common evaluation tools for phase-I trainees. During phase-II of induction training, experience sharing becomes the main training approach. This is achieved through case study, interactive class room sessions with senior officers from within the IA&AD and outside, presentation of strategy and syndicate papers on specific topics.

For in-service training courses, the trainer centred lectures are important to ensure greater trainee-trainer interaction and sharing of views and experience. Accordingly, the academy has adopted some strategies to maximise the trainee-trainer interaction in the in-service courses that include panel discussions, case-studies, exercises and an interactive sessions rather than merely one way lecture by the speaker. There is a system of grading of the faculty by the trainees.

YARROWS

No discussion of training of IA&AS officers in Shimla is complete without a reference to 'Yarrows' which is the name of the probationers' mess in Shimla since 1951 batch (the first batch in Shimla—1950—was lodged in Chedwick House). While 'Yarrows' is the exclusive residence of the probationers, 2 more buildings have come up in the Yarrows complex called 'Glen' and 'Cedar'. 'Glen' and 'Cedar' with 36 rooms provide residential accommodation to visiting faculty, in-service course participants and visitors. An EPABX connects all the rooms, academy, sports complex and faculty quarters. 'Yarrows' was designed by the legendry British Architect, Sir Herbert Baker in 1913 for his friend Sir Charles Lowndes, a member in viceroy's executive council, which later became the summer residence of M.A. Jinhah, the founder of Pakistan. Sir Baker had designed the house of Sir Cecil Rhodes at Cape Town which is now the official residence of the President of South Africa. He worked with Edward Lutyens for designing New Delhi and designed the Secretariats of North and South Block, New Delhi.

LIBRARY

The library in the academy complex is spread over two floors. It currently houses a collection of over 24,000 books on varying subjects like, auditing, accountancy, philosophy, literature, social sciences,

management, computers, etc. The library also keeps training material and departmental reports and literature received from time to time. It subscribes to about 25 Indian and foreign journals and magazines. These are available to the readers in the reading hall of the library.

All the rooms in Glen and Cedar hostels have been provided with a network connection. The rooms for guest faculty in the hostels have been provided with computers and for the use of others, a room in Glen has eight computers connected to the net.

TRAINING PROGRAMMES OUTSIDE THE DEPARTMENT

There are some prestigious training programmes outside the Department for the IA&AS officers. Amongst these mention can be made of:

- ❖ Advanced Professional Programme in Public Administration (APPA) in Indian Institute of Public Administration: This is one of the more prestigious programmes in the country where senior bureaucrats from various services are sponsored for a nine month programme leading to a MPhil. Degree. IA&AS officers have been regularly sent for this programme.
- ❖ National Defence College Programme: This is another very prestigious programme specially for the armed forces but there is a sprinkling of some participants from civil services also. IA&AS officers have also participated in this annual programme but not on a regular basis.
- ❖ Post graduate diploma in public administration at National Institute of Financial Management, Faridabad : IA&AS officers are being sponsored regularly in this programme which is also of one year duration.

IA&AS officers were also sponsored to specific programmes in Indian Institute of Management (mostly Bangalore) and IIM has organised specific customised programme for IA&AS officers.

OVERSEAS TRAINING PROGRAMMES FOR IA&AS OFFICERS

A paradigm shift in the training activities of IA&AD over the period 1990 onwards has been the vast exposure which the departmental officers have had in trainings abroad either with the supreme audit institutions or in universities etc. Definitely, this exposure is a welcome step in the skill development of the officers. Every year a number of officers are sent abroad for such training. Some of these

programmes are funded by international institutions also. A very brief resume of these training facilities is given below:

Under a **World Bank** Assisted Programme for the training of trainers, office of Auditor General, Canada and the National Audit Office, UK provided conceptual as well as in-depth training in skill building courses in 1996. Two officers were attached to NAO, UK to work in the areas of regulation and privatisation for two months and one officer was attached to Auditor General, Canada for three months for audit of environmental assessment. In the following two years also, one officer was deputed to NAO for such training. In 2002, a team led by Ms. A. Basu, the then Director General with seven officers, visited NAO, London for a training programme on modernisation and capacity building of the office of C&AG of India. To develop a core team of experts in the field of financial audit, 27 officers in three batches were sent for a training consultancy on financial (attest) audit to NAO, UK London/New Castle during February 2006–February 2007.

Programmes with United States Government Accountability Office, Washington DC: Since the programme's inception in 1979, the US GAO, extends invitation to the members of the INTOSAI, for their international Auditor Fellowship Programme, an intensive study course of 4 to 6 months, including field office placement, which is designed to strengthen the ability of Supreme Audit Institutions to fulfil their missions and to enhance accountability and governance worldwide. Our officers who were (middle to senior level) selected by US GAO attended this programme since 1985. From 2002 the participants of GAO programme prepare a strategy paper which is identified by the Head of the SAI, to introduce a plan or project into their SAI. The entire expenditure of the GAO Programme is funded by the Government of India.

IA&AD officers also participate in the short term training courses conducted/ sponsored by the **INTOSAI and ASOSAI**.

There were short term programmes on public works auditing/ computer auditing under **Japan International Cooperation Agency** conducted by Govt. of Japan where IA&AD officers were sent for training during 1989–2001.

MBA/MPA Programmes under Australian Aid: During 1994–2002, an officer from the Department attended a long term MBA/ MPA training course of 12 months under the India Australia Training and

Capacity Building Programme with Australian Aid, courtesy the Technical Co-operation Training Programmes of Govt. of India.

IA&AS officers have been deputed abroad practically every year since 1990 to attend the long term courses (12 months) to various universities in UK leading to a degree/ diploma. Consequent to withdrawal of Colombo Plan Assistance for training Programme, presently DOPT deposes officers every year to such courses which includes IA&AS officers on deputation under the Central Staffing Scheme. These are both short term and long term courses.

INTERNATIONAL TRAINING CONDUCTED BY C&AG

Comptroller and Auditor General of India began conducting training programmes for audit professional from Supreme Audit Institutions, mostly from Asia-Africa and Pacific region in 1979 with its maiden training programme on 'Audit of Receipts' coinciding with the inaugural session of ASOSAI in Delhi. An international training centre (ITC) was created for the purpose which used to conduct these international training programmes. In the initial years, these training programmes were held in rented premises¹², but in March 2002, the C&AG established The International Centre for Information Systems and Audit (iCISA) at NOIDA¹³ which apart from other functions also took over from ITC the training of international participants. The iCISA is an ISO 9001:2000 certified institution (on quality management systems relating to training) which provides high quality training and also serves as a platform for various SAIs to come together and share their knowledge. It also acquired in July 2006, the certification of BS—7799 for information systems security. It has a beautiful self-contained campus having academic, administrative, hostel and residential blocks. It has all other facilities required for such an International Training Centre—computer labs with state of art training facilities, a well stocked library, conference halls with recording system and limited translation facility, 24 hours internet service, adequate recreational and games facilities for the participants.

Till the close of fiscal 2006–07, 77 international training programmes had been conducted by IA&AD on various subjects/ themes in which 2149 participants from 107 countries of Asia, Africa and Pacific regions participated. Funding arrangements for these programmes are mainly through the Technical Co-operation Scheme of 'Colombo' Plan administered by the Ministry of External Affairs and 'Special Commonwealth African Assistance Plan' administered

by the Ministry of External Affairs. The Supreme Audit Institutions of countries not covered by any of technical co-operation schemes of Government of India can also nominate their officers and provide funds on their own. These programmes have also been recognised by the United Nations and the Commonwealth who have also funded some participants. C&AG of India does not charge any course fee or cost of course materials for the training programmes. Indian Audit & Accounts Department also nominates two or three officers to each of these programmes. This affords the officers an opportunity to interact and share audit experiences with senior officers from SAIs in the developing countries in important areas of audit.

The department also organised seven training courses outside India during the period. Most of the participants were funded under Government of India Technical and Economic Cooperation Programme. The countries involved were Bhutan, Oman, Mauritius and Saudi Arabia.

The themes of these programmes included audit of rural development programmes, audit of receipts, audit of public enterprises, audit of transportation services, IDI audit testing workshop, audit of public works and projects, audit of energy sector, audit of social services sector, audit of financial accounting and control systems, auditing in EDP environment, auditing information technology—challenges for SAIs, infrastructure sector and audit, auditing information technology, IT investment audit, auditing in IT environment and audit of disinvestments.

TRAINING STANDARDS

Training Standards in IA&AD were developed in 1998–99 and such standards which are the minimum level of quality parameters aim at standardising and structuring the training being imparted. They will also ensure that the training activity is carried out in a professional manner.

TRAINING PLAN FOR IA&AD (2003–08)

A training plan for the IA&AD for the period 2003–08 was prepared by the Training Division of the Headquarters which included following training institutions of the department except NAAA, Shimla:

- ❖ In-house Training facilities in IA&AD Offices
- ❖ 7 Training Centres
- ❖ 3 Regional Training Centres
- ❖ 9 Regional Training Institutes
- ❖ International Centre for Information Systems and Audit (iCISA)

The training plan set up four goals 'which reflect the directions that our training efforts would take in the next five years'. These goals were:

- (i) Consolidate and upgrade existing training infrastructure.
- (ii) Improve and standardise courseware to maintain quality.
- (iii) Create network with outside agencies.
- (iv) Improve quality of training and obtain quality certification.

It detailed the training strategies to be used in general and specific to each goal/ sub-goal. It also talked of networking.

TRAINING MANUAL

A Training Manual, prepared by RTI, Jaipur and approved by Headquarters which was circulated to all RTIs and RTCs in August 2006, deals with the various facets of training in RTIs/ RTCs that includes explaining briefly the C&AG's mandate, training Plan (2003-08) emanating from the Perspective Plan of the IA&AD, role of training in personnel development and then goes to describe the training set up in the RTIs/ RTCs including the scope of training, basic assumptions, reasons and commitments for training. It has chapters on training need analysis by the user offices and on design of training programmes, preparation of annual calendar of training and instructions regarding faculty selection and connected issues. Useful tips are there on management of a training programme.

ISO CERTIFICATION

C&AG of India had desired that the activities of our RTIs be got evaluated from independent external agencies with a view to get ISO certification. It was done in a phased manner. To start with, RTI, Jaipur and Chennai were selected for the purpose and both got ISO Certificate in June 2003 and December 2003 respectively. Subsequently, RTI, Mumbai and Jammu were also selected and they also got ISO certificate in March 2004. Recently in June 2006, while considering a proposal from RTI, Jaipur for renewing the ISO certificate, the certification exercise was reviewed and it was decided

that the RTIs would no more seek the renewal of ISO certificates awarded to them. The Inspection Wing in Headquarters would conduct the internal audit of all RTIs on the pattern of the ISO internal audit.

RESEARCH PAPERS

During the period, some research papers and reports were brought out. An in-house study titled 'State Finances—A Critical Approach' was brought out in January 2003. Through this research paper, an attempt was made to generate a composite index of fiscal health. The study was found to be highly informative, incisive and was very well received. Second volume of the State Finances was brought out in November 2003 which not only updated the information but also introduced some additional concepts.¹⁴ In addition, a research paper on improving audit effectiveness was brought out in 2003. A core-group appointed by C&AG, as follow-up of Shimla Seminar on Impact Evaluation, consisting of experts from C&AG's office and the Planning Commission, Ministry of Programme Implementation, UNDP and UNICEF brought out a Report titled 'Development Evaluation in India—Contemporary Issues and Approaches' in 2003.

ANNEX I

STRUCTURED TRAINING MODULES/MATERIALS (STM)
APPROVED, CIRCULATED/POSTED IN THE PUBLIC FOLDER
OF C&AG WEBSITE

Sl. No.	Topic	RTI	RTI for Peer Review
1.	Audit of Panchayati Raj Institutions	Allahabad	Kolkata
2.	Audit of Urban Local Bodies	Allahabad	————
3.	Drawing, Disbursement & Receipts in VLC scenario	Allahabad	Chennai
4.	Audit of Regulatory Bodies	Chennai	Mumbai
5.	Corporate Finance & Taxation	Chennai	Jaipur
6.	Indirect Taxes including on line audit	Chennai	Nagpur
7.	Risk based Audit approach with Quantitative Techniques & Statistical Sampling	Jaipur	Shillong
8.	Audit of Privatisation & valuation of assets	Jaipur	Nagpur
9.	Financial Audit of Govt. Companies	Jaipur	Chennai
10.	Training of Welfare Officers/Welfare Assistants	Jaipur	Mumbai
11.	Analysis of Financial Position of the States— Outcome budget	Jaipur	Nagpur
12.	Financial Audit of Autonomous Bodies	Jammu	Jaipur
13.	Human Resource Development Organizational Behaviour, Leadership & Motivation	Jammu	Chennai
14.	Performance Audit	Mumbai	Allahabad
15.	Direct Taxes	Mumbai	Nagpur
16.	P&T	Mumbai	Ranchi
17.	Natural Resource Accounting	Mumbai	————
18.	Public Works Audit & Forest	Nagpur	Jaipur
19.	Audit of Frauds & Fraud Detection Techniques including Forensic Audit	Nagpur	Ranchi
20.	Audit of Manpower	Nagpur	Jammu
21.	State Receipt Audit including Sales Tax, State Excise, Motor Vehicles, S&T, non Tax excluding Forest Audit	Ranchi	Mumbai
22.	Treasury Inspection	Ranchi	Kolkata
23.	Common Administrative Issues, Reservation Roster, Vigilance & Disciplinary Proceedings	Shillong	Allahabad
24.	Course on Entitlements	Shillong	Jammu

ANNEX II

STRUCTURED TRAINING MODULES/MATERIALS UNDER
PROCESS

Sl. No.	Topic	RTI	RTI for Peer Review
1.	Inventory Management & Audit	Chennai	Allahabad
2.	Audit of Central Excise and Receipt Audit	Chennai	Kolkata
3.	Information System Security Management	Chennai	
4.	Pensionary benefits and procedure thereof	Jammu	—
5.	Govt. Accounts & certification Standards of Finance & Appropriation Accounts	Jammu	Allahabad
6.	Budgeting, Exchequer Control, Issue of Sanctions, Monitoring of Expenditures and related matters	Jammu	Shillong
7.	Railway Audit	Kolkata	Ranchi
8.	Audit of Electricity	Kolkata	Jammu
9.	Personal Ledger Accounting	Mumbai	Allahabad
10.	Preparation of Finance and Appropriation Account	Nagpur	—
11.	Internal Control	Nagpur	Mumbai
12.	Central Audit/Audit Management	Ranchi	—

NOTES: CHAPTER-18

¹ Shri A.K. Mitra

² Based on the inputs provided by Kanwal Nath, former Dy. C&AG

³ C&AG's note dated December 5, 2002 in IR Division File.

⁴ Anupam Kulshreshtha

⁵ Shailendra Pandey, DAI (LB/AEC)

⁶ Pr. Director, RTI Ranchi, was Vani Sriram

⁷ Out of 24 STMs finalised as of April 2007, 5 were developed by RTI, Jaipur, 4 by RTI Mumbai, 3 each by RTI Allahabad, RTI Chennai and RTI Nagpur and two each by RTI Jammu and RTI Ranchi. Two STMs were developed by RTI, Shillong which is not a centre of excellence.

⁸ Out of 12 STMs under finalisation, three each are under development by RTIs Ranchi and Jammu, two each by RTI Kolkata and Nagpur and one each by RTI Mumbai and Ranchi.

⁹ The Committee comprised S/ Shri Ramaswamy R. Iyer, R. Ramanathan, N.R. Rayalu and A.N. Chatterjee.

¹⁰ Sh. A.N. Chatterjee

¹¹ Applicable to probationers who have no knowledge or little knowledge of Hindi

¹² Several venues were involved. The initial programmes were held at the Advance Level Telecommunication Centre (ALT), Ghaziabad which was hired from Telecom Department; some programmes were held in Indian Institute of Public Administration (IIPA) while HUDCO Training Centre at Asiad Village and Lodhi Hotel (of ITDC) were also hired for these programmes. During 1994 to 1999 these programmes were held in a rented bungalow in Sector 15-A, Noida and subsequently at Vaishali Complex, Ghaziabad in a multistory building purchased by the department.

¹³ At one time Department had acquired a plot in Dwarka for the training centre and, in fact, the then C&AG C.G. Somiah had laid the foundation stone also for the proposed centre. Subsequently this plot was surrendered when the decision to have the iCISA at Noida was taken.

¹⁴ These documents were prepared by the Economic Adviser (M.C. Singhi)

LIST OF KEY EVENTS

19 March 1990	Detailed measures for improvement in Training in RTIs issued.
1990 onwards	Departmental officers had vast exposures in training abroad.
1996	Auditor General Canada and NAO UK provided skill building courses to officers.
7 March 1996	Instructions on In-house training in field offices and scope of Training in RTIs issued
1997-1998	Four RTCs were set up
3 October 1997	Recommendations of RTI principal's conference provided overall frame work within which training activities would be carried out.
29 June 1998	Instructions issued on designing of self learning packages
1998	Training Standards developed
2000-01	Seven Training Centres were set up
2002	iCISA set up
January 2003	A study 'State Finance-A critical Approach' was brought out.
2003	5 RTIs designated as nodal centre for excellence in various areas/topics. Three more RTIs were designated nodal centres for excellence subsequently.
June 2003	One of the RTIs got ISO certification.
2003	Training plan for the period 2003-08 emanating from perspective plan of IA&AD was prepared.
June 2004	C&AG inaugurated first training programme for trainers on Environmental Audit at RTI Mumbai.

DOCUMENTS

1

No. 16-Trg. Div./13-O&M/86

Dated 19 / 20 March, 1990

To,
The Directors/ Principals of
Regional Training Institutes.

Sub: Training in the Regional Training Institutes-Measures for improvement

I am directed to refer to this office letter No. 18-Trg. Divn./13-86 dated 14.5.87 and to state as follows.

Since the issue of the above mentioned letter, various measures to strengthen the Regional Training Institutes have been under consideration and two more Regional Training Institutes at Shillong and Jammu have been established. Incentives have been allowed to faculty members of the Regional Training Institutes subject to certain conditions, pending screening of the existing incumbents and making fresh selections. Principals have also been posted in most of the Regional Training Institutes. A High Level Committee has reviewed the functioning of the Regional Training Institutes and submitted its report recently. The following further instructions are now issued with the approval of the Comptroller and Auditor General of India.

1. Pattern of Training

The Pattern of training shall be as indicated in Annexure I, with effect from July 1990. Each Regional Training Institute shall organize induction and refresher courses each of two weeks' (not more than 12 working days) duration with a participation of 30 to 35 trainees and special courses of suitable duration as necessary. Wherever possible two courses should be run simultaneously and the maximum number of courses may be 40 per year. The courses may be so adjusted as to suit the administrative convenience of the various offices, avoiding busy periods. There should be greater emphasis on participative methods of training rather than only on lecture method. Field problems may be identified for syndicate/group discussions. The selection of training techniques and methodology should be made with greater care and objectivity keeping in view the types of programmes and the level of the participants.

Until the recently started Regional Training Institute at Jammu stabilizes, it may organize at least one induction/refresher course per month open to the offices in J&K State with limited participation from the offices at Chandigarh and Shimla.

The participants in the various courses may be provided morning coffee, lunch and afternoon tea at a cost not exceeding Rs. 12/- per head per day.

All the Regional Training Institutes shall send the programme schedule for the period July 1990 to March 1991, to the Training Division of the Headquarters by the end of April 1990. The Regional Training Institutes

nominated for the preparation of course content and training material shall also send these to the Training Division by the end of April 1990 for approval before circulation, priority being given to the course content.

2. Regional Advisory Committees for Regional Training Institutes

There shall be a Regional Advisory Committee for each Regional Training Institute for planning, overseeing and coordinating training and other activities allotted to the Regional Training Institute, promoting effective interaction with the related field offices, strengthening the arrangement for evaluation of training programmes and selection of guest faculty etc. The composition of the committee for each Regional Training Institute is indicated in Annexure II. With immediate effect, the committee will meet as necessary under the Chairmanship of the Senior most member present, but not more than three times a year. The Committee will be reconstituted by the Headquarters, associating, by rotation, other Heads of field offices, periodically.

The Principal of the Regional Training Institute wherever posted will be the Secretary and ex-officio Member of the Regional Advisory Committee. His role will be that of a coordinating officer and he has to receive support and advice from the committee. If there is any problem the attention of the training division at Headquarters may be drawn for appropriate action.

3. Status of the Regional Training Institutes and Staffing Pattern

Each Regional Training Institute shall be an independent administrative entity. Wherever principals have been posted they shall function under the general control and supervision of the Principal Director/Director General (O&M and Training) in the headquarters office. The principals shall exercise the administrative and financial powers as Heads of Offices. They will also have full powers to sanction honorarium on the scales approved by the Headquarters. Until further orders, the powers of Heads of Department-administrative and financial, may be exercised by the Accountants General to whose offices the Regional Training Institutes are at present attached. The concerned, Accountant General's offices will also continue to render such assistance and infrastructural support to the Regional Training Institutes as may be necessary for their smooth functioning, till adequate facilities are provided to them.

The functional autonomy of the Principal will not be subject to hierarchical intervention by the Accountant General. The Accountant General should ensure all help to the Principal without interfering with the discretion of the Principal to run and manage the Regional Training Institute day to day as per the guidelines of the advisory committee. Such help will include Providing Staff Car facilities as needed and inviting chief guests for the inaugural and valedictory functions.

All the posts in the Regional Training Institutes shall be ex-cadre post to be filled on deputation basis with effect from the date to be notified by the Headquarters. For non faculty positions the deputation allowance will be as applicable in the IA&AD. These positions available at present in each Regional Training Institute may be filled up by taking persons on deputation from the Accountant General's office to which the Regional Training Institute is now

attached. The core faculty posts will be filled up by selection on all-India basis within the Department as already notified.

The core faculty in each Regional Training Institute may consist of, besides the Principal, 2 Accounts/Audit officers of whom one may be qualified in Civil Accounts or Audit and the other in Commercial Audit, both qualified preferably in Revenue Audit examination (for section officer/Asstt. Audit Officers) with such other qualifications and experience as may be determined. In addition, there may be one Audit Officer from Railway Audit, Defence Audit or P&T Audit for each Regional Training Institute running the relevant refresher or special courses for these disciplines. The Regional Training Institutes may propose core faculty posts accordingly.

To supplement the core faculty, guest faculty may be selected with care by each Regional Training Institute as and when the need arises. Under the existing instructions the guest faculty is to be drawn only from the jurisdiction of each Regional Training Institute. This can be relaxed by the Headquarters depending on the need, on the recommendations of the Regional Advisory Committee.

Necessary action may be taken in the light of these instructions and the receipt of the letter acknowledged.

Hindi version of the letter would follow.

Yours faithfully,

Sd/-

(T.R. KRISHNAMACHARI)

Principal Director (O&M and Training)

Encl:As above

Copy forwarded to All Heads of Offices of the IA&AD for information and such action as may be necessary. The following further instructions may also be noted for suitable action.

1. The induction training and coaching for the various departmental examinations organized by the field offices need to be strengthened and given more practical orientation. It is necessary to build up gradually suitable training aids, materials and infrastructural facilities.
2. Subject to the availability of the facilities, the repeaters of the Section Officers Grade Examination may be permitted to attend again, only the coaching classes held for the main examination.
3. Each Head of Office having cadre control responsibility could have one Training Officer (AO) and in addition one Asstt. Accounts/Audit Officer depending on the training population. Wherever the training posts do not exist, proposals may be sent to the Headquarters.

Sd/-

(T.R. KRISHNAMACHARI)

Principal Director (O&M and Training)

No. 36 50/Trg. Div/HOD/96

Date: 7.3.96

I.P. Singh
Additional Dy. C&AG (Training)

Sub.: In-House Training in Field Offices

Dear Shri

As you may be aware, the headquarters office has been seriously considering a major overhaul of the existing in-service training set up in the IA&AD. The proposed changes in the RTI training structure were intimated to the Heads of all field offices vide DAI's DO letter dated 22 November 1995, wherein off-loading of some of the training programmes presently conducted by the RTIs to the in-house training facilities of the field offices was mooted. Most of the AsG/PDAs have agreed to the proposal. Subsequently, the proposed changes were recommended for adoption in a high level meeting of the senior officers of the department and approved by the C&AG of India.

2. Accordingly it has been decided that the field offices would now play a more active role in training their own staff by organizing regular in-house training courses which would meet their own specific training needs as per their priorities, leaving the RTIs free to conduct fewer but highly value-added training courses on audit methodology and modern auditing techniques.

3. Some of the courses currently being conducted at the RTIs which could be transferred to the in-house training facilities of the field offices are indicated in Annexure A to this letter. The duration of these inhouse courses would be determined by the concerned Head of Office as per actual requirement.

4. For proper phasing in of the inhouse training programmes to be conducted by the field offices, it has been decided that for 1996-97, the Annual Training Calendar for the RTIs will be prepared by Training Division in two parts. The first part of the Training Calendar will comprise training courses to be conducted by RTIs during the first six months i.e. from 1 April to 30 September 1996, as per the existing pattern as already proposed by them.

5. The second part of the Annual Training Calendar for RTIs for the remaining months of 1996-97 would comprise mainly following value-added courses:

- ❖ Training for Trainers
- ❖ Performance Audit
- ❖ Certification audit and system based audit and modern auditing techniques
- ❖ Information Technology (IT) Audit
- ❖ Induction training courses for AOs and SOs

The RTIs would continue to conduct the EDP courses as per the existing pattern, although in the long run it should be possible for the field offices to conduct their own EDP courses.

RTIs may also conduct some other specialized course/seminars/workshops as per requirements of field offices or the needs of client offices.

6. The in-house courses in the field offices would commence from October 1996 (*if any in-house courses are being conducted now these may continue*). All preparatory work relating to the organization of in-house training should be completed within a period of six months by the concerned field offices.

7. It will be essential to institute appropriate measures for ensuring proper planning, implementation and evaluation of the in—house training programmes. Accordingly, you are requested to take, inter-alia the steps indicated in the following paragraphs.

Formation of Training Committee

8. A Departmental Training Committee under your chairmanship and with your group officers as members may be formed immediately which would plan, implement and co-ordinate inhouse training programmes and select trainees for various training courses.

The main tasks of this committee will be:

- ❖ Determining the specific training needs of the office with reference to the annual work plan and the various jobs to be performed by the target groups
- ❖ Drawing up the calendar of in-house training programmes
- ❖ Monitorinthe implementation of in-house training programmes
- ❖ Systematic selection of trainees for inhouse programmes and RTI training programmes
- ❖ Reviewing deployment of trained personnel
- ❖ Evaluating the in-house training programmes as well as the outcome of RTI training programmes and providing feedback to concerned RTIs in this regard

Creation of adequate inhouse training infrastructure

9. You may immediately assess your requirements for creation of adequate infrastructural facilities for conducting in house training, keeping in view the facilities already available and send your specific proposals for the same to Headquarters office at you earliest. No proposals for sanction of additional staff may be sent.

Preparation of the calendar of in house training programmes

10. The newly formed training committee may draw up a calendar for the latter half of 1996–97, with reference to the annual work plan of the office. The in house training programmes should cater to training needs which are specific to the office and while deciding upon the objective, scope and contents of the inhouse training programmes the following aspects may be kept in mind:

- ❖ The job contents of the target group of trainees and the performance standards expected of them
- ❖ Formulation of clearly defined learning objectives for each training programme
- ❖ Relevance of the contents of the training programmes to the work programme of the office
- ❖ Availability of suitable faculty/trainers
- ❖ Adoption of participative methods of training as far as possible
- ❖ Development of training materials /case studies as required

Identifying the trainers

11. The concerned group officer would be overall in-charge of in-house training on subjects relating to the work of his/her group.

The departmental Training Committee should identify the officers at the level of AOs and AAOs who would be associated with in-house training and may be sent for training for trainers courses in RTIs in order to develop expertise in:

- ❖ designing training programmes
- ❖ instructional skills
- ❖ preparation of training material

Selection of trainees

12. The High Level Committee (HLC) on RTIs has recommended that selection and utilization of trainees should be more systematic and there should be advance planning for this purpose. It should also be ensured that all the newly promoted AOs and newly recruited SOs are sent for induction training conducted in the RTIs. While selecting the trainees for the courses in the RTIs and for the future inhouse courses, the criteria for selection should be laid down keeping in mind:

- ❖ their past experience and aptitude
- ❖ their past performance and attitude to work
- ❖ future deployment etc.

Introduction of participative methods of training

13. For the in-house training courses, efforts should be made to introduce participative methods of training to the extent possible and there should be greater emphasis on practical exercises and case studies in order to ensure greater involvement of the trainees.

Joint programmes by smaller offices

14. For various reasons such as lack of infrastructure, faculty, smallness of the target group of trainees etc., some of the smaller offices may find it difficult to organize in-house training to meet all their training needs. Accordingly, the MABs, the PDAs (Railways etc.) may explore the possibilities of combining their resources to jointly organize training programmes on subjects of common interest, under intimation to Headquarters office and for such training, the facilities available at one of the offices or RTIs may be utilized.

15. You may please take action as indicated above and keep me informed about the progress of implementation of the suggested scheme. The first report may be sent by the first week of April positively.

16. Please acknowledge the receipt of this letter.

Yours sincerely,
Sd/-
(I.P. Singh)

3

No. 370/Trg. Div/38-96

Date: 29 June 1998

To
The Principal,
RTI, Mumbai, Ranchi
Shillong, Chennai and Jaipur

Sub.: Preparation of self learning packages

Sir/Madam,

In continuation of Headquarters letter No. 808/Trg. Div/13-97 dated 3.10.1997 I am to invite a reference to Recommendation No. 5 according to which your RTI is to prepare a self learning package on topic(s) specified in the annexure to above letter.

Comptroller and Auditor General of India has desired that the self learning packages should be so designed that the evaluation of the learner is a part of package. Furthermore the evaluation should not merely be an end of learning exercise, but should take place throughout the process of learning. Accordingly the self learning packages which are being prepared by you should incorporate evaluation exercises at different stages of learning.

He is also of the view that LAN could be used for facilitating faculty participant interaction. This may please be done in your RTI.

Yours faithfully,

Sd/-

(MUKESH ARYA)

Principal Director (Training)

DO NO. 371/Trg. Div/38-96 dated 29 June 1998

Copy forwarded to Principal, RTI, Nagpur, Jammu, Allahabad for information & necessary action. They are requested to keep the above in mind for preparing self learning package, if any. They are also requested to use LAN for faculty—participant interaction

Principal Director (Training)

GLOSSARY OF ABBREVIATIONS

APPA	Advanced Professional Programme in Public Administration
CTAC	Central Training Advisory Committee
DoPT	Department of Personnel & Training
EDP	Electronic Data Processing
GASAB	Government Accounting Standards Advisory Board
ICAI	Institute of Chartered Accountants of India
IFS	Indian Foreign Service
IR	International Relations
ISO	International Standards Organisation
ITC	International Training Centre
MSBS	Microsoft Small Business Server
NDC	National Defence College
NIFM	National Institute of Financial Management
NOIDA	New Okhla Industrial Development Authority
O&M	Organisation and Methods
RAC	Regional Advisory Committee
RTC	Regional Training Centre
RTI	Regional Training Institute
TRC	Training Review Committee
UN	United Nations
UPSC	Union Public Service Commission
VFM	Value for Money
VLC	Voucher Level Computerisation

Media Policy

Historically, shyness and aloofness from the media were characteristic of the Audit Department right since Independence even though Media coverage of C&AG's Audit Report was always there in some measure. R.K. Chandrasekharan in his history of C&AG¹ has mentioned about this fact during the time of A.K. Chanda, the second C&AG of independent India. Chanda is stated to have remarked that the media attention and coverage of C&AG's Reports was the healthy trend of the developing parliamentary democracy, which added to the responsibility and need for caution on the part of government auditors. This was the position in nineteen fifties. However, there was no official policy on media interaction for many years. The position considerably changed subsequently and in C&AG Shunglu's time, several instructions were issued on the subject. The position underwent a thorough review during the present C&AG's time and now, not only an official Media Policy is there but a comprehensive Communication Policy too has been issued² very recently to guide the Audit Department's relationship with other major external agencies/ organisations it interacts with, including media.

The objective of this communication policy is 'to ensure rapid and timely dissemination of information regarding the activities of the Department; in particular the results of audit by the C&AG, to the public and the press/ media once the Audit Reports are tabled in the house'.

It now looks bit of a surprise that in the past, the Department never thought of seriously discussing its relationship with media. There is nothing in the documents to explain this approach of 'no media policy'; but, one can, perhaps, say that there was nothing surprising in this approach, because there is a very cogent well

explained reason for keeping a safe distance from media by C&AG. Given his independent constitutional position, it is no wonder that earlier Comptroller & Auditor Generals were somewhat conservative in the matter of interaction with the media since it was always a bit risky. The ruling philosophy in earlier times seemed to be that the C&AG's basic mandate was preparing reports on his audit findings for submission to the President for eventual placement in Parliament/legislature after which, of course, the Audit Reports got suo-moto referred to the PAC/ COPU. These Committees deliberated, discussed, took evidence and gave their findings and recommendations on Audit Reports to the Government for their follow-up action. The C&AG and his officers' job was limited to assisting the PAC and COPU in their discussions of the Audit Report. On the face of it, the process described above was quite in tune with the mandate of the C&AG and in this scheme of things, obviously any policy on media relationship did not exist. There was no doubt merit in the logic that C&AG's job ended with the tabling of the Audit Report in the House. It can be argued that the accessibility of the audit findings to public at large, to whom essentially the bureaucracy and the politicians are eventually accountable, is taken care of by the fact that once an audit report is placed in the House it becomes a public document available to any one and, of course, to the media. And the fact is media used to cover audit findings.

But over the years, it was becoming apparent that the audit findings really did not reach the larger public because the media or the press mostly covered the audit reports in a sketchy manner, if at all, except for their occasional enthusiasm for some odd audit findings that made news for them.

It was also being realised that the PAC/ COPU had severe time constraints to discuss and deliberate and make recommendations on most of the paragraphs of the Audit Report.

And above all, the response of the executive to the audit paras or even to the recommendations of PAC/COPU (atleast in the States) was found to be quite lukewarm.

In these circumstances, the question of wider dissemination of audit report findings to public at large through media (and any other means) was of great relevance to the C&AG. And this called for a proper evaluation of C&AG's Media Policy. Such an exercise was carried out exhaustively in the time of present C&AG Kaul who was also prompted by the recommendations made by NAO Consultants to the effect that 'The IAAD should develop a strategy

for external relations that will identify a number of key messages that it wishes to get across and the means of delivering those messages. The strategy should include a sub-strategy for dealing with the media³.

PRESS BRIEFS

Despite no comprehensive formal media policy in place, in the department it had realized the important role that Media could play in the dissemination of Audit Report findings to the larger public. Hence, the importance of giving press a proper 'Brief', highlighting important findings of the Audit Reports was realised very early and the system of issue of 'Press Brief' or 'Press Note', existed in the Department from very early days—in some offices from nineteen seventies but on a formal footing since 1986. These 'Press Briefs' were given to the secretariat of the PAC, which would release them to the press on the day the Audit Reports were tabled in the House. These Press Briefs were approved by the C&AG along with the concerned Audit Report. From the year 1988, a broad summary of the important audit findings and observations was incorporated in an 'Overview' at the beginning of the Report. As a logical corollary, it was decided⁴ in 1988 that the Press Brief should be based on this Overview and since the 'Overview' had already been approved by C&AG as part of Audit Report material, there was no further need for any approval of the Press Brief from Headquarters by State Accountants General. The key emphasis was that the Press Brief should be prepared strictly on the basis of the Overview.

In August 1999, it was decided that the 'Press Brief' (which was based on 'Overview' of Audit Report) would be sent to the various stakeholders along with a copy of Brochure⁵ on Audit Report. These were not meant for formal presentation to the Legislature but were to be circulated to the members of Legislature after tabling of the Audit Report. The Brochure was also sent to the Executive and many other stakeholders including the editors or the regional representatives of newspapers through a DO letter after the Audit Reports were tabled in the House. The document was also sent to the national dailies, leading magazines and to editors of local newspapers as also to news editors of local and national TV news channels.

PRESS CONFERENCE/ INTERVIEW

Generally no formal press conference was to be held by the Accountants General after tabling of the Audit Report in the Legislature. However, some Accountants General did invite the press for an informal chat and clarifications, if any, needed by them on the basis of Press Brief that had been given to them already. The question of holding a formal press conference with the media was taken up in the XIX Conference of Accountants General held in November 1996. The Conference recommended that the Accountants General may call for a press conference after the Audit Report is tabled to apprise the media about the highlights of the Report. It also suggested that Accountants General could also arrange for a panel discussion on television on the topics not selected by PAC/ COPU.

On a review of these recommendations by the C&AG Shunglu, it was decided (August 1997) that Accountants General should not hold press conference as a matter of routine. Holding a panel discussion on television was ruled out. The decision, however, allowed Accountants General to brief the press under exceptional circumstances (not defined) but after obtaining prior clearance for the same from the concerned Deputy Comptroller & Auditor General / Addl. Dy. Comptroller & Auditor General. These decisions were conveyed to field offices in August 1997. These orders, however, did allow the Pr. Accountant Generals/ Accountants General to entertain the individual reporters/ editors who seek any clarification, etc. after the laying of the Audit Report 'on informal basis' and no formal press conference was to be held in any case.

In yet another review of the matter in 2004, it was decided that Pr. Accountants General could call a press conference to apprise the media of the highlights of the audit reports, immediately after the tabling of the reports. It was also enjoined that other Accountants General posted at the station should also be present on the occasion. The instructions, however, elaborated very clearly that comments on policies and discussions on Chapter-I of the Audit Report on matters relating to financial management of the government were to be strictly avoided.

A thorough review of the existing orders on the policy on interaction with the media was done in January 2005, which resulted in the issue of 'Media Policy' for the Indian Audit & Accounts Department on January 13, 2005. The media policy essentially dealt⁶

with the procedure to be adopted at Headquarters and in field offices in their dealings with the print/ electronic media.

As regards interaction with the media, the policy stated that at Headquarters office, the C&AG was the nodal officer, and in his absence the senior most Dy. C&AG, would interact with the media:

- ❖ on a specific request from the media;
- ❖ for dissemination of information to the media; and
- ❖ for issuing clarifications, if any, needed by the media.

Pr. Accountant Generals/ Accountants General (Audit) were the designated officers to deal with the media on similar lines in the field. They were required to keep the Headquarters office informed of the developments.

It was reiterated that no regular press brief or conference was to be held by any officer other than the C&AG in Headquarters. In the States, press conference by Pr. Accountant General/ Accountant General for the respective States could be held after obtaining prior approval from the C&AG. An important development was that Media Advisor was required to be associated with Accountant General's press conference as far as possible. In fact, as a result of this order the Media Advisor was associated with the Accountants General for their press conference in Mumbai, Goa and Guwahati during the year 2005–06.

But press conferences have led to some risks as the case below would highlight:

A writ petition was filed in the High Court at Madras in 2004 against the C&AG and his AG, Tamil Nadu by a member of Rajya Sabha who was also leader of All India Anna Dravida Munnetra Kazhagam Parliamentary party. The petitioner made the complaint⁷ against the C&AG/ the AG (Audit), Tamil Nadu for calling a press/ media conference and giving a brief to the press criticising the State Government as if the Chief Minister of the State was responsible for a loss of several crores during 2001–02 and 2003–04'. The petitioner also alleged that the AG (Audit), Tamil Nadu, by holding press conference infringed the privilege of the Tamil Nadu Legislative Assembly. The allegations were denied by the C&AG/ the AG Tamil Nadu. The Honourable Judges while dismissing the writ petition, had a word of advice for the petitioner. The judgment said that his making untenable allegations against the AG, Tamil Nadu in a vituperative language without any basis, did not sound well. This should have been avoided. The

Honourable Judge was not impressed with the Petitioner rushing to the court without approaching the C&AG or the AG, Tamil Nadu in the matter of giving a press statement supposedly criticising the State Government. He observed that it was clear that impressions gained by the petitioner were imaginary and illusory as also clearly stated in the counter affidavits of the C&AG. The judge was of the view that the petitioner ought to have availed of other remedies before approaching the court.

He had a word of advice for the AG (Audit), Tamil Nadu too and the judgment said 'the statement made by the AG (Audit), Tamil Nadu to the press in pursuance of the instructions given by the first respondent (C&AG) giving the particulars criticising the functioning of the Government in such a way which facilitated the opposite political parties to use the same as weapon to attack the Government does not augur well. This also should have been avoided'.

The lesson that is clear from this judgement is that while the Accountant General has a right to hold a press conference to disseminate the information given in the Audit Report of the concerned State, he should be factual in his presentation and should not make any comments or qualitative statements on policy etc. Similarly, he should not criticise the Government functioning nor discuss the economic achievements or financial performance of the State Government. Keeping these in view, the C&AG issued detailed guidelines for holding press conferences in March 2006.

GUIDELINES ON HOLDING OF PRESS CONFERENCE BY OFFICERS OF IA&AD

In March 2006, in supersession of all previous instructions on the subject, the Headquarters. prescribed fresh guidelines for interface with media.

These guidelines included instructions such as holding of press conference by the designated officers only immediately after the presentation of Audit Reports. The venue of the Press Conferences could be either within the Parliament House or State Legislature or the offices of the IA&AD. It was emphasised that designated officers should, in the beginning of the press conference, invite attention to the provisions of Article 151 of the Constitution under which C&AG submits his Audit Report to President or the Governor and also mention that his Reports are discussed by PAC in the case of Reports relating to other than public sector undertakings and by COPU in case of Reports relating to public sector undertakings. The guidelines were emphatic that no comments

directly or indirectly should be made during the press briefing on the functioning of the Committees of Parliament/ State Legislature including the factual position about selection/ discussion and issue of Audit Reports, etc. The press conference was to be confined to the dissemination of the contents in tabled Audit Reports and for this purpose, a press brief shall be prepared and specific approval from the controlling DAI/ ADAI obtained. The press brief contents should, as far as possible, be, as per the 'Overview'; and if 'Overview' is not intended to be used as press brief, specific approval of the Headquarters should be obtained.

It also enjoined that care should be taken during the Press Conference to ensure that the statements were factual and confined to what had been stated in the Audit Reports. No opinion on the Government and its policies were to be given during the Press Conference. It also stated that press brief should be non-partisan and without any political slant or comment. There should be no reference to the names of the executive authorities involved in the transactions included in the Audit Reports. One of the important instructions was that matters included in Chapter-I of the State Audit Reports and Chapters in Report No.I on the accounts of Union Government containing overview of accounts shall not be discussed in such conference except factual information given in various paragraphs therein.

Regarding press briefs on the Union Audit Reports, these are to be conducted by report controlling DAI/ ADAI and the DG (Audit) is to be kept informed of the schedule for presentation of Audit Reports and date and time of press conference. It was also suggested that assistance of OSD (Communication policy) and Media Advisor may be obtained by the DAI/ ADAI if required by him. Regarding press brief on State Audit Reports, the Principal Accountants General are to preside over the press conference as the designated officer and all other Accountants General are to be present at the State level press conference and are to 'independently clarify' matters relating to their Audit Reports. In other States, the Accountants General incharge of Audit were to hold the press conference. The instructions also enjoined that the Principal Accountants General and Accountants General to make it convenient to be present in their Headquarters for press conference on the day of the presentation of Audit Reports relating to State Government. In exceptional circumstances, if AG could not be present specific approval of the report controlling ADAI would be obtained who may approve alternate arrangements.

RECENT DEVELOPMENTS IN STRENGTHENING THE MEDIA WING

Some of the notable developments in strengthening the media wing at the Headquarters have been:

- (i) appointment of a Media Advisor at Headquarters; and
- (ii) creation of a post of OSD (Communication Policy)

In addition, there are designated officers of the Department to deal with the media. The XIX Conference of Accountants General in November 1996 had suggested that there should be a PRO at Headquarters to act as interface between the media and the department. This was given shape in November 2004 when a Media Advisor was appointed from one of the retired Indian Information Service officers. The Media Advisor joined in November 2004 and is now the Principal Advisor on Media Policy to the C&AG. Amongst the various functions entrusted to Media Advisor are:

- ❖ to act as a focal point to process all media requests for formal interviews (except those coming directly to the C&AG). He will be the C&AG's interface with the media and after consultations with Senior officers arrange suitable replies to the queries from the Media;
- ❖ to be associated with AG's press conferences as far as possible;
- ❖ to arrange all press meets for the C&AG along with Director (P). In the States, the Accountants General will arrange the press meets;
- ❖ to keep information of the activities of various departments. To this purpose, Heads of the Departments upto the level of DGs/PDs, will provide him with suitable calendar of forthcoming events, backgrounds, agenda notes and recommendations of any conference/ seminar which they deem fit to be disseminated to the media;
- ❖ to be a part of all conferences participated by C&AG as far as possible;
- ❖ to be given tabled Reports from all the wings; and
- ❖ to coordinate with Senior Administrative Officer Incharge, PPU Section in Director General (Audit) regarding feedback on reports published/ telecast or broadcast in the media on C&AG's activities/ Audit Reports, etc.

The other development was the creation of a post of Director General and Officer on Special Duty (Communication Policy) to coordinate all activities relating to the media. This officer also drafted a comprehensive Communication Policy for the Indian Audit & Accounts Department. The Communication Policy as approved by C&AG, was issued for the use of Department in 2007.

The foregoing developments have streamlined the Audit—Media relationship in a formal manner and, as a result, Department's interaction with the media has grown considerably during the period of the present C&AG. In many ways, this could be considered a welcome step. For one, it has facilitated the Department to be more open and accessible to the general public via media and, in the process, it has helped in wider dissemination of audit findings. In 2004, two special interviews were held by the senior journalists with Comptroller & Auditor General. From January 2005 when the media policy was formalised, the C&AG has personally interacted with senior journalists on several occasions. During 2005, the C&AG gave four special interviews to the senior journalists of leading newspapers. In September 2005 the C&AG gave interviews to Doordarshan and All India Radio. Besides, the C&AG also interacted with the media during the coverage of various functions/ activities like Accountants General's Conference which were widely covered by Doordarshan, All India Radio and several newspapers. Besides, media also interacted freely with the senior officers of the Department in March 2006 and May 2006 after the presentation of Central Report to the Parliament. Two more press conferences were held in August 2006 for the same purpose. Press conferences were also held by various Pr. Accountants General/ Accountants General in the States. These included Pr. Accountants General/ Accountants General, Chennai, Rajasthan, Andhra Pradesh and Assam in 2004, Assam and Goa in 2005 and Pr. Accountant General, Andhra Pradesh in 2006.

An important consequence of increased C&AG—media interaction is that journalists are using C&AG reports as important source of information and quoting these extensively in their reports/ articles. Since January 2007, 551 clippings on different C&AG Audit Reports and issues connected with them were identified by the media advisor. Similarly in the States, nearly 76 clippings from selected newspapers were identified.

Using C&AG's Audit Reports as a source offers unique advantages since these Reports contain a wealth of information, authentic data and massive but very objective analysis on important

development schemes, programmes, etc. and also on individual transactions. In fact, C&AG Reports can be a gold mine for the newspaper journalists and TV media persons.

Besides the press conferences, C&AG's office is now issuing a number of press releases on the activities of the C&AG. In 2004, five such press releases were issued. In 2005, the number went upto 14 press releases and in 2006, this number was 31. Overall, therefore, it is a quantum jump as far as interaction with the media is concerned over the past years.

Apart from viewing the C&AG—Media relationship from the angle of facilitating the dissemination of the important audit observations made in the C&AG's Audit Reports, there is another aspect to this relationship which needs elaboration. This aspect of C&AG—Media relationship concerns the views of the C&AG regarding going to media when he is faced with somewhat hostile and personal comments and comments on his audit jurisdiction and authority from politicians or others. Generally, such hostile comments are made in the case of Audit Reports which generate often for wrong reasons, a political debate which also includes personal attack and a general criticism of the institution of the C&AG by some politicians. Three such instances easily come to mind for the period covered in this book. The first one was the C&AG's Report on the Bofors deal which was presented in the Parliament on July 18, 1989 and which generated a kind of storm and strong reactions from the opposition as well as the ruling party, unusual till then on an Audit Report. What happened after the presentation of this Report, was equally unusual. First, the Report, which is normally not discussed in the House but is automatically transmitted to the PAC for their deliberations and recommendations, was discussed in the full House on the demand of the Opposition. Two, the debate in the Parliament, was as expected totally on party lines but sadly, the kind of language and the remarks used in criticising the report and in launching personal criticism of the then C&AG were something that stunned many sensible persons.

The media however gave unequivocal support to the C&AG and came down heavily on the critics. All the leading newspapers came out with editorials on his issue.

This was an occasion when C&AG had two choices: (i) just to keep quiet despite the malicious and wrong tirade launched against his Department or, (ii) he could go to the public via the media to clarify the matter. Generally, C&AGs are shy of going to the press

for such clarifications. In this case, however, the C&AG decided to give his view point via the media in the form of various interviews through leading newspapers. R.K. Chandrasekharan in his book has, in his unique style, described it as follows:

'...there was a slight shift in the earlier conventional self effacing practice – like the ostrich burying its head under the sand, even when attacked virulently by vested interests or affected Departments/ Ministries/ Governments. With his long and mature experience in Administration, and later Audit, Shri T.N. Chaturvedi, in his own dignified, pragmatic, and suave but firm manner defended the institution and the Reports presented by him, which added lustre and goodwill to the SAI. Viewed from all angles, it was a healthy development, which not only helped the C&AG to vindicate himself against the blitz of orchestrated propaganda and negative publicity but also added a new dimension to Government Audit, as professed and practiced in India without stooping to seek it...'⁸

This was an exception to the general practice in the Department. In fact, two subsequent events will testify to this. In the case of C&AG's Report on Review of Procurement for OP Vijay (Army) (Kargil Operations) presented to the House in December 2001 there was an outburst in the media and among the politicians. The opposition was trying to make political capital out of it and the media was vehemently criticising the Government on the findings of the Report. Fortunately, this time the Report was not discussed in the House but, as is the practice, was referred to the Public Accounts Committee. However, the then Defence Minister launched a frontal attack on the C&AG inside the House and outside. Not only this, a private individual claiming to be a journalist brought out a small booklet for which all assistance was provided by the Defence Ministry. In this booklet, the author⁹, summarily dismissed all the findings of the C&AG. The Report, which was devoted to the purchase of Aluminium Caskets in the C&AG's Report¹⁰ was also sent by the Defence Ministry to the MPs—a rather unusual step that did not escape PAC's notice. The redeeming feature was that the PAC took an exception to this and the then Chairman spoke very strongly against these practices of the Defence Ministry.

And yet despite these happenings, the then C&AG V.K. Shunglu chose not to go to the press in his own defence or in the defence of the Audit Report. He was categorical that his job was to send his Report to the President who got it placed in the Parliament from where it gets suo-moto referred to the PAC, which

is the final authority to decide on the merits or demerits of the Report and make suitable recommendations to the Government.

The third instance is of a more recent time, in fact, in the time of the present C&AG V.N. Kaul. The report¹¹ in question was on sale of the Centaur Hotels in Mumbai that was placed in Parliament in May 2005 and another report¹² on disinvestment in 9 PSUs placed in Parliament in August 2006.

The Financial Express in its editorial of 9 May 2005 commenting on the Report regarding sale of Centaur Hotel, Mumbai gave a tribute to the C&AG for his work. It said 'In the backdrop of the steady debasement of our institutions witnessed in the past few years, it is heartening to have a few like the office of the Comptroller & Auditor General (C&AG) that continue to do us proud. Over the years, C&AG's Reports have, time and again, exposed the rot in the system. The latest report, tabled in Parliament on Friday, is no exception'. Similarly, the Times of India in their edition of 20 May 2005 carried¹³ an analysis of the C&AG report and Government's reaction on the sale of two Centaur Hotels in Mumbai and made the substantive point that 'would all the original bidders for this property have walked out of the bidding process—leaving the field wide open for one player—if they knew they would be granted at least three extensions of the deadline for payment and the Disinvestment Ministry and the Minister would persuade a consortium of public sector banks to loan funds to facilitate the purchase?'

The Audit Report of the C&AG on Centaur Hotel generated considerable media coverage and invited adverse comments from the then Disinvestment Minister, Arun Shourie and his Cabinet colleague Arun Jaitely. Arun Shourie defended his action by writing an article in a newspaper rebutting C&AG's observations point-wise, and even described the methodology adopted by the C&AG of computing notional losses as 'idiotic'. Despite these, the C&AG kept silent and did not issue any rejoinder to the outburst of Shourie. This was in keeping with the long tradition of the Department not to react to such remarks made by the ministers or politicians or MPs on the C&AG's report.

The media, of course, over the years, has started giving much more coverage to Audit Report findings. Media had always been active in picking up any incident or event that significantly affected the C&AG.

MEDIA COVERAGE OF C&AG's AUDIT REPORTS

There is a visible increase in the media coverage of C&AG's report or audit related matters after the steps taken by C&AG Kaul to refurbish the media—C&AG interaction process within the Audit Department. The increased media coverage is also an outcome of the creation of a communication policy cell, specially the posting of a Media Advisor in the Department to oversee and coordinate media related activities. An important point in this connection is the emphasis by Department that it is not merely a faultfinding agency but its more important role is promoting good governance. The Audit Reports are better geared towards this approach. It is important to convey this message as Audit is mostly projected as a fault-finding agency. The message that has gone now from the C&AG is that while looking into the irregularities, wastages etc. is an important function of C&AG, he is also, simultaneously a constructive critic who not only diagnoses the shortcomings but also offers good suggestions to remedy the things.

Some of the important Audit Reports findings and other important matters connected with audit that received prominent attention in the media in the recent past are mentioned below.

- ❖ C&AG's report on the sale of two Centaur Hotels hogged the limelight in the press after the audit report was placed in the Parliament in May 2005 with Arun Shourie running a tirade against C&AG in the press. But the media highly commended the C&AG report as revealed through their reporting and in their editorials.
- ❖ C&AG in his review report on 'Excise Duty on Motor Vehicles for Transport of Persons and Goods (Report No. 11 of 2005)—Indirect Taxes—Central Excise & Service Tax' was again widely covered because the central point of the audit was that benefit of reduction in excise duty was not fully passed on to the consumers which resulted in about 38 per cent of revenue foregone being retained by the manufacturers. This item was prominently reported by the Pioneer and the Financial Express.

Another Report that attracted media attention on C&AG Reports in 2005 was Avoidable Expenditure on creation of the office of the Ambassador-at-large for Non-Resident Indians and Persons of Indian Origin in New York. Findings on Defence purchases also attracted good deal of attention of the press.

Some of the more prominent Audit Reports and audit related matters that attracted media attention in the earlier times were:

- ❖ Review on Public Debt in C&AG's Audit Report on Union Government (Civil) in 1994. There were editorials in leading economic newspapers.
- ❖ Report on Bofors Guns Purchase in C&AG's Report on Defence Services in 1989. In this case, while the media covered the audit report findings but more space and attention of media was given to the wide reaction, often adverse, to the audit para by some MPs and even the Minister.
- ❖ More recently, C&AG's Report on 'Review of Procurement for OP Vijay (Army)' attracted lot of coverage from media.

What is Audit Department's current policy regarding reaction if a newspaper carries an erroneous and factually incorrect report concerning Audit Department? In this context, a case that happened in February 2005 gives the answer. The newspaper 'Hitavada' Nagpur edition in its issue of February 16, 2005 (in 'Cityline') published a news item with the heading 'Even AG Spares Political Big Shots' concerning irregularities committed by the Nagpur Improvement Trust where the paper cast a doubt on the role of AG (Audit), Nagpur vis-à-vis 'the political big wigs' allegedly favoured by the Improvement Trust. When the AG saw this item, he was furious because, not only the facts in the news item were all wrong as far as AG's role was concerned, the correspondent had not checked up with the AG about these facts before writing the column. The AG therefore, wrote to the C&AG office giving the facts and seeking permission for a press release to clear the matter. The Headquarters advised him to issue a rejoinder to the news item. AG therefore, issued a rejoinder, which was duly published by the paper 'Hitavada'.

This instance of press reporting falls in the category of 'irresponsible reporting' because the paper did not take the views of the concerned authorities commented upon and the fact that whatever was alleged in the report about the AG was factually incorrect. Fortunately, this was an odd case and there are not many cases like this.

NEW COMMUNICATION POLICY

The new Communication Policy sets out its objectives as follows:

- ❖ create awareness about the role, vision and mission of the IA&AD;
- ❖ create awareness about the impact and influence of Audit on good governance;
- ❖ convey in a timely manner facts contained in the Audit Reports tabled in the legislatures and highlight important audit findings; and
- ❖ indicate that Audit is responsive to meeting the diverse information needs of the stakeholders in a transparent, objective and timely manner.

It has further laid down the following guiding principles for the IA&AD's Communication Policy:

- ❖ that all communication is consistent with the vision, mission and guiding principles of the IA&AD;
- ❖ that all communication is complete, reliable, accurate, clear, candid and easy to understand;
- ❖ that Audit is accessible to the stakeholders and there are effective and clear communication channels for publicising the substance of the Audit Reports, and the services rendered to the government servants by way of authorizing pensions and maintaining their provident fund accounts;
- ❖ that guidelines are available for dealing with or responding to special or emergent situations;
- ❖ that all communication is fact based, non-partisan, objective, fair, non-ideological and balanced;
- ❖ that up to date information about the Department is available at all times on the website of the Department.

NOTES: CHAPTER-19

¹ R.K. Chandrasekharan (1990) The Comptroller & Auditor General of India Analytical History 1947–1989 (New Delhi, Ashish Publishing House) Vol. I

² Compendium titled 'External Communication Policy of the IA&AD' (For Departmental Use) May 2007.

³ Paragraph 11 of Summary of conclusions and recommendations (serial no. 5) of the report by National Audit Office of the UK, January 2003

⁴ C&AG's General Circular No. 25-Rep(S)/88 issued vide No. 1321-Rep(S)/97-87 dated 30 November 1988.

⁵ Brochures were introduced from the year 1997 containing brief summary of more important audit findings and have an attractive format and are drafted in a more userfriendly and attractive language.

⁶ C&AG's office letter No. 180/Con/Med/01/04 dated 13 January 2005

⁷ Writ Petition No. 23408 of 2004 and Writ Petition No. 28349 of 2004

⁸ R.K. Chandrasekharan, op. cit. Volume I, page 345.

⁹ R.V. Pandit

¹⁰ Para 4.12, page 13 of C&AG's Report for the year ended March 2001 No. 7A of 2001 Union Government (Defence Services)

¹¹ Paragraph 7.1 of Report No. 2 of 2005, Union Government (Civil)

¹² Audit Report No. 17 of 2006, Union Government (Civil) Performance Audit

¹³ Editorial by Paranjoy Guha Thakurta in Times of India dated 20 May 2005 captioned 'C&AG raises issues of valuation, procedure'

LIST OF KEY EVENTS

- 30 November 1988 Instructions were issued to all State AsG (Audit) that press briefs should be prepared strictly based on the overview and approval of Headquarters for such a brief was not required.
- 5 August 1997 DG (Audit) issued instructions that only under exceptional circumstances AsG should brief the press after approval of DAI/ADAI concerned.
- 5 August 1999 Principal AsG/AsG were asked to send press brief along with a copy of Brochure and the Audit Report (s) through a DO Letter to Editors or regional representative of news papers, PIB and Secretary Legislature. Press Conference not to be held.
- 13 November 2003 DG (Audit) issued instructions that all press notices/ releases issued from Headquarters should be approved by C&AG.
- 24 February 2004 DG (Audit) issued instructions that Pr. AsG may hold press Conference after tabling of Audit Reports in presence of other AsG of the State. Comment on policy and discussion on Chapter-I was to be strictly avoided.
- 9 July 2004 DG (Audit) issued instructions that press notes issued from Headquarters on the highlights of Audit Reports may be cleared by the concerned DAI/ADAI and copy may be endorsed to Secretary to C&AG.
- 13 January 2005 Broad framework of media policy communicated by PD (Staff). A media advisor appointed.
- 8 September 2005 Media Policy reiterated by PD(Staff) for greater compliance in future.
- 16 March 2006 General Guidelines and guidelines for press briefs for the Union Audit Reports and State Audit Reports for interface with media were issued by DG (Audit).

DOCUMENTS

1

DO. No. 472-Audit (MOM) 217-97OP

Date – 5/8/1997

Sub.: Reporting cases of fraud and 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.

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 Accountant 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 individual 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.

Reference is also invited to item No. 3.1.6 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 30 November, 1988 will continue.

With regards,

Yours sincerely,
SD/-
(Sudha Rajagopalan)

2

No. 180/Con/Med/01/04

Dated: 13 January, 2005

Sub.: Media Policy for Indian Audit & Accounts Department

Of late, a need was felt to devise a proper media policy to interact with the print or the electronic media and dissemination of information to the masses in a positive manner regarding the activities of the Comptroller & Auditor General of India. A Media Advisor has since joined the headquarters office. A broad framework media policy, is given hereunder for compliance.

1. The C&AG will be the nodal officer, or in his absence, the senior most DAI, to interact with the media on (i) specific requests from the media, (ii) dissemination of information to the media considered largely essential for mass consumption and (iii) issuing clarifications, if any needed to remove distortions or misrepresentation of facts by the media or an individual or a group. Media Advisor will handle this work under the direct supervision of the C&AG/ DAI in close coordination with their Secretaries/Personal Staff.
2. Media Advisor will act as a focal point to process all media requests for formal interviews, except those coming directly to the C&AG. He will be the C&AG's interface before the media and after consultations with the senior officers arrange suitable replies to the queries from the media.
3. No press release/press note or a formal reply will be issued to the media without the express approval of the C&AG. It will apply even if the C&AG is abroad or on tour. After approval, the press notes/releases will be faxed/e-mailed/dispatched through special messengers to local media offices through normal channels.
4. No regular press meet/press conference will be held by any officer other than the C&AG and in case of a state by the AGs for their respective states after obtaining approval from the C&AG. Media Advisor should be associated with AG Press Conferences as far as possible.
5. The frequency of the regular press meet/press conference could be one a year after presentation of bulk report to Parliament /state legislatures, highlighting the main aspects of the report. If necessary C&AG may hold regular press meet more than once a year. All such press meets for the C&AG will be organized by the Media Advisor and Director (P) and for the AG's by the AG's themselves.
6. Departmental Heads upto the level of DGs /Principal Directors will keep the Media Advisor informed of the activities of their departments. They will provide him with suitable calendar of forthcoming events,

- backgrounders, agenda notes and recommendations of a Conference / Seminar which they deem fit to be disseminated to the media.
7. Media Adviser will be part of all conferences participated by the C&AG, as far as possible.
 8. Media Adviser will be given tabled reports from all wings.
 9. Accountants General will keep the C&AG informed of the media developments in their states and e-mail/fax copies of any media reports published/telecast in local media relating to their/C&AG functions or regarding state reports.
 10. The Sr. A.O. Incharge of the Section in the DG (Audit) wing will coordinate with the Media Adviser regarding feedback on reports published/telecast or broadcast in the media on C&AG activities/reports.
 11. The landline office telephone number of Media Adviser is 23230834 and PABX Extension No. 211.

Sd/-
(P.J Mathew)
Principal Director (Staff)

To
All DAIs/ADAI's/DGs/Eco Advisor
/Pr. Ds/ All AGs Directors/
Secretary to C&AG/PPS to C&AG/
All Dy. Directors at headquarters
Media Adviser

3

Office of the Comptroller and
Auditor General of India
Date: 16 March 2006

To

1. All Directors General/Pr. AsG/AsG (Audit) by name
2. All Pr. Accountants General/Accountants General (A&E) Offices.
(As per mailing list)

Sub.: Media Policy—Holding of press Conference by the officers of IA&AD
Sir/Madam,

The Media Policy of IA&AD is intended to facilitate dissemination of the information contained in the Audit Reports of Comptroller and Auditor General of India to the Parliament and State Legislatures. The matter regarding consolidation of the instructions relating to the media policy has been under consideration for some time. In supersession of all previous instructions on the subject, following guidelines are prescribed for interface with media. A comprehensive Communication Policy, integrating the Media Policy is separately under consideration.

(A)General

- (i) The press conference shall be held by the designated officers immediately after the presentation of each Audit Report in the Parliament/State Legislature. All press conferences so organized shall be Report specific for Central Reports and State specific for State Reports.
- (ii) The press conference may be held either within the Parliament House/State Legislature, after following the prescribed administrative procedures for holding of press conference by Government officers in Parliament House/State Legislature, or in the offices of IA&AD.
- (iii) The designated officers shall announce at the outset in the media briefing that in accordance with the provision of Article 151 of the Constitution of India, C&AG submits his Audit Reports to the President or Governor, as the case may be, for being laid on the Table of the Parliamentary/State Legislatures in respect of matters arising out of the audit of Union Government and State Governments respectively.
- (iv) Together with the above, it shall also be stated at the beginning that as per the procedure, the Audit Reports of Comptroller and Auditor General of India to the Parliament/ state Legislature relating to expenditure and revenue from the consolidated Fund of the Union or of the States stand referred to the respective Public Accounts Committee. The reports in relation to Public Sector Undertakings stand referred to Committee on Public Undertakings. The Committees examine the Reports of Comptroller and Auditor General of India and issue recommendations for remedial action by the Government.
- (v) Care shall be taken to ensure that no comments, directly or indirectly, are made during the press briefing on the functioning of the Committees of the Parliament/State Legislature, including the factual position about selection/discussion and issue of Reports which should be obtained by the press from the Secretariat at the various Parliamentary/Legislative Committees. The media may be advised to seek clarifications on these issues from the Parliament/ State Legislative Secretariat.
- (vi) The press conference shall be limited to conveying the contents of the tabled Audit Reports. For this purpose a press brief shall be sent for prior approval by the report controlling DAI/ADAI and specific approval to the press brief obtained. The overview, to the extent possible, may be utilized for the press brief. However, where it is not intended to utilize the overview as press brief, specific approval of the Headquarters shall be obtained. Where considered necessary, the report controlling groups may send the press brief to Director General (Audit) for vetting before putting up to DAI/ADAI.
- (vii) The report controlling wings shall send a copy of the approved Report to DG (Audit) as soon as the Reports are placed on the Table

- of the Parliament/State Legislature, indicating the date on which the Report is placed on Table of the Parliament/State Legislature.
- (viii) The designated officers holding the press conference may send a copy of the approved press brief to the editors of newspapers and other sources of media along with the information regarding the date of presentation of the Report to the Parliament/State Legislature. They may also circulate copies of the press brief on the spot to media persons attending the press conference.
 - (ix) The designated officers may seek advice and clarifications from DG (Audit) in the Headquarters office.
 - (x) Care shall be taken during the press Conference to ensure that the statements are factual and are confined to what has been stated in the audit Reports. No opinion on the government and its policies shall be given during the press conference. The press brief shall confine itself to the issues of compliance, waste, fraud and performance of programmes/projects/schemes etc. as brought out in the Audit Reports. The press briefing is an occasion for conveying factual information and removing ambiguity on issues/ findings included in the Audit Reports.
 - (xi) The press brief shall be non-partisan and without any political slant or comment.
 - (xii) No reference to the names of the executive authorities involved in transactions in Audit Reports shall be made in the press conference, as such authorities do not have an opportunity to defend themselves at the time.
 - (xiii) The matters included in Chapter I of the State Audit Reports, or the chapters in Report No. 1 on the accounts of the Union Government containing overview of accounts shall not be discussed, except highlighting factual information in the various paragraphs. In case media persons seek clarification or elaboration on the issues discussed in these chapters, it may be provided without attribution.
 - (xiv) These instructions apply to both print and audio-visual media. Participation in any panel discussion on Audit Reports or on issues relating to audit practices and their effects shall require prior approval of the Headquarters.

(B) Press brief on the Union Audit Reports

- (xv) The press briefing for Audit Reports, relating to the Union Government shall be conducted by the report controlling DAI/ADAI, who may take assistance of Directors General/Principal Directors at his /her discretion.
- (xvi) DG (Audit) may be kept informed of the schedule for presentation of the Audit Reports and of the date and time of the press conference. Assistance of OSD (Communication Policy) and Media Adviser may be obtained by the DAI/ADAI in charge of the concerned Report, if required by him.

(C) Press brief on State Audit Reports

- (xvii) The Principal Accountants General shall preside over the press conference for the States as the designated officer, where the senior most representative of IAAD in charge of audit of the accounts of the State Government is of the rank of Principal Accountant General. However, all other Accountants General shall be present at the State level press conference and shall independently clarify matters relating to their Audit Reports. In other States, the Accountant General in charge of audit shall hold the press conference.
- (xviii) The Principal Accountant General and the Accountant General shall make it convenient to be present in their headquarters for a press conference on the day of the presentation of the Audit Reports relating to the State Government. Any deviation in exceptional circumstances shall have specific approval of the report controlling ADAI, who may approve an alternative arrangement.

Please acknowledge receipt.

Yours faithfully,
Sd/-

(A.K. Thakur)
Director General (Audit)

Copy to:-

1. All Officers in Headquarters office
2. Secy. To CA&AG.

GLOSSARY OF ABBREVIATIONS

COPU	Committee on Public Undertakings
Dir. (P)	Director (Personnel)
MPs	Members of Parliament
OSD	Officer on Special Duty
PRO	Public Relations Officer
PSUs	Public Sector Undertakings

International Relations

Post 1990s, one of the most important developments that took place concerning SAI-India, was its opening up internationally in a big way. It coincided with the globalization initiatives through which country's economy was passing following the famous 1991 liberalization reforms. SAI-India established itself as a big trainer, it entered into International auditing by becoming a member of UN Board of Auditors, its role and involvement in INTOSAI and ASOSAI became much more prominent. It entered into a number of fruitful and active MOUs of mutual benefit with a number of SAIs. In short, it acquired a formidable reputation in the global set up of SAIs.

A separate O&M Division was setup at HQrs Office on the recommendation made in Accountants General's Conference held in July 1978. The O&M Division at that time was also responsible for all works relating to INTOSAI, ASOSAI and Conferences of the Commonwealth Auditors General, liaison with other Supreme Audit Institutions (SAI) and International Agencies concerned with the Government auditing and accounting.

In April 1990, a separate Division named Policy, Planning, Research and Evaluation (PPRE) was created and in June 1991 the work relating to ASOSAI, INTOSAI and International Relations on Audit were transferred to this Division. In 1993, International Relations Division was established as Research & International Relations Division (RIR). In 2002, with the transfer of research functions to Principal Director (Training, Research and IT Audit), the name of RIR changed to International Relations Division (IR).

The activities of IR Division relate to:

- (i) All matters related to International Organization of Supreme Audit Institutions (INTOSAI).

- (ii) All matters related to Asian Organization of Supreme Audit Institutions (ASOSAI). It functions as ASOSAI Secretariat and maintains the ASOSAI website.
- (iii) Matters related to the Global Working Group (GWG) and maintenance of the interactive website AGNet2 of the GWG.
- (iv) External Audits of United Nations and/ or different UN bodies.
- (v) Bilateral Relations with other SAIs.
- (vi) Interaction with other Supreme Audit Institutions and other Regional groups of INTOSAI.
- (vii) Organizing seminars, meetings and workshops of international level
- (viii) Editing and publication of the Asian Journal of Government audit

INTERNATIONAL ORGANIZATION OF SUPREME AUDIT INSTITUTIONS (INTOSAI)

The International Organization of Supreme Audit Institutions (INTOSAI) founded in 1953, 'operates as an umbrella organization for the external government audit community'. For more than 50 years, it has provided an institutionalized framework of supreme audit institutions to promote development and transfer of knowledge, improve government auditing worldwide and enhance professional capacities, standing and influence of member SAIs in their respective countries in keeping with INTOSAI's motto, 'Experientia mutua omnibus prodest'. The exchange of experience among INTOSAI members are a guarantee that government auditing continuously progresses with new developments.'

INTOSAI is a non-governmental organization with special consultative status with the Economic and Social Council (ECOSOC) of the United Nations.

C&AG is playing a leading role in the INTOSAI as the details below would testify:

SAI India is one of the founder members of the INTOSAI which held its first Congress in 1953 in Havana (Cuba). Presently INTOSAI has 186 SAIs as members. The Secretariat of INTOSAI is permanently located in Vienna, in the Office of SAI-Austria. The INTOSAI Congress (INCOSAI) comprising all its members meets triennially.

INTOSAI Governing Board in its 35th meeting in October 1991 constituted INTOSAI Standing Committee on EDP audit with the C&AG of India as the Chairman. In 2002 meeting, INTOSAI Governing Board, approved the change of name of the Committee to 'INTOSAI Standing Committee on IT Audit'.

The XIV Triennial Congress of INTOSAI was held in Washington in October 1992 where Indian delegation was led by C&AG C.G. Somiah. The Congress was followed by a 3-day Technology Symposium which was conducted by C&AG of India.

In 1995, SAI-India was elected as a member of the Governing Board of INTOSAI (GB) for a period of six years and was re-elected as a GB member at INTOSAI-2001 for another term of six years. The 38th meeting of the Governing Board of ASOSAI nominated SAIs of China and India for the Governing Board of INTOSAI. As a result, SAI-India is in the Governing Board of INTOSAI for a further period of six years from 2007-13.

INTOSAI STANDING COMMITTEE ON IT AUDIT

As Chairman of INTOSAI Standing Committee on EDP (now IT) Audit since 1991, C&AG of India has actively fostered the objectives of the Committee viz. supporting member institutions in developing their knowledge and skills in the use of audit of Information Technology by providing facilities for exchange of experiences and encouraging bilateral and regional co-operation.

In the first meeting of the Committee, under Chairman C.G. Somiah, three Working Groups were constituted with Canada, Sweden and UK being the Convener of these groups to deal with specific identified areas for each of these 3 groups.

Some of the important developments relating to this Committee's work are recounted below:

India has brought out an INTOSAI EDP Directory through EDP Survey of SAIs for use of members. The first issue of the Directory was circulated in 1995. The Directory provides general information about IT Audit practices and Tools and specific information on training and funding, individual SAIs to work out bilateral or multilateral arrangements for setting up the IT or IT Audit function, organizing IT training, and exchanging software and IT literature. The Committee publishes a bi-annual journal 'intoIT'. 23 issues have been published till 2005-06. Each issue has a dedicated theme. The main themes for 24th and 25th issues are 'Training in IT Audit' and 'IT Governance' respectively.

All the issues are also available on the Committee web-site www.intosaiitaudit.org.

The Committee holds seminars on performance auditing triennially and four seminars have been held so far. For the 4th seminar held at Moscow in April 2004, the theme was 'Performance auditing in e-Govt.' 5th Seminar on Performance Audit on IT Governance was held during 3-4 March 2007 at Oman.

A new EDP Directory in CD-Rom format was brought out and distributed during XII INCOSAI at Seoul.

SAI-India published mandates of INTOSAI members electronically as well as in the hard copies (in three volumes). This covered 142 SAIs comprising 3 volumes which were given to all the members in the XI meeting of the Committee held at New Delhi in November 2002 (presided over by C&AG of India, V.N. Kaul).

In the area of research projects, the Committee was working on 2 projects namely, 'Measures taken to counter fraud in IT environment' and 'Cross Organisational Country Systems'. Besides, the Committee has also undertaken a major project on 'Auditing e-Government'. In the meeting of INTOSAI Standing Committee held in Oslo in September 2003 the Committee decided to prepare guidance for auditing the e-governance applications.

JÖRG KANDUTSCH AWARD

In the XVI INCOSAI held at Montevideo Uruguay in November 1998, an event of special pride to India was conferment of Jörg Kandutsch Award to SAI India 'in recognition of important achievements and contributions made in the field of Government Audit by SAI India'. The award, instituted in honour of Dr. Jörg Kandutsch, former President of the Austrian Court of Audit and Secretary General of INTOSAI, is given once in three years at the triennial INCOSAI for exceptional merit to one of the SAIs. This award was, ostensibly given to Indian SAI in recognition of its role as Chairman of INTOSAI Committee on EDP (now IT Audit) whose first Chairman was C&AG C.G. Somiah. C&AG Shunglu, his successor in office, in fact recognised this when he wrote to C&AG Somiah as much in December 1998 just after receiving the award saying '... this award has been given to India this time in view of our contribution to EDP. As I recall it, you became Chairperson of this Committee and guided its work till you demitted office. The award is thus a recognition of that effort,

and I take this opportunity to offer the felicitations of the Department to you.¹

The 18 INCOSAI held in Budapest, Hungary in 2004 approved a Strategic Plan (2005–2010).

The Strategic Plan reorganized INTOSAI committees and working groups to meet the aims of the strategic plan and proposed establishment of goal liaison for each strategic goal by the Governing Board (GB) to build close cooperation between committees, working groups and task forces and the GB. In the Extraordinary GB meeting of INTOSAI held in March 2005, C&AG of India was elected as Goal Liaison for Goal 3 dealing with knowledge sharing/ knowledge services.

Besides being the Chairman of the Standing Committee on IT Audit, Comptroller and Auditor General of India is also a member of INTOSAI (i) Governing Board, (ii) Professional Standards Committee, (iii) Working Group on Audit of Privatisation, (iv) Working Group on Environmental Auditing, (v) Task Force on Audit of International Institutions and (vi) Finance and Administration Committee of INTOSAI.

INTOSAI DEVELOPMENT INITIATIVE (IDI)

IDI was established in May 1999 in Norway as a Foundation under Norwegian law, giving it organisational and economic independence. The INTOSAI Development Initiative (IDI) is a non-profit organisation that operates with the purpose of building the capacities of the staff of Supreme Audit Institutions (SAIs). The IDI's main target groups are all SAIs of developing and emerging countries members of the International Organisation of Supreme Audit Institutions (INTOSAI). It was to foster the advancement of public accounting and auditing, specially in developing nations through exchange of information and training for the professional staff of SAIs.

It would be obvious from the above that C&AG of India is actively involved in many of the important activities of the INTOSAI and has made a rich contribution in all the areas mentioned above.

ASIAN ORGANISATION OF SUPREME AUDIT INSTITUTIONS (ASOSAI)

The first ASOSAI Assembly was held in New Delhi in May 1979 which elected C&AG Gian Prakash as its Chairman and ever since then the C&AG of India is actively involved in ASOSAI during the period covered by this history. Some important activities relating to ASOSAI with which India was associated are given below:

Sixth ASOSAI Assembly was hosted by the C&AG of India, in November 1994. It was a big event and different Committees were set up by the C&AG of India to prepare and execute the action plan during the assembly which was a grand success that culminated with New Delhi Declaration of 'Guidelines on Promoting Effective Accounting and Adequate Internal Control System in Government'.

The C&AG of India also took over as Chairman of ASOSAI with this Assembly for a three years period i.e. 1994-97. During the period 1997-2000, SAI India was nominated for the special seat in Governing Board of ASOSAI based on its overall performance and contribution to ASOSAI. The C&AG of India took over as Secretary General of ASOSAI in October 2000 for a three years term and was renominated in 2003 Assembly at Philippines for another term of three years from 2003-06 and further in 2006 Assembly in China SAI-India was again nominated for Secretary Generalship for the third term for the period 2006-09.

The C&AG of India has hosted a number of ASOSAI sponsored workshops and training programmes including ASOSAI-IDI-ADB sponsored training programme for the training of trainers in 1998; an IT Audit workshop sponsored by ASOSAI in 2002 and an ASOSAI sponsored workshop on 'Performance Audit' conducted by iCISA in November 2005.

The C&AG of India is a Member of Governing Board of ASOSAI since its inception.

ASIAN JOURNAL OF GOVERNMENT AUDIT

The Asian Journal of Government Audit is an official document of ASOSAI with the sole aim to provide the members of ASOSAI with a forum for sharing experience, knowledge and skills acquired in varied areas of audit. It also arms readers with the latest tools and techniques used by SAIs in the field of audit. It is 25 years since SAI India is bringing out this journal, which started its journey in 1983, within a span of 4 years of the establishment of ASOSAI.

The Board of Editors consists of SAI of India, Philippines and Sri Lanka . The journal which used to be an annual issue, became biannual from 2004 and it is brought out twice a year in April and October. It also became an e-journal with the emergence of wide use of computers and in the era of information technology.

INTERNATIONAL ASSIGNMENTS—ENTRY TO UN BOARD OF AUDITORS

The Comptroller and Auditor General of India entered the arena of International Audit in 1992 when he was elected to the UN Board of Auditors (BOA) in the elections held in the UN General Assembly in New York in 1992—initially the assignment was for the term period 1st July 1993 to 30th June 1996 and subsequently renewed for second term of 3 years from July 1996–June 1999. The BOA had three Auditors General of member states including India—the other two at that time were Ghana and UK.

India's entry as Auditor to the United Nations owes a lot to the efforts of C&AG Somiah. Although the initial move for this assignment was made by the then C&AG Gian Prakash in 1981, not much headway could be made, presumably, because the proposal did not fit into the priorities of the Ministry of External Affairs who are the nodal Ministry in the matter.

But India's entry to UN has a background history.

When C&AG Somiah went to London for Commonwealth Auditors General Conference in October 1990, he got the idea to stake claim for this job, since, as he mentioned to the author, 'everybody there was talking about this job and Indian Audit was second to none in experience and expertise'. On return, he first called on the Prime Minister (then Shri P.V. Narasimha Rao) regarding SAI India's candidature for the United Nations auditorship and subsequently made a formal request to him for Ministry of External Affairs announcing India's candidature. The Prime Minister responded positively and asked the Foreign Secretary (Mr. Dixit) to discuss the modalities for SAI India's election to the United Nations Board of Auditors with the C&AG Somiah. After this meeting, things moved fast with MEA's backing of India's case. JS (UN) addressed all heads of missions to secure support for India's candidature. Material for circulation viz. a draft notes verbale, brochure on the office of C&AG of India and C&AG's bio-data were sent for circulation. Foreign Secretary also addressed the missions in June 1992 and he followed it up by reminding them

(through telex) in September 1992—some selected missions were addressed. Letters were sent to Departments' Audit offices in London and Washington. C&AG addressed all the heads of SAIs in ASOSAI while Dy. C&AG addressed selected heads of other SAIs. C&AG Somiah visited New York in October 1992 and hosted a dinner meeting at the UN building with the Permanent Representatives to UN of various countries to canvass support in the election being held in November that year. Pakistan, initially was a contender but later withdrew. The position of Member, UN BOA was open to Asian Countries and the contest was between India and Philippines (which was a sitting Member). In the election in the General Assembly, India was overwhelmingly voted as a Member of the UN BOA. The second term of this assignment for SAI India was uncontested, with the Asian Group endorsing the Indian C&AG for the position. India, however, lost its bid for a third consecutive term against Philippines for which election were held in 1999. However, an analysis of this loss by the then C&AG Shunglu prompted him to plan in a more systematic fashion for such audits in future.

SAI India's entry as Member of UN BOA in 1993 came more than 45 years of the first election held for this job in 1947 (which is also India's year of independence). Considering that Pakistan had entered the UN BOA in 1961 and remained UN Auditor for 15 years and Bangladesh who became a Member of BOA in 1978 remained for 6 years, it would surprise many that India entered the scene so late (when its credentials for the job were excellent all through). True, an attempt was made in 1982 but it did not go beyond Ministry of External Affairs' scrutiny and India's candidature was never formally announced. Even though late, yet India's entry was a 'high point' in IA&AD history in post 1990 era. That was an event that changed the face of IA&AD in more than one way. It not only accorded a signal recognition to India's stature but it had profound impact on SAI India's audit in some other ways too.

First, it opened up Indian audit system to the global systems. This exposure gave great benefit to the profession of auditing in SAI India. It also opened up for the Departments' personnel several avenues in international auditing and related assignments. Today such personnel on deputation to UN and allied agencies number more than 20 (leaving out several others who joined these agencies and quit the Department). It also helped in hastening the process of computerization in the Department and computer skills of

IA&AD personnel, specially the IA&AS officers of senior batches who picked up computer language for those assignments during training in NAAA, Shimla. After its election to UN BOA, SAI India has entered as Auditor to many other international organisations.

After he became a Member, UN BOA in line with the practice followed, the C&AG operated the post of Director of External Audit (DEA), UN BOA at the UN HQrs in New York. The first incumbent to this post was T.R. Krishnamachari, Pr. Director (RIR), who was all along helping the C&AG, Somiah, in chalking out the strategy for the entry into the UN Audit. As per the distribution of work among the three Members of the UN BOA, India was the Principal Auditor for the UN HQrs in New York (with the C&AG of UK as the sub-auditor for the UN office in Geneva), UNHCR (Geneva), UNEP, HABITAT (both in Nairobi) and the UNU in Tokyo.

After the retirement² of T.R. Krishnamachari, in December 1995, T. Sethumadhavan joined as the Director of External Audit, UN BOA and he was followed in May 1997 by Kanwal Nath. During 1996, Director of External Audit, SAI-India held the post of Chairman, Audit Operations Committee, which finalises the day to day functions of the UN BOA.

India's rich experience in performance auditing (while carrying out reviews of plans, schemes and programmes) came in as a very useful tool for its successful performance in the external audit environment as a Member of the UN BOA. Till then, to a large extent, the audit reports brought out by the Board on UNHCR mostly reflected audit comments based on financial audit. After India's entry into the Board, the UN Audit Reports increasingly started expressing opinions based on the physical outputs and performance arising from the budgetary inputs and expenditures. This received significant appreciation from the UN fraternity. It is to India's credit that a large number of recommendations which the UN General Assembly made in its resolutions on the results of audit by the UN BOA during the years in which India's C&AG was a Member of the Board, related to the findings and observations made in the Reports drafted by India.

The role of the Director of External Audit, UN BOA was highly demanding and it is in the fitness of things that the incumbents to the post, who were carefully selected by the C&AG himself, indeed brought credit to the Department. The responsibilities of the Director included detailed and meticulous audit planning, drafting of audit guidelines, training and briefing of the audit teams (most

of whom were new to this job), overseeing the audit, finalising the Management Letters with appropriate audit recommendations and finalisation of the Audit Reports. He also had to interact with the UN Management as well as with his counterpart in the UN BOA. While the Board printed Annual Audit Reports in respect of the UNHCR, the other agencies and funds had biannual Reports. As part of his duties, the Director of External Audit appears before the ACABQ (Administrative Committee for Administrative and Budgetary Questions with 13 elected Members) and the Fifth Committee (Functional Committee of General Assembly where all countries are represented) of the General Assembly where he is required to provide clarifications to justify the findings and recommendations included in the Audit Reports.

Member, UN BOA is also a Member of the UN Technical Committee for Accounting and Auditing Matters which finalises the accounting and auditing standards for all UN Agencies and funds, while the DEA is a Member of its Working Group.

An interesting fact in the context of India becoming a Member of UN BOA, was the request received from the Addl. CGDA in December 1993, asking C&AG to consider utilising the specialised knowledge and expertise of the Defence Account Department alongside audit organisation. The request was specifically in relation to audit of UN peace keeping operations where they claimed some expertise. Pr. Director, RIR replied to this reference expressing inability to consider his suggestion.

Subsequent to his election as the auditor to the UN, the C&AG of India had several other international auditing assignment. He was the External Auditor for (i) International Centre for Genetic Engineering & Biotechnology (ICGEB) with HQrs in Italy from 1996 to 2004 and (ii) Organisation for the Prohibition of Chemical Weapons i.e OPCW Headquarters at The Netherlands for 6 years (January 1997 to December 2002) jointly with SAI-Pakistan. Earlier SAI-India had been its External Auditor for 1997-99.

Currently, the C&AG of India is the External Auditor of the following International Organisations:

- (i) International Maritime Organisation with HQrs at London (United Kingdom) for two terms of 2 years each (July 2000 to June 2004). Subsequently, it was extended for a period of further four years with effect from July (July 2004 to June 2008).

- (ii) Food and Agriculture Organisation (FAO) with HQrs at Rome (Italy) for two terms of 2 years each (July 2002 to June 2006). The term has been renewed for a further period of two years from July 2006 (i.e. July 2006 to June 2008).
- (iii) World Tourism Organisation with HQrs at Spain (January 2000 to December 2007) as Joint External Auditor with SAI-Spain.
- (iv) World Health Organisation with HQrs at Geneva (Switzerland) for the biennium 2004–2005 and 2006–2007. Comptroller and Auditor General of India has been reelected by the 60th World Health Assembly for another term of 4 years from 2008–2011.

The IR Division services relating to C&AG's International assignments are to fix schedules in consultation with Directors of External Audit (DsEA) at Rome and Geneva regarding Food and Agriculture Organisation (FAO) and the World Health Organization (WHO) audits. IR Division, amongst other functions, is responsible for initiating action for nomination of teams, provide the teams with training and background material and prepare draft Management Letter (ML), draft Audit Report in the case of International Maritime Organisation (IMO). In the case of FAO and WHO, the draft Audit Reports are being finalized by IR Division on their receipt from DsEA-FAO and WHO. These Audit Reports mainly cover the audit of Financial statements, Value for Money audit (VFM) and audit of compliance in field offices.

GLOBAL WORKING GROUP

A Global Working Group (GWG) of 18 SAIs was set up to discuss matters of mutual concern and to make available information and best practices adopted by these SAIs. The Group has held 8 meetings so far. The first meeting of the GWG was held in USA in January 2000. The last meeting was held at San Francisco, California from 10–12 April 2007. SAI-India maintains the website of the GWG (www.agnet2.org). SAI-India hosted the GWG meeting in New Delhi in 2004.

PANEL OF EXTERNAL AUDITORS OF UNITED NATIONS

'Panel of External Auditors of United Nations' consists of the external auditors of United Nations i.e. Member of the Board of Auditors, its specialised agencies and the International Atomic

Energy Agency. The panel meets once a year to address developments in accounting/ auditing practices world wide. India is a member of this panel since 1993.

BILATERAL TIES WITH SAIs

During the period SAI-India signed Memorandum of Understanding (MoU) with the SAIs of China, Mongolia, Venezuela, Brazil, Bhutan, Russia, Poland, Bhutan and Oman. Various mutual exchange programmes as laid down in the MoUs are held every year between India and China, Poland, Bhutan, Oman.

INDO-CHINESE COOPERATION IN AUDITING

The MoU with China will rank as one of the most important bilateral ties given the time when it was done (January 1992). The Memorandum was signed by C&AG C.G. Somiah and Mr. Lu Peijian on 15 January 1992 during the visit of four-member Chinese Audit Delegation led by Mr. Lu Peijian, Auditor General of the People's Republic of China (PRC), in January 1992 at the invitation of C&AG C.G. Somiah. The MoU aimed at reinforcing the exchanges and cooperation in the field of audit between the two countries. It envisaged exchange of information and literature on audit, bilateral seminars on audit theory and methodology in selected areas, participation in international training courses on either side and, periodic exchange of visits and study tours by senior audit officials of the two countries.

Indo - China MOU has an interesting background. C&AG Somiah had gone to China in May 1991 at the invitation of his Chinese counterpart. In fact it was an invitation extended to his predecessor which was renewed sometime later and by that time Shri Somiah had taken over as C&AG. In China, C&AG had an invitation for a meeting with the Chinese Prime Minister which lasted about 30 minutes with the Indian Ambassador to China in attendance. At the meeting where the Auditor General of China was also present, it was mentioned that the Chinese Auditor General needed interaction with the Indian auditors to improve their expertise.

The Chinese premeir expressed a desire to have an MOU for cooperation between the two countries in this regard. While responding positively to the suggestion, C&AG Somiah reiterated the Indian Prime Minister's invitation to the Chinese Premier to visit India. The Chinese Prime Minister readily gave his consent to

visit India and he visited India soon thereafter setting the tone for improved relations between the two countries.

Following the MOU there have been very active collaboration between the two SAIs—there have been seminar every year, alternatively in India and China on themes of mutual interest.

ASOSAI RESEARCH PROJECTS

Uptill now, there have been seven Research Projects sponsored by ASOSAI and India has been represented in three of these. These were (i) 'Financial Accountability and Management in Government', (ii) 'Audit of Public Works and Projects, and (iii) 'Government Revenues: Accountability and Audit'. Currently SAI-India is a member of eighth research project of ASOSAI on 'Environmental Audit Guidelines'.

CONFERENCE OF COMMONWEALTH AUDITORS GENERAL

A Conference of the Commonwealth Auditors General is held triennially for exchanging views and sharing experiences relating to different aspects of Government auditing in the Commonwealth countries. The fourteenth conference in the series was held in London during 15–19 October 1990 under the Chairmanship of Sir John Bourn, Comptroller and Auditor General of United Kingdom. Shri C.G. Somiah, Comptroller and Auditor General of India attended the *conference*³. Nine topics of interest to the Supreme Audit Institutions of the Commonwealth countries were discussed, including development in the role of Auditors General in contributing to Parliamentary Accountability, staffing requirements for Audit Offices—Recruitment considerations, approach to Certification and Regularity Audit and review of Computer Security, development in Performance Auditing. India contributed its country papers on all the nine topics and actively participated in the conference.

XV Conference was held in Harare during September 13-17, 1993; and XVI in Lahore, Pakistan in 1996. SAI India was represented by Dy. C&AG P.K. Lahiri. The C&AG of India contributed the lead paper on the topic 'Audit of Transport Services' and acted as rapporteur for this topic. Lahore Conference culminated in the adoption of the Lahore declaration, which noted that SAIs are one of the main legislative instruments to enhance accountability and transparency, and, together with other anti-corruption agencies, are powerful deterrents to corruption.

The XVII Conference was held at Sun City South Africa during 10–13 October 1999 on 'Auditing in the next Century' and the XVIII Conference at Kuala Lumpur, Malaysia during 7–9 October 2002 on 'Engineering Audit in the Public Sector'.

The XIX Conference of the Commonwealth Auditors General was held in Wellington, New Zealand from 30 January to 2 February 2005. The theme of the conference was 'Raising Public Sector Auditing to the Next Level'. SAI-India presented a paper on 'Measurement and reporting of Performance in SAI-India-New Initiatives' under the sub theme (3) 'Excelling at managing ourselves'.

NOTES: CHAPTER-20

¹ C&AG V. K. Shunglu's letter dated 11 December 1998 to C&AG C.G. Somiah

² The post of Director (External Audit), it was decided, would be a cadre post of IA&AS. At the time of posting of T.R. Krishnamachari as Director of External Audit, the question of his tenure was discussed. While the tenure of the DEA was entirely upto the discretion of C&AG, there being no age limit prescribed by UN, it was decided to limit his tenure till his date of retirement.

³ Activity Report-IA&AD 1990-91 page 126

LIST OF KEY EVENTS

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|-------------|---|
| 1 July 1993 | C&AG elected as the member of the Board of Auditors of UN. |
| 1998 | Recognizing the important achievements and contributions in the field of government audit. Jorg Kandutsch Award was conferred to Sh. Vijay Krishna Shunglu, C&AG of India |
| 2002 | C&AG appointed as External Auditor for the FAO for a term of four years |
| 2004 | C&AG appointed as External Auditor of the WHO for a term of four years. |

DOCUMENT

Copy of C&AG V.K. Shunglu's D.O.dated December 11, 1998 addressed to C&AG C.G. Somiah

Dear Shri Somiah,

The INCOSAI Conference was held at Montevideo from 8 to 14 November 1998. You would recall that one of the events at the Conference is the presentation of the Jorg Kandutsch Award for exceptional merit to one of the SAIs. I am pleased to inform you that this Award has been given to India this time in view of our contribution to EDP. As I recall it, you became Chairperson of this Committee and guided its work till you demitted office. The Award is thus a recognition of that effort, and I take this opportunity to offer the felicitations of the Department to you.

The Award is a plaque with citation in German. We have some plans for getting it copied and I hope to send you, in due course, a copy of the original plaque received by us. We are in the process of selecting a suitable place for displaying the Award and you may wish to suggest an appropriate place.

With best regards to Mrs. Somiah and wishing you a Very Happy New Year.

Yours sincerely
SD/-
(V.K. Shunglu)

GLOSSARY OF ABBREVIATIONS

ACABQ	Administrative Committee for Administrative and Budgetary Questions
BOA	Board of Auditors
CGDA	Controller General of Defence Accounts
ECOSOC	Economic and Social Council
EDP	Electronic Data Processings
FAO	Food and Agriculture Organisation
GB	Governing Body
GWG	Global Working Group
ICGEB	International Centre for Genetic Engineering & Biotechnology
IDI	INTOSAI Development Initiative
IMO	International Maritime Organisation
IR	International Relations
JS (UN)	Joint Secretary (United Nations)
ML	Management Letter
MoU	Memorandum of Understanding
O&M	Organisation & Methods
PPRE	Policy Planning Research and Evaluation
PRC	People's Republic of China
RIR	Research & International Relations
UK	United Kingdom
UN	United Nations
VFM	Value for Money
WHO	World Health Organisation.

Regulations on Audit and Accounts, 2007

Under section 23 of C&AG's (DPC) Act 1971, C&AG is authorized to make Regulations for carrying out into effect the provisions of the Act in so far as they relate to the scope and extent of audit including laying down for the guidance of the Government Departments the general principles of Government accounting and broad principles in regard to audit of receipts and expenditure. While the general principles of Government accounting and broad principles in regard to audit of receipts and expenditure were included in C&AG's Manual of Standing Orders (Accounts) and MSO (Audit) respectively, but these were by nature meant for the use only within the IA&AD for guidance. And further, the scope and extent of C&AG's audit was not explicitly defined anywhere. However, both the understanding of the Act and the standing convention has been that it is the sole prerogative of the C&AG to determine the scope and extent of audit. This principle has been in practice for last so many years since the promulgation of the Act and even before that. This is also considered in conformity with the provisions of the Act as held by distinguished constitutional and legal authorities from time to time.

However, this is also a fact that the issues concerning scope and extent of C&AG's audit have been raised on a few occasions by the Executive. Some of these have been narrated in the previous chapters in this History. To recall those that happened during the period covered by this book, there was the case of non production of records to Audit by the Ministry of Urban Affairs in 1995 on the ground that audit of allotment of Government houses was a matter beyond C&AG's jurisdiction because no financial

implications were involved. A more recent case is, where the Ministry of External Affairs showed its implicit reservation about authority of C&AG to carry out the Performance Audit of their passport, visa and consular services in missions abroad on the ground that an inter-ministerial group was looking into the performance audit aspects. Even more serious was the executive instruction of September 1976 precluding C&AG from having access to confidential files—this is discussed in chapter on Developments in Auditing. In first two cases, the intervention of the incumbent Prime Ministers settled the matter in favour of Audit. In the third case, the new Government annulled the orders of the previous Government. In fact, arising from Ministry of External Affairs case, the Government issued an OM dated June 2006 clarifying that Performance Audit was well within the scope of C&AG's audit jurisdiction. Thus, in all three cases, the authority of the C&AG to carry out audit in an unfettered manner was acknowledged and established.

The non-issue of Regulations in terms of section 23 of the Act even after so many years of the promulgation of the Act may have had its own reasons. Perhaps, questioning the C&AG's jurisdiction was a rare exception and hence, it was ignored. But surprisingly, there is nothing on record to suggest that the subject of issue of regulations in terms of Section 23 of the Act even after so many years of its promulgation has ever been debated in any serious forum like AG's Conference etc. There is a mention of this subject in the 'Foreword' to R.K. Chandrasekharan's Analytical History of the Comptroller and Auditor General of India (Volume I) by the then C&AG T.N. Chaturvedi where he clarified that 'such regulations are not subject to approval of either the executive Government of the day or of Parliament'. The C&AG 'has the discretion to regulate the scope of his audit'. In support, C&AG's 'Foreword' has quoted the Administrative Reforms Commission Report which had upheld not only C&AG's right to carry out efficiency-cum-performance audit but emphasized that this discretionary form of audit is even more important from the view point of accountability in the comprehensive sense. Despite these assertions, the two instances cited above could be considered as questions being raised about authority of C&AG. In this context, it was a very timely decision by the present C&AG to issue regulations codifying the scope and extent of audit as well as principles of accounting and auditing. The C&AG, realizing the importance of discharging this responsibility provided under

section 23, started consultations in early 2006. He also realized the necessity of issuing such Regulations for yet another reason. Audit, as a profession, was getting shaped by very significant changes in technology as also public policies. A look at the 1983 National Audit Act of UK makes this point very clear. The 1983 UK model became a benchmark for many countries to reform their audit systems and policies specially those countries which modelled their Constitution after UK. In nutshell, the C&AG rightly concluded that time had come to discharge the functions of the C&AG under section 23 of the Act and issue Regulations on Audit and Accounts. Eventually, in early 2006, the C&AG decided to commission the autonomous entity functioning under his aegis, the Institute of Public Auditors of India, to nominate a retired person from the IA&AD to provide the initial draft of these Regulations. This task was assigned to a distinguished retired IAAS officer Dharam Vir who made the basic structure of the draft Regulations. These were widely circulated and debated within the Department. All the Accountants General (or their equivalents) were given the draft for their comments and in the Headquarters all the DAIs and ADAIs and some DG level officers were given a copy of the draft for their views and feedback. The process of consultation on the draft Regulations took about a year. Personal involvement and direction of the C&AG in reaching the final draft is evidenced by the fact that he took several meetings with his top team on the feedbacks received from the various offices and the senior officers of the C&AG on the initial draft of the Regulations and made a number of important changes in the Draft Regulations by including a number of new regulations or by omitting some included in the initial draft or by altering or modifying some others.

While a number of officers in the Headquarters contributed in framing of Regulations, special mention would be in order for Audit Wing especially of DG Audit¹. Arising from these long discussions and consultations, which were frequent, several major and substantive changes in the Regulations were brought out. A more important contribution from DG (Audit) was that as head of the policy making wing and concerned subject wing, it fell on her to not only efficiently discharge her overall functions of planning and coordinating the work of preparing Regulations, but contributions of more substantive nature were also made. These included putting a viable draft prepared on the basis of inputs of several persons who participated in the process (field offices, consultant, the senior officers in the Headquarters, the legal expert,

etc.) after 'merging of independent and sometimes divergent views'. An important fact was that DG (Audit) offered a number of suggestions and ideas for the consideration of DAI² and the C&AG and many of these were incorporated after their approval. In nutshell, during this one year period when the Regulations were under preparation, DG (Audit) and her team³ did commendable work in the finalization of the Regulations. In this, they were driven by the constant searching questions by the C&AG, who, as already pointed out, was personally involved in the framing of the Regulations ever since after initially conceiving the idea. As a result of these strenuous efforts, it became possible to finalise the Regulations. The Regulations look comprehensive. Only time will tell how effective these prove in their aim namely to sensitize both Audit and the Administration of their responsibilities under the C&AG's DPC Act. These, however, do make both Audit and auditable entities aware of their duties and responsibilities.

Essentially, these Regulations are in the nature of administrative instructions issued by the C&AG for use and practice by the audit professionals and for the guidance of Government Departments and other auditable entities in their relationship with audit department. These Regulations have the force of law and are binding in nature for all the concerned parties. These are transparent since these are meant not only for departmental circulation but are shared with all the auditable entities so that they are aware of what is Audit expectation of them and what are audit duties in relation to that. In other words, the Regulations indicate the responsibilities of auditee as well as of the auditor.

The Regulations have been notified in the official gazette of Government of India on November 20, 2007 and are, thus, available even to general public for reference.

Besides laying down the broad principles of audit of receipts and expenditure and general principles of government accounting, the Regulations spell out the basic obligations of the Executive in regard to facilitating audit work. The broad subjects covered by Regulations include:

- ❖ Scope and extent of audit
- ❖ Guiding principles of Auditing Standards
- ❖ Financial Audit
- ❖ Compliance Audit
- ❖ Performance Audit

Besides, it deals in four separate chapters- principles governing audit of bodies and authorities other than government establishment and companies, audit of government companies, role of the C&AG in audit of Panchayati Raj Institutions and Urban Local Bodies and audit in Information Technology Environment. A chapter is also devoted to audit evidence and one chapter is devoted to the conduct of audit, that is the process of inspection of auditable entities and how the audit will be conducted in these offices. It describes transparently the system of producing audit notes and inspection reports as also audit reports. One chapter is devoted to general principles of Government accounting and the final chapter deals with special provisions. The principles of audit with regard to the audit of various types that are detailed in the Regulations are generally in line with the principles laid down in the MSO (Audit) but with some changes.

A brief account of the more important and salient Regulations enshrined is given below:

The Regulations have laid down very clearly the broad objectives of Audit as 'to ensure legality, regularity, economy, efficiency and effectiveness of financial management and public administration ...'. The Regulations have classified audit systems through which these objectives will be assessed mainly into three, namely, Financial Audit, Compliance Audit and Performance Audit. The three terms are defined in terms of their broad objectives. The Financial Audit will assess whether financial statements are properly prepared, are complete in all respects and are presented with adequate disclosures; Compliance Audit will seek to assess if provisions of the Constitution, applicable laws, rules and regulations made thereunder and various orders and instructions issued by competent authority are being complied with. Performance Audit will assess the extent to which an entity, programme or organization operates economically, efficiently and effectively.

These three types of audit now constitute the basic framework for Audit Reporting also. For example Performance Audit Reports and Compliance Audit Reports are issued as separate volumes as far as Union Reports are concerned. State Audit Reports are mainly combined Reports, with occasional separate volume on Performance Audit. As regards Financial Audit Reports, C&AG brings out a separate volume on Financial Audit in case of Union but in the case of States, Financial Audit output is contained in chapter 1 and 2 of the Audit Report (Civil).

In the context of importance of independence of the Comptroller and Auditor General of India, the Regulations provide, what was hitherto known and understood by Audit that there is no power of direction by the executive in relation to the performance of audit mandate. In the event of any such directions from executive, the C&AG is not obliged to carry out such directions. It is made clear, however, that executive could always request C&AG proposing matters for audit even though decision on that shall finally rest with C&AG.

Scope and extent of Audit: For the first time, the scope and extent of Audit has been laid down by these Regulations in a separate chapter. The Regulations have made it abundantly clear that within his 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. Within his mandate, the C&AG undertakes audits broadly categorized as financial audit, compliance audit and performance audit as elucidated in separate chapters in the Regulations. The overriding consideration in the exercise of his authority to audit any transaction, programme or entity will be fulfillment of his mandate and achieving the objectives of audit. Extent of Audit is defined as the quantum of audit including the period, the units of the auditee, the extent of test check and the boundaries of audit enquiry to be covered in an audit. This chapter also details instructions on conduct of audit and request for special audit including reporting the results thereof.

Guiding principles of Auditing Standards: A separate chapter details guiding principles of Auditing Standards and lays down that Auditing Standards issued by the C&AG 'shall be consistent' with the guiding principles of Auditing Standards as contained in the chapter. These guiding principles are benchmarked to international auditing standards.

Financial Audit: Financial Audit, Compliance Audit and Performance Audit are discussed in exclusive chapters for each one of them. The instructions in the chapter on Financial Audit spell out the requirements to be fulfilled by the Government departments like sending copies of orders of reappropriation and surrender of funds along with reasons for the same to be explained clearly. Similarly, at the end of the year, reasons for any excesses and short falls in expenditure beyond limits prescribed for this purpose vis-à-vis amounts provided need to be explained. There

is an exhaustive list of specific documents which the government departments and other agencies responsible for compilation of accounts and financial statements are to supply suo-moto to the Audit Officer. This makes a good beginning in the sense that Departments now will know beforehand all the essential documents that should be sent to Audit; in addition, they will also send any other documents demanded by Audit. The Regulations specifically emphasize about the responsibility of audit offices and agencies responsible for preparation and compilation of accounts to prepare an annual action plan for timely completion of certification of financial statements and its monitoring.

Compliance Audit: The Compliance Audit chapter essentially sets out the principles of audit of expenditure and receipts. In the case of audit of receipts, the Regulations have laid stress on the examination of systems and procedures and their efficacy with regard to a number of parameters listed. These also clearly stipulate the right of Audit to have access to assessment files and records and computerized data base. Such access shall be subject to any law in force at that time. Regulations significantly stipulate that the scope of audit of receipts includes examination of integrity of data, information and documents which form the basis of a policy.

Regarding data, information and documents obtained by the auditable entity from a third party, the Regulations clarify that Audit will have access to such information and documents as relied upon by the auditable entity in performance of its functions. If such third party evidence is found to be insufficient in Audit, additional information may be requisitioned by Audit from the auditable entity with prior approval of Accountant General.

These are very important provisions in the Regulations and have been prescribed for the first time.

Performance Audit: The chapter on Performance Audit is one which content wise may compare to the previous document namely MSO (Audit) but with very different exposition. The chapter has laid down all essential features of Performance Auditing as already enunciated in the Performance Auditing Guidelines. The basic criteria of Performance Audit namely assessment of economy, efficiency and effectiveness also remain the same.

The Regulations have a provision on timely access to data, information and documents to Audit. These will include documents classified as 'confidential' or 'secret' or 'top secret'. However, the

Regulations make it clear that these documents will be dealt with by Audit in accordance with the standing instructions of the Government for handling and custody of such documents. Regulations also specify that confidentiality of privileged or confidential information prohibited from general disclosure by law must be maintained by Audit. It elaborates that it should be ensured in such cases that the Audit Reports, Inspection Reports and the Audit Notes do not become a means of compromising such privilege or confidentiality of information.

What action is to be taken in case the departments failed to provide data, information and documents to Audit? The Regulations have dealt with this delicate subject with some good provisions. The Regulations say that cases of failure to provide data, information and documents shall be reported by audit office to the Controlling Officer and the concerned government for appropriate action and those authorities shall inform the audit office about the action taken within three months of such a report(s). It does not say beyond this as to what action would be taken if there is a failure to inform about the action within the stipulated time.

The Regulations have specifically made provision for acquiring specialized skills from external sources in carrying out an audit or accounts task if so required.

Regarding action on audit observations—another critical area in auditor- auditee relationship and which has a record that leaves much to be desired at present—the Regulations have demanded establishment and implementation of systems and procedures to ensure timely action on audit observations including recommendations of the Committees of the Legislature and follow up of Audit Reports of the Comptroller and Auditor General.

Management Letters: The Regulations contemplate issue of two types of management letters to the Secretary to Government:

- (a) Intimation of major irregularities to the Government and heads of departments—To strengthen the responsiveness of the auditable entity, a provision has been made for communication of every instance of major irregularity detected in Audit, through a special management letter to the Secretary of the concerned department (with a copy to the Head of the department) within six weeks of the instance coming to the notice in Audit. The Department will respond first with a preliminary report confirming or denying the facts within six weeks. If not denied, a detailed report will come with action

taken within three months of preliminary report. This provision has been made based on recommendations of Administrative Reforms Commission accepted by the Government of India.

- (b) Significant audit observations to be communicated to Secretary—At the end of April every year, Accountant General may write to Secretary to Government of concerned department a management letter 'communicating significant observations and conclusions emerging out of audit during the preceding year'.

Annual Public Statement regarding pending audit observations: A very important provision made in the Regulations relates to making Annual Public Statement regarding pending audit observations by each Head of the Department each year interalia including number and gist of audit paras included in Audit Reports of the previous year; number and gist of major irregularities intimated by Accountant General (Audit) during the previous year; action taken by department on them and number of audit paragraphs incorporated in the inspection reports issued in the previous year and gist of paragraphs with substantial money value. This provision is also based on recommendations of the Administrative Reforms Commission accepted by Government of India.

The Regulations have incorporated provisions for establishment of Audit Committees by the Government for the purpose of monitoring and ensuring compliance and settlement of pending audit observations. Each committee so established shall comprise of a representative of administrative department, Audit and a nominee from the Finance Department besides, the head of the department of the auditable entity. Audit committee meetings shall have minutes recorded.

This provision has put the Audit Committees (which are already existing in many states) on some legal footing with a requirement of minutes being recorded. It is to be noted that the Audit committees are to be constituted by the Government. The Regulations seem to be placing great hopes on Audit Committees for compliance and settlement of pending audit observations. It would be interesting to watch how things shall be in this regard after the Regulations come in operation.

The Chapter dealing with Audit of Bodies and Authorities other than Government Establishments and Companies, had expanded the expression 'body' by including typical examples of corporate or incorporate 'bodies', like institution or organization set up as

an autonomous organization under a specific statute or as a society registered under the Societies Registration Act, 1860 or Indian Trusts Act, 1882, voluntary organization or non-government organization, urban or rural local self government institution, co-operative society, other society or clubs etc. The Chapter has now made very clear provisions regarding audit of these bodies and authorities which are easy to understand and follow. An important Regulation is that Government and heads of departments empowered to sanction grants and/or loans shall furnish to audit office by the end of July every year a statement of bodies or authorities to which grants and/or loans aggregating Rs. ten lakh or more were paid during the preceding year. The statement shall also mention the purpose of the loan/grant and the total expenditure of that body or authority. With the implementation of this Regulation, an important gap existing today viz. of correct data base of bodies and authorities falling under the audit of C&AG, shall hopefully be removed.

The chapter dealing with Audit Reports in Regulations has brought out many important features. For example, it stipulates clearly what should be the minimum contents of the written reply of the concerned Secretary to Government to the draft paragraph issued to him. It says that the reply shall state:

- a) whether the department accepts the facts and figures mentioned in the draft paragraph; if not, the reasons supported by the relevant documents and evidence duly authenticated;
- b) comments, observations and explanation of the Government on matters included in the draft paragraph;
- c) Government's response to suggestions and recommendations made in the draft paragraph;
- d) remedial action taken or proposed to be taken and
- e) any other observations or remarks of the department.

In this chapter, an elaborate system had been outlined for Action Taken Notes for PAC or COPU, Government's response on the recommendations of the PAC/ COPU and role of Accountants General (Audit) in these.

Under special provisions, the two noteworthy Regulations are: one, which clearly stipulates that these Regulations will not come in the way of acceptance of international assignments taken up or being taken up; two, the Regulations have also prescribed an interrelationship of various orders of the C&AG. Specifically, it has outlined the hierarchy of instructions of the C&AG as

Regulations, Standing Orders, Guidelines and Practice Notes in that order. It has clarified that Standing Orders, Audit Guidelines and Practice Notes need to be consistent with these Regulations.

NOTES: CHAPTER-21

¹ Ajanta Dayalan

² C.V. Avadhani

³ DG (Audit) was assisted in this work by Kaushal Kumar Tripathi, AAO

GLOSSARY OF ABBREVIATIONS

UK	United Kingdom
OM	Office Memorandum
COPU	Committee on Public Undertakings

Epilogue

(A) CHALLENGES

'To promote excellence in public sector audit and accounting services towards improving the quality of governance.'—Vision Statement of IA&AD.

In an era of such momentous changes that are taking place in the administrative structure and public policies of the country and a fast emerging globalised economy, Government audit is presented with a host of challenges and of course opportunities. The Vision Statement adds to these challenges and responsibilities. We have mentioned some of these while narrating the developments in the Department during the period covered in this history. We can foresee some of the major challenges before the IA&AD in the coming years.

Financial accountability system in India must rank as number one challenge. Some major issues identified by the present C&AG in this context, in his Note to ARC are developments in internal control framework for Government of India that include revamping existing internal control system and internal audit as also risk management practices in Government. The challenges here are manifold. There has been enormous expansion in the size of bureaucracy and the role and nature of functions of Government. We have mentioned quite a few in the previous chapters. To give an example, the Central transfers to the states and indirectly to the local governments have now assumed the most important segment of the resources of many states and the local governments. To assess the proper use of Central transfers to derive the intended benefits projected by the relevant schemes or programmes is a

primary and basic challenge to Audit. Their use or misuse determines the level of government accountability.

A challenge which is prevailing since the birth of audit is the production of records and documents to Audit. The chapters in this volume have detailed the ground situation on this and the efforts made by different C&AGs to address the issue. The latest in this is, of course, the publication of new statutory regulations which have laid out a clear prescription for the government departments in this regard. It is too early to comment on their effectiveness but hopefully these would have an impact because of their statutory nature and the obligation of the government departments to comply with them. During the course of author's interview with the C&AGs when this subject was raised, C&AG Somiah was of the firm view that the C&AG should be given statutory powers to summon files and records from government. He mentioned about the RTI Act, 2005 which provides for imposing penalties including monetary punishment on officers who willfully delay in providing the information sought. The C&AG should have similar powers in regard to officers who delay production of files and records to audit or don't produce them at all.

To a question posed to the present C&AG Kaul by the author on the major challenges before the Department, he mentioned revision in the design of audit arrangements as a foremost challenge. But, as he said, this is easier said than done. The Indian audit system, like that prevailing in many other countries is rooted in the Constitution and the Act of Parliament. Bringing out big and fundamental changes in the audit system is not easy. Specifically speaking, the major challenge facing the Department is how to align the prevailing legislative audit system to, what the C&AG called, a highly dynamic international audit system. This would be a great challenge because the basic structure of SAI India including its systems and procedures is legal and therefore aligning such a strong legally structured system to the dynamics of international auditing systems would rank as a major challenge to the Department. The preceding chapters of this history have attempted to answer this question by describing the initiatives taken by the incumbent C&AGs in introducing reforms and new techniques in auditing systems and procedures.

With shrinking public sector and creation of more and more regulators, audit of regulators will remain a focus area but the challenge here is how to get over the somewhat stubborn attitude of both the Government and the regulatory bodies to let the C&AG

anywhere near them. The sensitiveness of the regulators and their desire not to let anybody impinge on their freedom is perhaps carried too far. Even in the West, the state audit has a definite role in assessing the effectiveness of the regulators. In future, hopefully C&AG will assume such a role by proper understanding of his role by the Regulators. Essentially, therefore, it would boil down to redefining the C&AG's mandate for these regulatory bodies.

Audit of Local Bodies: While the unique system of a participatory approach in the audit of local bodies has taken off, thanks to Eleventh Finance Commission recommendations, the utility of the system and the impact thereof will be known only after a few years. But there is no doubt that this is a unique beginning of C&AG's collaboration in the local bodies accounting and their auditing. C&AG's role is gradually assuming that of a catalyst in accounting matters and in that sense, he is acting absolutely as an aid to management. Conceptually, the local bodies were created to act as third tier of government as self governing institutions. The portfolio of subjects to be transferred to them as enshrined in Schedule XI and XIIth of the Constitution is quite formidable. While the progress in transfer of subjects to these bodies differs from state to state, eventually the local bodies would get their due both in terms of portfolio of subjects and related administrative and financial powers. In that scenario, the C&AG's role in future would assume a much greater importance from the accountability angle. In the initial years beginning from 2000, the C&AG has been concentrating on building up skills by training the local bodies personnel, prescribing the accounting and financial documents and generally guiding the local body authorities in their work of accounts keeping and auditing besides carrying out a sample check directly. However, in the next few years he would have to release more manpower for direct audit of these bodies commensurate with the high expenditure levels likely to be reached by that time. In such a scenario, organizing the audit of local bodies poses a real challenge to the IA&AD and thankfully with the kind of start that has been given the Audit department is well equipped to handle the increased responsibilities that would come in future. Like in the audit of government departments, the focus of C&AG's audit would essentially shift to the quality and cost of delivery of services by the local governments and in general assessing the impact that it makes on the lives of the millions of rural citizens who are still to learn the real nuances of democratic government.

This is one area where a synergy between the C&AG and the civil society is being talked of with excitement. When that is achieved, this audit would truly be a collaborative audit between the C&AG, the local fund auditor and the civil society.

Auditing the Autonomous Bodies, NGOs: The future challenges and prospects for the Audit Department also emerge from the developments in economy and changing policies of the Government on funding of socio-economic development programmes. A reduced role of Government by way of direct intervention is very much on the anvil in future. The public sector, despite the present logjam, is bound to shrink in the years to come but Government expenditure will remain substantial and a large chunk of it will progressively be spent through conduits. This would naturally affect the traditional expenditure audit system and the role of audit of grants and of autonomous bodies, including Special Purpose Vehicles, NGOs, societies etc. would increase. While the technique and process of audit of these entities would be the same as for normal expenditure audit, the crucial challenge will be to get these audits assigned to the C&AG in the wake of procedural complexities and the general reluctance of state governments to entrust audit of these entities to the C&AG.

While the existing legal infirmities vis-à-vis C&AG's powers to audit autonomous bodies will perhaps remain, the limitations posed by this situation can certainly be overcome by a better database of such bodies and authorities which can be built thanks to the IT systems where we have already made a mark. Once the department has a system of compiling a comprehensive database of bodies and authorities that should be subjected to C&AG's audit under various sections of DPC Act, the audit can focus on the priority areas. The issue of audit of NGOs receiving government grants was discussed in September 2005 Conference of the Accountants General. The Conference deliberated on the future challenges and problems in establishing accountability of NGOs. In this regard the Conference made some interesting observations and it also laid down a strategy for future audit. Basically, the Conference recognized the deficient database as also MIS from NGOs. There is also absence of a reliable evidence on the impact or the effectiveness of the NGOs since there were very few evaluations on these aspects. In the circumstances, NGOs survival has been almost completely delinked from performance. The Conference also recognized that there was absence of proper

documentation by NGOs even though the same was prescribed in most cases and there was absence of accurate record of states equity (read funding) in NGOs. This is a major issue even today. There is now a provision for each Ministry to add a statement in their detailed demand for grants containing information on releases to grantee bodies which includes NGOs. The Conference recognized the utility of tapping CGA for the data on releases to NGOs. It may be of relevance to say that there is already a written understanding between the C&AG and the CGA whereby the CGA promised to send, at the end of the financial year, Ministry wise list of all the releases made to the autonomous bodies including NGOs during the preceding year. Such interaction needs to be strengthened. The audit strategy for future has to be on laying emphasis on the accountability aspects and the assessment of the quality of expenditure and reporting of the results thereof. How the C&AG organizes this in future would be a relevant question because it may need a good deal of manpower resources.

Successive C&AGs have in their own way responded to these challenges. C&AG Somiah met the challenges posed by overcoming arrears in accounts closing, upgrading the training system, improving computerized set up in IA&AD, etc. C&AG Shunglu proceeded with paradigm change in accounting system through voucher level computerization. He showed vision in creating a dedicated IT Centre to meet fast emerging challenges to audit posed by rapid expansion of IT in government, and in vastly upgrading training infrastructure. On auditing, both C&AGs Shunglu and V.N. Kaul introduced new audit techniques to gather audit evidence. They deployed with great success new techniques like engaging reputed entities to carry out beneficiary surveys and checking technical works. Experts were utilized for some audits needing special skills.

The present C&AG sought to address these challenges with great vigour and pushed the agenda of reforms in auditing and accounting to cope with twenty first century demands. He set about realigning the auditing practices with the best international practices. He made a paradigm shift in the way performance audit is conducted. The Department adopted concepts like risk-based audit planning and auditing as practical tools and not merely as theoretical concepts. He took IT application to greater heights and of late he has forcefully addressed the issue of declining standards and output of transaction audit. He laid down renewed instructions on auditing and reporting cases of fraud and corruption. A synergy

between audit and vigilance on these aspects was revamped. On accounting he created a unique institution-the GASAB comprising all the Heads of organized Central Accounting Services along with representatives from Ministry of Finance, State Government, RBI, NCAER, ICAR, etc. under his umbrella and supervision.

Finally, he had a relook at the powers available to him under Section 23 of the C&AG's DPC Act to frame Regulations and took the momentous decision to undertake this responsibility to make audit more effective and let the auditees know of their obligations. Towards that end, he recently brought out, for the first time 'Regulations on Audit and Accounts' under section 23 of C&AG's (DPC) Act. Auditing Standards are also currently under revision.

What is the new orientation to audit in the context of the foregoing challenges? One, of which mention has already been made in this regard in the previous chapters, relates to the strong emphasis now being placed on audit of fraud and corruption. This started even earlier but has taken strong roots in present C&AG's time who has prescribed a very elaborate drill in the matter to be followed by the AsG (Audit) (by whatever names they are called in the department). When the author asked C&AG Kaul about reasons for his strong emphasis on audit of fraud and corruption, he justified his orders which were based on two planks. One was that the role of audit must be defined clearly in fraud and corruption cases so that there was no vagueness about it. He defined the role of his department in audit of fraud and corruption based on the principles laid down by UN panel on Audit of fraud and corruption. A clear definition of the audit role in fraud and corruption emerged from C&AG's discussions in the UN Panel of Auditors and this is what he is trying to introduce in the IA&AD. The second plank on which he drafted his orders on the audit of fraud and corruption was to distinguish clearly an audit paragraph on mismanagement with that on fraud and corruption. Each audit authority functioning in the department has to reach a bench mark already defined for inclusion of a transaction audit case for falling under fraud and corruption and if it has reached that threshold, it has to follow the trail and track the case as far as possible. To engage C&AG's attention on such paragraphs, the Accountant General is to report these paragraphs in bold type in his final draft copy of the report (bond copy), which goes for C&AG's approval.

In a recent communication to Finance Secretary (October 2007)¹, the C&AG has clearly outlined the role of audit in fraud and corruption cases. Reacting to the suggestion to impart training to

audit team in forensic audit, the C&AG while agreeing to impart such training, made it clear that the responsibility to undertake forensic examination will finally rest with the State and its anti-corruption or vigilance agencies.

The emphasis on a risk based planning and risk based auditing has been a major area of C&AG's reform process. Its gradual induction in various functional wings lends an assurance that IA&AD will move towards a risk based auditing model in all the wings both in expenditure stream and receipts audit stream. This would not only achieve better audit output but will also mean best use of scarce resources.

A conscious decision to go in selectively for concurrent evaluations of major schemes, programmes and projects is yet another step by the C&AG to meet the oft quoted remark that audit is just a post-facto exercise and not affording any opportunity for administration to go for course corrections. Several such examples existed in the past also. But concurrent audit is a more conscious decision now in case of big flagship programmes. Simultaneously, the C&AG has made it abundantly clear that audit is by nature post audit and it is the primary responsibility of the Government department to carry out concurrent evaluation of its programmes.

(B) STRENGTHS AND WEAKNESSES OF IA&AD IN THE EYES OF C&AGs

How do the various Comptroller and Auditors General, who held that position during the period covered by history, view the strengths and weaknesses of the department will be an interesting question. Since the three concerned C&AGs were all outsiders to the department till they became the C&AG, their observations would be more of a detached person free from biases of an insider. In that sense, it would be of great importance to present their analysis. The author took the liberty of asking this question to the three concerned C&AGs namely C.G. Somiah, V.K. Shunglu and the incumbent C&AG V.N. Kaul.

The precise question posed was what were the strong points and what were the weak points of the Department noted by them. Former C&AG Somiah speaking about the strong points mentioned of the expertise that the department had which he thought was second to none and was qualitatively world class. Secondly, as already pointed out he was of the view that accounts staff was

generally highly competent. The corresponding weak side to this was expressed by him in these words 'training in accounts should be more intensive for the IA&AS officers. There should be refresher courses in accounts for AG level officers...'. The other weakness in his view was that follow up of audit findings was generally dismal (*authors comments*: apparently he meant that as a consequence, much of the good work done by the Department goes waste).

In C&AG Shunglu's view, the strong point of the department is its professionalism and commitment of its work force. In his view, there was one weak point which he liked to stress: this was the inability of the department to change with the pace of change in public policies, technologies and other areas. In his view, 'there is certain resistance to change with the tide' and this inability of the department to keep evolving fast with the changing time is to be got over.

The assessment of the current C&AG V.N. Kaul on this subject was that the greatest strength of the department was its self awareness and the capacity to analyze its weaknesses and strengths. In his view, the department has another virtue namely its undisputed correctness in reporting. Corresponding weakness is the quality of the audit output. Elaborating, he said while the Audit Reports are absolutely correct factually and present a true picture of the implementation of programmes, policies, entities, etc., but the kind of penetrating analysis of such quality and merit as would draw the attention of the policy makers is perhaps missing. As a consequence, the department faces the real question of what impact finally audit has made on administration and via them on public policies.

Of the other strong points, C&AG Kaul listed the following as some of the strongest points of the department:

- ❖ The credibility of the department: This is undisputed and recognized by one and all.
- ❖ Clear objectives: The department has a clear notion of its primary purpose or objectives and it would not deviate from that as a constitutional body. This is a great merit.
- ❖ Adherence to core values: In C&AG Kaul's view, the core values of the department are very strong. Despite vast changes in political dynamics of the country, the IA&AD has remained and remains fact-based, non-partisan, objective, fair, non-ideological and above all balanced in its outlook and output. These, perhaps, are the biggest strengths of the department.

The challenge on the accounts side was of a different nature. C&AG Kaul lauded the massive expansion in the field of computerization specially the voucher level computerization which has improved the timeliness and regularity of accounts; but the crucial question here again is the usefulness of these accounts and the use to which these accounts are put by the user departments. While the regularity, timeliness and completeness of the accounts fulfills broadly C&AG's mandate but eventually the utility of these would be measured by what value these accounts render for financial management of the Government. C&AG Kaul expressed his concern over this aspect and said that his constant endeavour had been to devise ways and means that could enhance the effectiveness of accounts for use by Government.

One issue which often crops up and which will remain so in future also, concerns the role of C&AG vis-à-vis transfer of State Government/Union Territory accounts. The position of the present C&AG on this is very clear. He mentioned to the off-quoted argument in favour of the transfer of accounts compilation work by State Accountants General to the concerned state governments on the premise of conflict of interests. In his view, this conflict of interests was more, if at all, a theoretical concern because in C&AG's words 'we have created a fine wall between audit and accounting functions by separating two wings with each one completely independent of the other'. It would be too much to read in the argument that even though independent offices, they remain under the overall charge of C&AG. The fact is that the independence of accounts offices and audit offices from each other, which was the only relevant point, has been fully ensured. Therefore, one would be correct to make a statement that independence is in no way compromised by keeping the accounts compilation functions with the C&AG. On the contrary, C&AG Kaul sees a value addition in the present arrangement with the accounting function remaining with the C&AG. The present system ensures accuracy, objectivity and even better audit. The previous C&AGs namely, V.K. Shunglu and C.G. Somiah also had substantively similar views and in fact both of them made very significant contributions in timely compilation of accounts and making them more user friendly. The voucher level computerization (VLC) introduced by C&AG Shunglu made a tremendous difference in this regard, although it is true that the full potential of the system is yet to be achieved. The use by administration of

accounts compiled by Accountant General as administrative inputs is slow today but the reason perhaps lies in the deficiencies on both the sides. While the Audit Department can add value to the accounts compilation to make it of use to the administrator, the administrator also has to imbibe in him the habit of reading the accounts and making use of the information provided by accounts.

Bodies like World Bank etc. perceive continuance of accounting responsibilities with the C&AG along with his auditing responsibilities as conflict of interest. There is no such conflict as already expressed by successive C&AGs. The future scenario is difficult to predict but it could be said with some confidence that the recent efforts in upgrading the quality and timeliness of accounts have certainly made the state governments not too enthusiastic to go in for a takeover. Additional costs apart, such a move would not really benefit the cause.

Of the weaknesses, C&AG Kaul showed concern about a few. One was low productivity i.e. despite such a large turn over of voluminous audit reports, improvement in governance or systems and procedures is not taking place. Secondly, as already pointed out, he was concerned about the quality of the audit reports as well as impact of the audit reports findings. Thirdly, in his view, the external communication policy of the department needed to improve considerably especially the department's communication with external stake holders at the moment is very poor. He mentioned about his efforts to correct this position. (chapter 19 refers)

The weakening of transaction audit output over the past several years also attracted the C&AG's attention. Historically, many SAIs have gradually either reduced or completely moved away from regularity/transaction/compliance audit leaving it to internal audit within the Government. NAO, UK has moved towards performance audit or VFM. In India, from time to time, there has been a debate as to whether transaction audit should be given importance over performance audit. The debate in terms of transaction audit/performance audit is triggered more by the constraints of the audit staff operating in the two streams rather than importance or the utility of either of the two. A survey by the Hqrs. conducted on the instructions of C&AG across the various IA&AD offices in the country on the transaction audit showed a marked decline in the audit output relating to transaction audit.

The C&AG was the first to react strongly to such a situation and in various forums, he made it clear that transaction audit or

compliance audit is as important as the Performance audit. He is now keenly watching the outcome of his recent moves to enhance the transaction audit quality and output. Why is transaction audit so relevant for SAI India? The answer lies in many factors. First of all, given the administrative culture in the country, non-compliance and irregularities in transaction occurs all too frequently. Secondly, the internal audit mechanism within the Government, at least in many departments at the Centre and in practically all the departments of the states, is woefully weak. Its effectiveness is practically nothing. Thirdly, a very low accountability system is a contributory factor to non-compliance and non-responsiveness. Unless a strong internal control system operates in ministries/ departments, it would be a tall talk to forget transaction audit. If at all any reorientation to transaction audit is called for, it is to ensure that all significant transactions are covered in audit. This can be taken care of by a good system of risk assessment based auditing and scientific statistical sampling towards which definite improvements have taken place in the last four and five years in the time of C&AG Kaul.

Internal Challenges: What are challenges to Audit from within the system? The challenges within the system are also very formidable. The first and foremost in this context would be to have a look at the profile of the department and it would be very clear that the cutting edge level in audit team namely the auditor would probably not be able to foot the bill required of him in an atmosphere of sweeping challenges and fast changes mostly in line with the International Auditing Practices. The obvious choice here is either to raise the cutting edge level or to equip him with such qualifications and training that he becomes a contributor to the cause of audit. The big challenge is how to do this. The C&AG realizing this has made moves on two fronts: one, he has gradually upgraded a number of auditors post to sections officers or created new posts of section officers at the expense of auditors which is a very correct move; two, recently, the C&AG has approached Ministry of Personnel with fresh recruitment rules for direct recruitment to the post of auditors and section officers making B.Com or equivalent qualification essential for such recruitment. These steps would definitely have some impact on the quality of manpower especially if this is also supplemented by a more vigorous and fruitful training.

Another area concerned with the staff profile of the department relates to computer skills of the staff. The department realized this quite early. But the future challenge is to equip all the supervisory cadres beginning from section officer upwards with such computer skills that they are able to conduct IT audit in a computerized environment. This would call for a massive upgradation of IT skills. Fortunately, recognizing this, the C&AG set up an exclusive IT Audit Centre and after the setting up of this Centre, IT Audit output is on the upswing. Perhaps, it may be more advantageous if the head of IT Centre is exclusively for this work so that he devotes more time and attention to the IT development and training in IT skills.

A lead challenge is how successful the department is in disseminating and percolating down the new concepts and techniques in auditing that have been inducted and that differ so much from the traditional skills. This question of dissemination and percolation down will pose a significant challenge to the audit administration in the years to come.

The 18 years of history of the C&AG that has been narrated in various chapters in this book has been shaped above all by the incumbent C&AG's outlook, philosophy, perceptions and policies that were executed by the IA&AD and more specifically through the vast network of offices spread across the country with a workforce of over 50,000 persons. It would be fair to say that in shaping the policies in the Department, the C&AGs have naturally been influenced enormously by their implementing arm viz. the Audit Department. In many ways, the relationship between the C&AG and the Audit and Accounts Department, specially the audit service officers, is of very special nature. Now a days, unlike in the past, the designated C&AGs do not join as 'under study' and they only assume charge as C&AG. Therefore, at least in the beginning, the C&AGs have to depend heavily on in-house personnel and expertise for a proper briefing about functioning of the Department. The importance of C&AG's relationship with his Department is recognized by all the incumbent C&AGs. For example C&AG V.K Shunglu during an interview told the author that for taking important policy decisions in the department, he found the big forum called the AGs Conference most advantageous and he made extensive use of the deliberations in the AGs Conference for taking policy decisions on departmental working. He was also very generous in his praise for the weekly and monthly meetings with the senior officers and middle and junior level

officers. C&AG Kaul, during discussions with the author also acknowledged the contribution made by the department and particularly by the senior officers in shaping the policies of the department and in implementing them. He was equally effusive in his praise for the output from Accountants General Conference deliberations.

This unique relationship between the two has been a major factor in making the department resilience to measure upto the various challenges that it has faced from time to time. In the immediate post-Independence era, there were the challenges of acute depletion in the officers cadre, the emergence of strong public sector and the need for taking up audit of receipts and all these were met successfully by the incumbent C&AGs on the strength of the excellent cooperation and working of the IA&AD. Similarly when A.K. Roy introduced Performance Audit, the concept was operationalized by the ingenuity of the department's manpower. The momentous decision of computerizing the accounts from voucher level taken by C&AG V.K. Shunglu was also successful because of the efficient team work. The same goes for the developments made in receipt audit and IT audit. For IT Audit, the credit specially goes to the young bunch of officers who marshalled the IT audit techniques and have been able to produce good IT Audit output. With the present C&AG, demands on his officers were even more. He revamped the Performance Auditing system very comprehensively and the officers did not let him down. His efforts to introduce risk based audit approach has made steady progress and his attempts at aligning the Indian Auditing systems and practices with International systems and practices has taken off well.

(C) PERCEPTIONS ON AUDIT

An interesting question is how is Audit viewed by various stakeholders, including the Parliament and its Financial Committees viz PAC, COPU and Bureaucracy, amongst others. In other words what is their perception of Audit.

SAI's audit caters primarily for two entities, the Parliament or the State Legislatures through the PAC or COPU and secondly, the Government—ministries, departments, other public bodies, government companies etc. But eventually C&AG's Audit and his Reports are for public consumption, since the ultimate accountability of government, executive and public officials is to the people of the country.

Essentially, it is on behalf of Parliament that C&AG works to secure administrative accountability to Legislature. The Speakers of Parliament have always hailed Audit for its contribution to this cause. For example, present Speaker of Lok Sabha Shri Somnath Chatterjee speaking at a seminar stated that it was the collective responsibility of Parliament to ensure that office of the C&AG retained the independence and autonomy enjoined by the Constitution and the C&AG's (DPC) Act and that his authority and ambit would not be curtailed.

The C&AG is duty bound by Constitution to present his Audit Reports to the Parliament or the state legislatures where the relevant Financial Committees namely PAC or COPU deliberate on these, take evidence of the government officers where necessary and submit a report to Parliament containing their recommendations. These recommendations are considered by government and they submit an Action Taken Note on these recommendations which is also considered by the PAC/COPU. In majority of cases, the recommendations are accepted by government and where not accepted PAC can again ask the government to implement those recommendations. Some of these may get implemented in the second round. The perception of audit in the eyes of PAC/COPU has always been very high. Generally, Audit Reports and audit personnel who assist the PAC/COPU have the appreciation of the Chairman and members of PAC/COPU. The relationship between the two, as already explained elsewhere, is very close. Audit Reports therefore, come out with flying colours in the eyes of parliamentary committees.

The other major institution which often makes use of audit reports is the media, specially the print media. Media has largely acclaimed Audit Reports and it has perceived C&AG as a very important constitutional functionary who produces reports of great merit; on the other hand, the media has also commented about the ineffectiveness of audit to produce any visible impact on the governance system.

While the perception of the committees/commissions on the audit of specific areas may vary, it is relevant to say that C&AG's role in the audit of receipts has been highly acknowledged by the famous Tax Reforms Committee also known as Chelliah Committee (after the name of its Chairman Raja J. Chelliah). The Committee acknowledged that 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'.

In the field of Commercial Audit, however, J.J. Irani in his report has pleaded for virtual exit of C&AG from Audit of government companies. However, the perception of the noted economist Dr. Arjun Sengupta is somewhat different. Sengupta—in his report in 1984 had a word of praise for the role of audit in conducting performance audit which he thought was a very desirable field for it. However, in his report of 2005, he spoke in a somewhat different language casting some doubts about the C&AG's role in performance audit of government companies. Regarding supplementary audit of accounts of government companies, Sengupta has held consistently a reduced role for the C&AG.

There are very limited studies on perception of Audit by bureaucracy. While the perceptions about the usefulness of audit and its contributions to better governance differ amongst the various stakeholders specially the bureaucracy, all of them agree that audit as an institution must exist, it has a definite role to play in the accountability mechanism and it is a deterrent to abuse of authority and waste of money by public authorities.

A senior officer of the IA&AD² (at that time on deputation to the Government of India), conducted a kind of survey through a questionnaire issued to over 30 officers of sufficient seniority that included some secretaries to Government of India. The survey brought out many interesting features. The sample was quite representative in the sense that it included officers from railways, defence, civil services and scientific community.

According to author, while most of the responses were balanced which included good suggestions for improvement, some of the responses were skewed and this included one extreme response from a senior officer, whose single line response was 'audit department should be wound up'. Such rare skepticism apart, the response in the case of most of the respondents was a serious attempt to address the problem and offer practical solutions.

To the question on the impact of audit whether positive or otherwise in an organization, the maximum responses were that impact of audit was positive and it helped executive to keep the accounts and documents in shape. Incidentally, some opinions favoured audit function as part and parcel of departmental function (he was of course, making a case for internal audit system). The key emphasis in many cases was that audit impact is positive only when audit approach is not for fault finding but for system improvement. Regarding the question of quality of performance audit reviews, all the respondents were of the view that these

bring out many system failures. Of course, this was said along with many other suggestions, which included a suggestion that these performance audit reviews should not stray into minor, individual irregularities which bring down their value.

To the question whether audit instills fear and hence demoralizes the executives, most people accepted that it is partially true and all added that since audit takes a purely mechanical view on the application of rules and procedures, it makes people fearful to take positive decisions. However, many people also said that audit is used as an excuse for not taking decisions by those who would any way take no decisions.

On the question whether audit comments were frivolous and uninformed, most of the respondents did not agree that audit comments were frivolous. But regarding uninformed nature of comments, there was a divergence of opinion. Atleast one officer pointed out 'audit comments have ranged from sublime to ridiculous'.

On the question whether executive was indifferent to audit and did not care for it, the general reaction was that executives were not indifferent to audit, and that there could be ignorance but not indifference to audit. People who show indifference to audit, in the opinion of the respondents, were few.

Regarding the utility of audit reports most of the respondents wanted Audit Reports to be in time so that they could be of some use. The post audit factor is partly responsible for this because by the time audit observations come, the concerned officials had been transferred elsewhere. The one executing the project always knows that his successor would answer audit. The reverse point was that since audit report also covers systems and procedures, even a delayed audit report has a meaning.

To the question whether the audit was useful and necessary, all agreed except one who pointed out that audit was useful and necessary but had different reasons for the same. To the question what would happen to financial discipline if audit was abolished, the unanimous view was it would have serious consequences—some said it would be disastrous; and other views were that it would dilute the financial discipline, it would result in collapse of financial system and lead to financial anarchy. Even though system failures are there even with the existence of audit, absence of audit could lead to more and more irresponsible decisions in public expenditures.

Famous jurist and legal expert Fali S. Nariman has quoted S. Rangnathan, who was C&AG for six years (1966–1972) and had spent his career as an ICS officer in the Government in various position, as saying 'If the babus in the Auditor General's Office didn't stick to the book, this country would have become bankrupt soon after Independence'.³

Another source of executive perception on Audit was provided by the Agenda note for Audit Advisory Board which contained perceptions of authors extracted from a recent publication. These perceptions were reproduced verbatim in the Agenda note for the purpose of bringing these to the notice of the Advisory Board members and at the same time 'explore ways to allay the negative perceptions through various methods' which were indicated by way of illustration like improvement in the approach and method/procedure of audit; greater emphasis on the quality of financial statements, compliance and performance through audit; better audit output and reporting of results of audit, higher degree of professionalism among the officers and their staff and wide ranging and consistent dissemination of results and impact of audit. The Agenda note made it clear that these perceptions 'may neither reflect a balanced approach nor do they necessarily reflect objectivity and reality'. There could be widely diverse opinions on methodology, basis of perceptions and validity of conclusions most of which could be one sided and guided by the experience of the persons interviewed. The department still thought it fit 'to ponder over them' considering this as a good approach to develop the audit systems.

Some of the perceptions that were reproduced verbatim in the Agenda note for the Audit Advisory Board were:

- ❖ The C&AG focuses more on financial irregularities and less on outputs and outcomes.
- ❖ The accountability aspect remains relatively weak despite an elaborate system of finding faults and irregularities
- ❖ The performance appraisals fall short of management audit and do not indicate how management can be strengthened.
- ❖ The system is not fully equipped to meet the requirements of meaningful audit of activities/programmes of public expenditure in the newly emerging areas of science like nuclear energy, bio-technology etc., because of the complexities and technicalities involved.
- ❖ The audit reports need to be more timely to be of use to the executive.

- ❖ The excessive secrecy observed in audit procedures had made the working of the institution a black box and to that extent repugnant to the executive departments.
- ❖ The C&AG's comments on the accounts of Government companies could damage their over-all image.
- ❖ The auditors have failed to put before the public the work they do in a language easily comprehensible by the latter nor have they made any positive effort to tell the public about their activities.
- ❖ While the lack of adequate follow up action is a cause for concern, there is need for creation of a comprehensive mechanism within the C&AG's organization for the purpose. The remedy for the indifferent approach of the executive towards audit does not lie in the accumulation of legal powers in the hands of the authorities that have not used their existing powers as well as they should have.

Audit sometimes evokes extreme responses. Perhaps the responses have some linkage with the actual experience of the respondents or perceived threats from audit. There is no denying the fact that audit needs to improve its techniques and processes continuously. And yet there will always be some kind of hostility for audit because audit is mostly concerned with detecting irregularities, loopholes, wastages in spending, remissness, fraud and embezzlements and other irregularities. Nobody is more conscious of the need for improvement in audit approach as well as audit systems than the incumbent C&AGs. In the previous pages of the chapter, the C&AGs have been candid enough to express their views on such shortcomings in audit and the need to improve the matters. The highest tribute to audit was given by the C&AG V.N. Kaul when he said that the greatest strength of the audit department was its self awareness and the capacity to analyze its weaknesses and strengths. It is not for nothing that it is a self regulating body.

(D) NEW DEVELOPMENTS

Amongst latest developments, the following will be worth recalling in this chapter:

Gap Analysis: The World Bank acting country director addressed Government of India with a copy to the C&AG where he expressed Bank's intention to undertake an analysis of gap between the

National Accounting and Auditing Standards and the International Accounting and Auditing Standards. The World Bank had carried out such studies in Bangladesh and Sri-Lanka and was intending to conduct these studies in other South Asian countries of the region namely India, Nepal, Bhutan , Maldives and Afghanistan. In Pakistan, a financial reporting and audit improvement project was already under way.

After receiving this reference from the Department of Economic Affairs, Ministry of Finance which desired the C&AG's comments on the proposal of the World Bank, the C&AG discussed with the senior officers of the department on this matter and decided (February 2006) that it was not an opportune time for any external analysis in view of several developments on the same theme that had recently happened or were happening. These included peer review by National Audit Office, UK, issue of new performance auditing guidelines, aligning the audit methodology of IA&AD to international best practices, strengthening the regularity (attest) audit by training the department's officers at the NAO, UK, establishment of Government Accounting Standards Advisory Board (GASAB), etc. Further, it was thought that the Department being in a state of intense flux due to large number of initiatives that had been undertaken or were at the threshold of being launched, officers and staff would have little scope to respond to the questionnaires and interviews with any external team.

The C&AG, however, decided to undertake a detailed internal gap analysis to determine all areas needing reforms and strengthening along with detailed action plan. The object was to prepare a strategy for turn around of the IAAD over the next three years period 'into a true world-class organization comparable to the best'. The strategy to be adopted for this was that 'standards' should be the ultimate goal and 'capacity building' should follow the standards rather than compromising with the standards due to capacity limitation. Issues of capacity gaps can be addressed appropriately later. An internal gap analysis was accordingly carried out by a director level officer under the direction of DG (Audit). The report of the task force has since been submitted and is under internal scrutiny.

C&AG and Administrative Reforms Commission: The C&AG met the Administrative Reforms Commission in June 2007 on the subject of local bodies audit and subsequently, at the request of the Commission, he also sent a note on improving financial

management in the Government. The aspects which C&AG covered in his note, however, related to specific areas of financial management with which he is concerned namely accounts, audit and internal control. These three, according to the C&AG deserved attention of the Administrative Reforms Commission.

Briefly, the C&AG touched upon the following themes:

(i) *Introduction of Resource Accounting and Budgeting*: C&AG's emphasis was that while a roadmap and an operational plan for the transition from cash based accounting to accrual based accounting had already been suggested to Government of India by the C&AG after consideration of the matter in the GASAB, Government has to ensure the transition in a time bound manner. Further, along with this, Government of India should consider a full fledged resource accounting and budgeting programme in which the accrual accounting initiative should be the first phase of review and resource or accrual budgeting the final objective. In fact, the C&AG had addressed on similar lines to the Finance Minister earlier. He enclosed a detailed note on the subject for consideration of the Administrative Reforms Commission.

(ii) *Development of Internal Control Framework for the Government of India*: The C&AG was concerned about the weak internal control system in ministries/ departments of Government of India which was a major reason for poor financial accountability. He advocated that there was a need to clearly define internal control as a tool for providing reasonable assurance that management objectives were being achieved. And in that context, he requested ARC to consider if a comprehensive framework for establishing and maintaining internal control in Government of India should be developed for achieving the objectives of (i) improving the effectiveness of Government operations and (ii) the reliability of financial reporting and (iii) compliance with applicable laws, regulations and orders. He also emphasized in this context that internal control involved an assessment of the risks that a Government agency faces which called for development of risk management skills in Government agencies. He offered to the Government that if they so desired, the development of standards both for internal control and internal audit could be entrusted to the C&AG.

He also highlighted the need for immediate action on certain issues specially fixing of direct and clear responsibility for internal

control on Chief Accounting Authorities i.e. secretaries to government of India.

Another development of significance is the acceptance by the Core Group under the chairmanship of Cabinet Secretary of the need for prompt investigation of audit paras and concurrent evaluation of projects. This was in pursuance of the recommendations of Administrative Reforms Commission which inter-alia stated that:

- ❖ It should be prescribed that as soon as any major irregularity is detected or suspected by the audit team, it should be immediately taken note of by Government. A suitable mechanism for this may be put in place. It shall be the responsibility of the head of the office to enquire into any such irregularity and initiate action.
- ❖ Each office should make an annual public statement regarding pending audit queries.

This was communicated to the C&AG in October 2007. Ministry of Finance, Department of Expenditure stated that they had issued instructions on ARC's recommendations in September 2007. The C&AG felt that further detailed instructions were necessary. While enclosing draft supplementary instructions for issue to ministries as well as to state governments, C&AG requested Secretary, Ministry of Finance, Department of Expenditure to consider the draft for issue. The draft brought out the procedure to be followed by Audit as well as concerned head of department and Secretary to the Government giving time frames for actions to be taken when a major irregularity is detected in audit. Enhancing of capabilities for internal control and internal audit so that concurrent evaluations of projects/programmes can be undertaken by internal audit in an effective manner was also suggested by C&AG.

Audit of Oversight in Government of India: Based on the C&AG's meeting with the Prime Minister in June 2007 where the question of bringing out a Report on Oversight in Government of India was, *interalia*, discussed, the C&AG decided to carry out an audit of Internal Oversight by ministries of Government of India. To begin with, three pilot studies were conducted by the three Principal Audit Officers dealing with civil ministries of Union Government namely DGACR, PDA (ESM) and PDA (SD). Since this was a completely new concept in the context of Indian auditing system, adequate attention was given to framing of initial guidelines for

this audit. After going through the guidelines prepared by the above mentioned three audit offices for such audit, the Headquarters issued further directions to them to follow a 'uniform broad framework' based on the structure suggested by the C&AG. This structure covered four broad areas namely:-

- (i) accountability and financial management,
- (ii) appropriation and budgetary controls,
- (iii) sufficiency and effectiveness of internal controls and,
- (iv) monitoring of outcomes of major programmes and schemes.

The three audit officers were asked to develop a 'common generic framework' to conduct the audit which could be uniformly applied to various ministries for evaluation of their oversight systems.

The Headquarters also deliberated on the extent and nature of checks in this audit to distinguish this audit from the normal compliance and performance audits. Towards that end, it was desired that scope of audit examination was to be restricted to oversight related issues only and as regards extent of test, it was decided that this should cover:

- (i) existence of oversight mechanism
- (ii) sufficiency of such system
- (iii) its reliability and effectiveness in achieving the desired objectives.

The detailed guidelines prepared by the Headquarters based on the material received from the field offices were approved by the C&AG in September 2007. It was noted that since oversight audit would also involve an evaluation of internal controls, this would mean an element of duplication because evaluation of internal controls was already a part of standing annual audit in one or two selected ministries for featuring in the C&AG's Audit Report. The C&AG, therefore, directed that this material should be suitably integrated in the oversight report itself.

The C&AG also decided that as is the system, the output on oversight audit would be included in the C&AG's Audit Report and go to Parliament and PAC as per the existing practice, with the only exception of where internal and external public security demanded the reports' presentation to Government alone.

The Audit of Internal Oversight System in ministries and departments of the government will be a unique addition to the

audit literature and looking to the structure of this report, it is clear that it would provide a formalized arrangement whereby C&AG, on the basis of his evaluation, can express an opinion on the discharge of accountability for financial management and oversight by the senior functionaries of the Government including secretaries to the government.

Near Real Time Audit: Honourable President Dr. A.P.J. Abdul Kalam during his address to the Audit Advisory Board on 2 April, 2007 discussed 'his vision of an on-line, non intrusive e-audit that responded in near real time'. He wanted the Advisory Board to examine this system and make suggestions so as to help improved performance and ensure accountability of Government. The suggestions made by the honourable President was deliberated by the Audit Advisory Board, and subsequently the C&AG reviewed the possibility of introducing such audit after consulting the field offices and some other outside organizations. It became clear from these consultations and review that such possibility of near real time audits and e-Audits is dependent very much on the extent of computerization of the activities of the auditee organizations. Also, audit must have access to information systems of the auditee organization in such situations. This was not a problem because such an access would normally be available, if necessary after discussion with the concerned auditee organization. It was also noted that in effect near real time audit was already being conducted in respect of a number of programmes/schemes of the government like National Rural Employment Guarantee Scheme, Sarva Siksha Abhiyan etc. On the basis of these responses and inhouse discussions, the C&AG decided to commission two field offices namely PDAESM and DGADS, who had expressed their willingness to conduct such real time audit. The outcome of these studies would be keenly awaited.

Even though audit is mostly post-facto, in the case of programmes of long standing tenure and projects with long gestation period, audit intervention does take place during the operation of the programme or project. These can quite often be mid-term appraisals. This practice has been in vogue for a long time and as a result authorities are able to, if they wish, carry out course corrections in the light of audit findings. Such course corrections were recently witnessed in the case of C&AG's performance audit of Golden Quadrilateral Project executed by NHAI which was carried out while it was still in the fourth year

of its operation. As a result of audit findings, several improvements in systems, procedures and programmes were brought about including the system of contracting and evaluation of bids.

However, it can be visualized that in future with more and more computerization of Government departments and introduction of e-governance systems, it may be feasible to have near real time audit or probably soon after the projects are launched thereby affording opportunity to the auditees a better use of audit output.

Appointment of C&AG V.N. Kaul as a member of the Independent Audit Advisory Committee: 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. This Committee has just been set up and this is the first appointment to the Committee. The Committee is a subsidiary body of the General Assembly and serves in an expert advisory capacity and assists the Assembly in fulfilling its oversight responsibility. Essentially, this Committee has the objective of strengthening the Internal Oversight Services. Amongst its various functions are (a) advising the General Assembly on the scope, results and effectiveness of audit as well as other oversight functions; and (b) advising the Assembly on measures to ensure the compliance of management with audit and other oversight recommendations. The Committee's responsibilities, in addition, extend to internal oversight, management of risk and internal controls, financial reporting and other areas.

The election of C&AG V.N. Kaul to this Committee is a singular honour to him personally and also a tribute to the SAI India which he heads. Amongst the experience, qualification, etc. for the members, it is specifically notified that the members of the Committee shall reflect the highest level of integrity and shall not hold any position or engage in any activity that could impair their independence from the Secretariat or from companies that maintain a business relationship with the United Nations, in fact or perceptual.

The appointment of C&AG Kaul to this position reflects his standing in the international organizations of which United Nations is the apex institution.

NOTES: CHAPTER-22

¹ C&AG D.O. No. 234 Audit (Rules)/19-2006 dated October 12, 2007 to Secretary, Department of Expenditure, Ministry of Finance

² R. Ramanathan

³Fali S. Nariman, 'A question of the right balance of the Executive, the Legislature and the Judiciary'—The Hindu dated 15 August, 2007.

APPENDIX 'A'

CHANGES IN THE POLICY, LAW, RULE ETC. BY THE GOVERNMENT AT THE INSTANCE OF AUDIT

Value addition or the positive difference made in relation to integrity of the financial statements, compliance to the rules, the standards of propriety and performance through audit is the measure of impact of audit. The impact of audit is the aggregate value of its findings in all local audit inspection reports issued during the year and the value of the findings included in the Audit Reports of the C&AG to the Parliament/State legislatures.

In a chapter exclusively devoted to impact of audit, in the annual administrative report of the C&AG called 'Performance Report of Indian Audit and Accounts Department 2006-07', the C&AG has brought out that the entities in the Union/State Governments accepted audit findings for overpayments/under recoveries amounting Rs. 17,006.83 crore during 2006-07 and during the previous two years 2005-06 and 2004-05 such non/short recoveries accepted by auditable entities were Rs. 7,996 crore and Rs. 4388 crore respectively. The total amount of overpayments/short recoveries pointed out in Audit during 2004-07 was as under:

Year	Total overpayment/short recoveries pointed out in audit (Rs in crore)
2004-05	19,769
2005-06	34,003
2006-07	46,053

Till the time of printing of Audit Reports of relevant years Union/State Governments had conveyed acceptance to the extent of amounts indicated in above para.

Further, money value of the paras contained in the 12 Audit Reports on the accounts and transactions of the Union Government and 64 (excluding three Audit Reports of Local Bodies) Audit Reports in respect of the States and Union Territories amounted to Rs. 8,505.20 crore during 2006-07.

Since audit is carried out on a test check basis, the quantum of overpayments/under recoveries assume greater significance. More important, as the Annual Performance Report says, apart from this visible impact 'much more significant but indeterminable outcome of audit lies in the preventive and assurance values'. Further, Audit was instrumental in changes made in the policy, law and other significant changes by Government based on audit observations to avoid recurrence of similar irregularities—these details are also contained in the Annual Performance Report.

The above impact alone amounted to Rs. 22.77 for every rupee spent on Audit in respect of cases relating to the year 2006–07, excluding the value of assurance provided, system improvements and deterrent value.

Certification of accounts of Government companies and corporations: C&AG's supplementary audit under Section 619 (4) of the Companies Act, 1956 during 2006–07, of 12 Central PSUs and 33 State PSUs resulted in the revision of accounts leading to increase/decrease in the reported profit/loss by Rs. 1,727.43 crore. Where the PSUs did not revise their accounts, comments were issued on their accounts. These comments pointed out understatement/overstatement of reported profit/loss by Rs. 7,429.80 crore (Central PSUs: Rs. 562.16 crore and State PSUs: Rs. 6,867.64 crore) and understatement/overstatement of assets/liabilities by Rs. 35,908.49 crore (Central PSUs: Rs. 1,320.00 crore and State PSUs: Rs. 34,588.49 crore).

Besides monetary impact, the changes made in the policy, law, rules and other significant changes made by the Government on the basis of audit observations in the recent past are briefly explained below:

UNION GOVERNMENT

I- Change in Policy:

Ministry of Finance:

Withdrawal of 'Levy of duty on the basis of capacity of production on certain products of iron and steel under compounded levy scheme': In order to evaluate the detailed procedure formulated by the Government to implement the levy of duty on capacity of production basis on certain products of iron and steel under compounded levy scheme and its operation with special emphasis on its impact on revenue collection, a review was included in Audit Report No. 11 of 2000. The audit findings pointed out:

- lacunae in scheme formulation;
- lapses in implementation;

In view of recommendation of Audit for re-examination of the scheme, the Finance Minister, while presenting the Budget for 2000–01, admitted that the scheme did not work and scrapped it. The earlier system of levy of duty on *advalorem* basis was restored.

Ministry of Textiles:

Irregularities in release of subsidy amounting to Rs. nine crore under 'Janata Cloth Scheme' pointed out by Audit in Report No. 4 of 1998 included violation

of the norms, its misuse, and non-availment of benefits by the intended beneficiaries. As a result, the entire amount of Rs. nine crore was recovered. The Government considered all aspects of the Janata Cloth scheme and a final decision was taken to discontinue the scheme with effect from April 1998.

Ministry of Railways:

Introduction of policy ensuring recovery of maintenance charges in respect of Road Over Bridges/Road Under Bridges: As per provisions of the Indian Railway Code for Engineering Department, if the cost of Road Over Bridge/ Road Under Bridge (ROB/RUB) was shared by the Railways and State Government/ Road Authority, the maintenance charges are to borne by the Railways and State Government/ Road Authority in proportion to their respective shares of cost. An agreement clearly spelling out the liabilities for bearing initial as well as recurring costs was to be signed with the concerned party before commencement of work. Audit, through various reported paragraphs, had observed that Railways had neither executed the agreements nor were they recovering the recurring maintenance charges. An audit para pointing out this lapse was also printed in Report No. 8 of 2004.

Keeping in view the problems faced in raising bills for maintenance of ROB/RUBs, Railways had introduced a new policy whereby instead of raising bills annually, the parties were asked to pay one time capitalized maintenance charges and collect them from the sponsoring authorities in advance. The signing of agreement and collection of capitalized maintenance charges should be completed before opening of ROB/RUB to traffic.

Ensuring economic feasibility: A large number of items used in the Railways are manufactured in house in the Railway Workshops. Audit scrutiny of records of carriage and wagon workshop, Matunga had revealed that some items which had been manufactured by workshop were also purchased from the market. A comparison of the inhouse manufacturing cost with the cost of purchase from trade had revealed that the purchase from market was much cheaper. Audit had found that Railways had incurred avoidable expenditure of Rs. 2.64 crore in manufacturing 45 categories of items which were available at cheaper rates in the open market. On this being taken up through the Audit Report No. 8 of 2004, the workshops engaged in manufacturing activities were given instructions to make regular reviews and analysis by comparing the costs and quality of the items with those available in the market and stop manufacture of those which are available at cheaper rates in the market.

Other Ministries:

Undue favour by extending group discount exceeding norms: In the Audit of New India Insurance Company and National Insurance Company, Audit detected that these companies were issuing group policies on undue and irregular terms and conditions to Golden Trust Financial Services (GTFS) thereby, incurring loss of Rs. 21.57 crore and Rs. 5.59 crore respectively during the period January 2001–March 2005. This was commented upon in paragraph 11.3.1 of Audit Report No. 12 of 2006. The Insurance Companies, issued

instructions to their respective operating officers that all new long term policies, tailor made group mediclaim policies and PA policies should be referred to for approval of General Managers (Technical) at head office. This change of policy meant that a higher scrutiny would deter such irregular concessions or else would be detected at the head office level.

Calamity Relief Fund—Introduction of Monitoring Mechanism: Ministry of Finance had, in January 1991 notified the 'Scheme for Constitution and Administration of Calamity Relief Fund and Investment thereof' for each state. The scheme provided that Calamity Relief Fund (CRF) would be constituted for the purpose of financing natural calamity relief assistance. In chapter 1 of Audit Report No. 3 of 1999, it was commented that many states had not set up a separate CRF as envisaged under the scheme and continued with the practice of incurring expenditure on calamity relief from general revenues. Funds received by some states were either booked as state receipts or were parked in Revenue Deposits, Personnel Ledger Accounts, Civil Deposit, Bank etc. Audit scrutiny revealed endemic diversion of funds to the extent of Rs. 519.54 crore by state governments on activities not connected with relief measures. The Report also highlighted excess expenditure towards provision for relief assistance beyond the prescribed norms, making payment without damage assessments, excess payment on doubtful grounds and in some cases double payments. Ministry of Home Affairs introduced monitoring mechanism of expenditure from Calamity Relief Fund to avoid continuance of irregularities pointed out by Audit.

Review of the Scheme for levy of duty on the basis of capacity of production on processed fabrics: Paragraph 2 in Audit Report 11 of 2002 pointed out defects in the provision of the scheme for levy of duty on the basis of capacity of production on processed fabrics and irregularities in implementing the scheme. The government restored the advalorem rates of duty on processed fabrics in these cases.

Irregular inclusion of House Rent Allowance: Audit para 9.17 in Report No. 4 of 2002 highlighted irregular inclusion of element of HRA in calculation of overtime allowance resulting in extra/avoidable expenditure of Rs. 30.14 crore by Mumbai Port Trust. This finding resulted in Mumbai, Port Trust withdrawing the irregular inclusion of HRA in calculating overtime allowance from March 2002. This had an impact on preventing loss of revenue and avoidable expenditure in future years in such calculation.

Ministry of Defence:

Raising permissible rejection limit to cover up defective production: General Managers of three Ordnance factories raised the acceptable levels of rejection pertaining to particular items so as to cover the higher rejections that actually occurred. The amount involved in such abnormal rejections was Rs. 2.26 crore. On this being taken up in para 51 of Audit Report No. 7 of 2000, all ordnance factories were instructed in May 2000 not to revise the normal rejection percentage upward without the approval of Ordnance Factory Board.

II-Change in Law:

Ministry of Finance:

Adjudication of demand cases: In Audit Report No. 11 of 1999, relating to Central Excise Receipts, failure of the departmental officer in not complying with the executive instructions of the Board to finalize adjudication cases within six months of issue of so cause-cum demand notice involving duty of Rs. 3387 crore and interest of Rs. 1697 crore was highlighted. The Report also commented on loss of duty of over Rs. 58 crore in 273 cases since demands were not raised in time.

In view of recommendation of Audit, the Government made the following amendments in the Central Excise Act, 1944 with effect from 11 May 2001:

- It was made mandatory for the assessing officer to adjudicate the case, as far as possible, within one year in cases of duty short paid as a result of fraud, mis-declaration, etc, and within six months in other (normal) cases.
- The time limit for raising of demand was increased from six months to one year so as to reduce chances of cases becoming time barred.

Amendment of scheme of taxation of companies under special provisions of Income Tax Act (Section 115 JA): Under the normal provisions of the Act, claim of higher depreciation on account of revaluation of assets is not allowed for computing income liable to tax. However, a corresponding provision was not available under the Minimum Alternate Tax (MAT) provisions that resulted in some companies resorting to revaluation of assets to claim higher depreciation. This was pointed out by Audit in Chapter I of Audit Report No. 13 of 2004, Union Government (Direct Taxes).

As a result, Section 115JB(2)(g)(iia) amended by Finance Act, 2006 with effect from 1 April 2007 laid down that claim of higher depreciation through revaluation of assets debited to the profit and loss account, will be added back while computing book profits liable for tax.

Assessment of private schools, colleges and coaching centres: In chapter III of Report No. 13 of 2004, Union Government (Direct Taxes), Audit had pointed out following deficiencies in the assessments of private schools, colleges and coaching centres. A brief of the audit points and action taken thereon is mentioned below:

There was no provision in case of exemption under section 10(23C) (vi) to furnish the audited accounts with audit certificate along with returns of income. Bulk of the assessments of private schools, colleges and charitable trusts were, by and large, completed in summary manner.

Finance Act, 2005 has inserted a provision as per which the assessee is supposed to file its tax return every year with the copy of audited balance sheet. CBDT issued guidelines in October 2005 for selection of cases for scrutiny of income tax returns which specifically provide for the selection of cases of universities and other educational institutions subject to monetary limits prescribed.

Audit had also pointed out that trusts running educational institutions were earning income by way of donations, building fund, swimming pool

charges, poor fund, etc. apart from income from educational activities which was also being exempted from income tax.

An amendment has been made through Finance Act, 2006 whereby anonymous donations made to wholly charitable trusts and institutions other than religious trusts and institutions shall be charged to tax.

Audit had further pointed out that since there were no provisions for withdrawing the exemption notification granted to assesses for availment of exemption under section 10(23C), ineligible assesses who were not fulfilling the conditions laid out in section 10(23C) were also availing exemption.

Finance Act, 2004, with effect from 1 October 2004 inserted a new proviso at 10(23C) (via) to enable withdrawal of approval or rescind the notification in case the activities of the assessee are not genuine or are not being carried out in accordance with, all or any of the conditions, subject to which it was notified or approved.

Refunds under the Income Tax Act, 1961: Under section 143(4), if no refund is due on regular assessment or the amount refunded under sub-section (1) exceeds the amount on regular assessment, the whole or excess amount so refunded shall be recovered from the assessee. However, there is no provision under the Act for levy of interest on excess refunds during summary assessments. This was commented upon in Chapter 5 of Report No. 12A of 2002.

A new provision was introduced as section 234D by Finance Act, 2003 with effect from 1 June 2003 which laid down that where, as a result of regular assessment, no refund is due to the assessee or the amount refunded exceeds the amount refundable on account of regular assessment, interest shall be levied at the prescribed rates on such excess amounts refunded during summary assessments.

III-Change in Rules:

Ministry of Finance:

Provisional Assessments: With a view to ascertain the adequacy of the system, a review on provisional assessment cases in the central excise commissionerates was made by Audit and the following shortcomings were pointed out:

- ❖ No time limit was prescribed for finalization of provisional assessment.
- ❖ Non-reconciliation of number of cases and duty blocked in provisional assessment and cases.
- ❖ Non-levy of interest on recovery of duty on final assessment

This review para was discussed by the Public Accounts Committee which recommended for a statutory time limit for finalization of provisional assessment cases. Rules were amended on 1 July 2007 and as per Rule 7 of the revised Central Excise Rules 2002, time limit of six months has been fixed for final assessment which may be extended for a further period not exceeding six months by the Commissioner of Central Excise.

A further review of the provisional assessment cases was carried out and included in Audit Report No. 7 of 2007 (Performance Audit-Chapter-III), to assess the following:

- ❖ The impact of the fixation of time limit on pace of clearance of provisional assessment cases,
- ❖ Efficiency of internal controls and monitoring mechanism in protecting the interest of revenue and
- ❖ The adequacy and effectiveness of rules, regulations and procedures governing disposal of provisional assessment cases

Ten constructive and implementable recommendations were given to remedy the systemic weakness identified by Audit. Of these, nine recommendations have been accepted by the Ministry.

Undervaluation of goods manufactured on job work basis: The Supreme Court in the case of M/s Ujagar Prints and others, ruled that the value of goods manufactured on job work basis shall be determined by adding processing charges (job work charges) to the landed cost of raw materials including all costs incurred for bringing the raw materials to the premises of the job worker.

Audit pointed out that excise duty was being paid on behalf of principal manufacturer by job worker at the time of clearance of finished goods. The assessable value was arrived at under Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 which was lower than the transaction value of principal manufacturer of the same product under Section 4 of the Central Excise Act. This resulted in undervaluation of finished goods and consequent short payment of central excise duty. In this connection, paragraph 9.2 in Audit Report No. 11 of 2005 and paragraph 11.4 in Audit Report No. 7 of 2006 refer.

In the Union Budget 2007–08, Government took remedial measures by introducing a new Rule 10 A under Central Excise Valuation Rules, 2000 (Determination of Price of Excisable Goods) stipulating payment of duty on transaction value of the same goods as adopted by the principal manufacturer.

Patent and propriety medicaments brought under section 4A (Maximum Retail Price): Maximum Retail Price (MRP)-valuation of excisable goods under section 4A was introduced to check undervaluation so as to safeguard government revenue and prevent revenue loss due to adoption of lower assessable value by job workers in respect of goods manufactured and cleared by brand owners.

Paragraph 2.5.1 of Report No. 11 of 2003, Union Government (Indirect Taxes-Central Excise & Service Tax) pointed out that products of patent and propriety medicaments were not brought under section 4 A Maximum Retail Price (MRP) and there was an estimated loss of Rs. 471 crore from April 1998 to December 2001 to the Government.

Government of India accepted audit views and brought patent and propriety medicaments under section 4 A (MRP) vide notification dated 7 January 2005.

Ministry of Railways:

Introduction of levy of interest for delayed payment: Container Corporation of India (CONCOR) had been collecting all charges including freight from the

customers with effect from 1 November 1990. Though, as per agreed procedure, CONCOR was required to deposit the Railway freight at the prescribed rates with the Traffic Accounts Office of the originating Railway on fortnightly basis by 25th day of the month for the first fortnight and by 10th day of the following month for the second fortnight, Audit had found that the amount was being remitted very late. The loss of interest on belated payments worked out to Rs. 5.93 crore in test check.

Keeping in view the audit objection on delay in payment to Railway by CONCOR, Railway Board made provisions in the rules vide circular dated 12 December 1999 and 23 May 2000 to levy interest at the rate of 12.50 per cent on delayed payment and issued instructions to Zonal Railways.

Changes in Freight Rules: As per rules contained in Indian Railway Conference Association (IRCA), goods tariff, commodities which can not be loaded up to marked carrying capacity of a wagon were booked given a fixed minimum weight for charging freight. Time and again, Audit had pointed out anomalies in the minimum weight conditions prescribed and the quantities actually loaded by the consignors which clearly indicated that the wagons can be loaded more than the weight prescribed. In most of the cases, consignors were loading the wagons up to the prescribed weight resulting in under utilisation of the actual capacity of the wagon.

In order to overcome these lacunae, Railway Board changed the rules from 1 April 2005 and decided that freight in all cases should be recovered on the basis of marked carrying capacity of a wagon. With this change, the scope for underutilisation of capacity of the wagons has diminished.

Introduction of Haulage charges: Taking a serious note of running of under load container trains, Railway Board in September 1993 had instructed Zonal Railways to check the formation of all BFKI and BOX wagon trains operating on container circuits and ensure that trains are formed with full loading of 40 BFKI and 45 BOX wagons.

Audit scrutiny of records at a Domestic Container Depot of Western Railway had revealed that the Railway Board's instructions regarding running of Flat/BOX wagons with full load were not being followed and approximately 77 per cent of the container trains were being run with short load resulting heavy loss of revenue on account of underutilisation of capacity of Railway locomotives, line and crew.

In order to ensure that trains of CONCOR are run with stipulated load, Railway Board introduced a system wherein CONCOR is required to pay haulage charges for a minimum number of containers irrespective of the fact whether they actually load that number of containers or not.

Ministry of Urban Development:

Out-of-turn allotments of Government residential accommodation: There were several discrepancies in out-of-turn allotments of Government residential accommodation by the Ministry of Urban Development. On being pointed out by Audit in paragraph 9.1 of Report No. 2 of 1995, the Ministry issued revised

guidelines for discretionary allotments of General Pool Residential Accommodation.

IV Other Significant Changes:

Ministry of Railways:

Creation of Special Railway Safety Fund: Safety performance of Indian Railways, which is the principal mode of transport in the country, is of vital significance. A number of committees studied safety aspects in Railways and recommended various measures from time to time to improve the system and reduce accidents. Organizationally, Railway Board has a Safety Directorate headed by an executive Director. At Zonal and Divisional levels also, there are earmarked officers dealing with safety.

In paragraph 5.3 of the Audit Report for the year 1997–98, Audit had observed that the progress of works related to safety such as track renewal, construction and rehabilitation of bridges, etc. was very slow endangering the safety of the passengers and property. Further, there was no monitoring mechanism for keeping track of accidents and there was underreporting of accidents. Commissioner of Railway Safety (CRS), who is responsible for conducting inquiries of the major accidents, was not able to enquire all the accidents. Many new systems such as providing of Automatic Warning Systems, Communication devices to have direct link with driver, guard and control, etc were yet to be provided.

Audit findings were viewed seriously by the Public Accounts Committee and thereafter Ministry of Railways created a Special Railway Safety Fund (SRSF) and prepared a plan for clearance of the arrear of safety related works in a time bound manner. Rs. 17,000 crore was allocated under SRSF. Apart from track renewal works, the Fund was also utilized for replacement of distressed bridges, improving Signal and Telecommunication system, and introduction of new design rolling stock. Railway also initiated various measures to improve Safety performance. These were (1) Track Circuiting works (2) Provision of Auxiliary Warning System on trains and tracks, (3) Provision of Mobile Train Radio Communication system and (4) Train Activated Warning Device at Level Crossings.

STATE GOVERNMENT

I- Changes in Policy:

Ensuring value for Money : In para 4.1 of Audit Report relating to Government of Andhra Pradesh for the year 1999–2000, Audit commented on an expenditure of Rs. 34.78 crore from November 1995 to June 2000 on wage of work-charged employees sitting idle for five years with a recurring liability of Rs. 11.41 crore per annum.

During the PAC discussion held on 9 November 2005, Chief Engineer (Projects), stated that over a period of five years, staff was redeployed to other units and other departments. As on 30 September 2005, the number was reduced to 936.

The Public Accounts Committee recommended redeployment of the surplus work-charged staff to needy units/new projects coming up and suggested not to recruit work-charged staff in future.

Government of Andhra Pradesh-Social Welfare Department

Ensuring Government funds in Government accounts only: Audit pointed out that the funds relating to State schemes were deposited in banks outside the Government accounts. Government, in the Explanatory Notes to the audit para, stated that instructions had been issued to the Deputy Directors of Social Welfare to remit to the Government accounts such of the amounts available in banks, post offices, etc., which is not immediately required. Government further stated that a strict watch would be maintained over the funds kept outside the Government account and would ensure that no amount is kept outside the Government account without proper authorization and unless the circumstances absolutely warrant such keeping in public interest.

Government of Andhra Pradesh-Labour Department

Rehabilitation of Child labour: There was no nodal department at State level to monitor the rehabilitation of child labour. Consequent to an audit enquiry issued during the conduct of review, the Government in School Education Department issued orders entrusting the responsibility of rehabilitation and mainstreaming of 'out of school' children to the State Project Director, DPEP at State level and Assistant Project Coordinator, DPEP at district level.

In the Explanatory Notes to audit para, Government also stated that a website was created exclusively for child labour by the Labour Department and a child labour tracking system introduced in the said web site by the Labour Department.

II- Change in Rules:

Government of Maharashtra:

Accounting of interest earned on government funds: Maharashtra Prathmik Shikshan Parishad (MPSP) had earned interest of Rs. 7.21 crore during 2002-04 on amounts kept in fixed deposits and saving accounts which remained unutilized. This was pointed out by Audit in March 2005 to MPSP which stated that in the absence of instructions from Government of India (GOI) the amount of interest was lying with MPSP. As a result, Government of India inserted suitably a paragraph in their Manual of Financial Management and Procurement under SSA (paragraph 89.4). Simultaneously, Government of India directed (April 2005) the MPSP to take into account the interest accrued in a year against the release of GOI's and State Government's share towards the release of funds for Sarva Siksha Abhiyan (SSA) for the next financial year.

Government of Uttar Pradesh:

Introduction of ceiling on Out of Pocket Expenses to Minister: As no limit was fixed on the Out of Pocket Expenses (OPE) of Ministers in the Uttar Pradesh Minister (Travelling Allowances) Rules, 1997, they charged daily allowance on actual basis ranging from Rs. 1,597 to Rs. 19,165 per day without producing any bill or supporting vouchers. On being pointed out by Audit, the

Government responded by amending the Rules (October 2002) and fixed ceiling on OPE at the rate of Rs. 301 per day within the State and Rs. 501 per day outside the State subject to the ceiling of Rs. 15,000/- per month.

III. Other significant changes:

Government of Uttar Pradesh:

Survey and Planning: To ensure adequate availability of road network and its constant upgradation, Public Works Department was required to conduct survey twice a year on earmarked points, i.e., count stations of various categories of roads viz. National Highways (NHs), State Highways (SHs), Major District Roads (MDRs) and Other District Roads (ODRs)) to gauge the traffic density and fix the priorities for their upgradation, wherever necessary. However, survey was conducted only once in a year, that too, ranging from 12 to 56 per cent in respect of NHs and SHs during 1997–2001 and a few count Stations on MDRs and ODRs.

The matter was discussed in PAC meeting held on 29–30 August 2005. The PAC directed the Public Works Department to conduct surveys regularly for the proper planning of strengthening and upgradation of roads. Engineer-in-chief issued orders for necessary action (November 2005).

APPENDIX 'B'

SOME KEY CASE STUDIES FROM AUDIT REPORTS

1

PROCUREMENT FOR OPERATION VIJAY (ARMY)

'Operation Vijay' was launched in May 1999 to flush out Kargil intruders. To cope with the emergency situation created by this development and to ensure expeditious procurement of items of stores specifically required for OP Vijay, Ministry of Defence issued orders in June 1999 modifying several payment terms like not insisting on performance bank guarantee from the vendors and payments through 'Letter of Credit' on dispatch of stores instead of the normal system of advance payment against bank guarantees.

The Audit Report on 'Procurement for OP Vijay (Army)' which the C&AG brought out in 2001 (No. 7A of 2001) relates to audit of Kargil operation purchases made during the calendar years 1999-2000. The origin of this review was a specific request from Government of India to the C&AG for a special audit relating to such purchases in view of allegations of irregularities in emergency procurements for these operations. The C&AG in his audit decided to (a) assess the efficiency, economy and effectiveness of the defence procurement system in an emergent situation, and (b) identify the major cases of irregularities. The Report was presented to Parliament in December 2001. A draft Audit Report on these purchases prepared by the office of DGA Defence Services was scrutinized in the Headquarters and a decision was taken to carry out a more indepth study with focused attention to the two objectives stated above. Accordingly, a team under the then Principal Director¹ in the C&AG's office dealing with Defence Audit Reports was formed for conducting a fresh exercise. After going through the various files of contracts and purchases and looking to the enormity of the data involved, he decided to create a computerized database of all the information for a better analysis of the procurement. This data eventually enabled the Audit to not only understand the big picture regarding Kargil operation purchases but also helped it to pinpoint the key cases of procurement. Of course, the individual purchase cases were scrutinized as usual through the concerned files. The final output of

this exercise was definitely a vastly improved account of the audit of procurement cases relating to Kargil War. The drafting for this new report which was mostly done by the Principal Director and ADAI (Defence) was very much accountability oriented bringing the glaring irregularities to light very effectively. Perhaps, pointed observations on the deficiencies and malpractices in procurement and the excellent drafting of the Report left no option for Ministry of Defence but to send a quick response.

C&AG's Audit Review created tremendous furore in the media and in Parliament. The report came down heavily on the procurement system and purchase of substandard equipment and material for the Kargil War. The report, inter alia, made the following observations:

- ❖ Even as Ministry relaxed extant procedures to secure supplies quickly for Operation Vijay yet the very purpose of relaxing the procedure was defeated since nearly all the supplies were either received, or contracted well after cessation of hostilities and therefore not meant to support Operation Vijay. Supplies valued at Rs.2150 crore were received after the end of the hostilities in July 1999 and, of this, supplies, of Rs 1762.21 crore were actually received six months after the end of hostilities.
- ❖ The relaxation of rules and procedures eventually cost the Govt. Rs.44.21 crore involving a number of items.
- ❖ Equipment and supplies of Rs 260.55 crore did not meet the quality parameters.
- ❖ Ammunition worth Rs 91.86 crore were such whose shelf life had expired.
- ❖ Purchases in excess of authorization of requirement were valued at Rs. 107.97 crore.

In addition to the above, Audit also discovered that ammunition of the value of Rs. 342.37 crore were contracted for import on grounds of operational emergency although the same was available inhouse since it was being produced in the ordnance factories or PSUs. In summary, therefore, while at one hand, critical supplies of clothing, ammunition, and arms could not reach the troops during the operation, Rs. 1046 crore (nearly half of the total expenditure on the operation) was spent without any result or use. In the process, established principles of propriety were breached.

When the report was placed in Parliament, it got wide publicity in the media because of the fact that it laid bare not merely the undue concessions that were granted in the purchase to the suppliers but, more importantly, it demonstrated the total callousness and lack of integrity on the part of persons concerned in the Army in a war like situation. The whole nation was aghast at the way in which the Army, to be precise, the Army Ordnance Corps, had prepared for the supply of essential equipment and material to the troops fighting with the enemy in Kargil. Since the report of the C&AG is referred suo-moto to the PAC, rightly the matter was not discussed much in Parliament but in PAC whose Report was eagerly awaited.

The PAC gave its report in August 2003 but it did not touch upon any of substantive matters contained in the Audit Report on some technical grounds. The Committee was upset with fact that the government i.e. Ministry of Defence, was not prepared to make available to the PAC the report of the CVC on

defence deals for reference. The Ministry declined to submit CVC report on the plea that 'it is based on secret and top secret documents and therefore it would be prejudicial to the interest of the state'. The Committee concluded that they were surprised that such a vital document which was considered essential for scrutiny of these procurement deals had been withheld from them on the ground of secrecy and therefore concluded that they were unable to give their findings on the C&AG's Report on Review of Procurement for OP Vijay (Army).

It is one of the very rare cases where the PAC did not deliver a report even after discussing audit report and taking evidence of the Ministry of Defence. The loss was entirely of public interest and accountability as a result of this confrontation between the government and the PAC, and the nation was deprived of the full story coming out. On hindsight it would appear that the government succeeded in preventing the PAC from giving their recommendations on this audit report which could have otherwise embarrassed them.

However, the Audit report had a far reaching impact otherwise on the government and internally government did proceed with inquiry against the culprit officers, many of whom were punished. More important, the govt. recognized the need for a more transparent and accountability oriented procurement system. To achieve this, the Defence Ministry first brought out a Defence Procurement Procedure Manual in 2005 and in 2006 the Ministry brought out a completely revamped Defence Procurement Procedure Manual which emphasized:

- a) all major decisions pertaining to the procurement process be taken simultaneously for reducing the timeframe for acquisitions;
- b) enhanced transparency by placing the generic requirements of the Services on Ministry of Defence website and generating vendor registration through Internet.
- c) Increased transparency in the conduct of field trials;
- d) Integrity Pact be made compulsory for all contracts above Rs. 100 crore;

In a reply dated 11 September 2007 to a question in the Parliament, the Defence Minister assured the House that action would be taken in 28 cases pertaining to discrepancies in purchases during the Kargil War pointed out by the C&AG in his Report. He also said that on the basis of C&AG's Report, CBI had already registered two regular cases. Minister also informed the House that independent monitors had been appointed in consultation with CVC to vet all defence procurements exceeding Rs. 100 crore as per the provisions of Integrity Pact defined in the Defence Procurement Procedure Manual for transparency in defence deals.

2

REVIEW OF INVENTORY MANAGEMENT IN ORDNANCE SERVICES²

This was an audit analysis of the Inventory System of the entire gamut of Inventory Management policies, practices and procedures in ordnance services. The voluminous Report of 164 pages (including annexures) dealt with exhaustively on Inventory Management philosophy, how the system operates and covered all essential functions of inventory management relating to provision, supply change management, inventory and budgetary controls, procurement, stock visibility, disposal and warehousing. The Review focused on Class 'B' stores managed at the Central Ordnance Depots (COD) level. It did not cover ammunition and explosives. The Audit Report also admitted that it did not cover several other areas also which were germane to Ordnance Services (the Report listed seven such functions). Another notable feature of this Review was that the IA&AD acknowledged the complete involvement and full cooperation of the Army, 'making a significant departure in approach from the established audit practice of identifying and reporting failures'. Only this Review will be known, amongst others, for another reason namely associating a consultant expert in the audit review. The terms of reference to the consultant were such that he was involved in the entire process of this review from the framing of audit objectives to assistance in the final drafting of the review.

Main Audit Findings: The Review pointed out to the outdated policies, practices and procedures of Inventory Management in the Army which were rooted essentially in the experiences of Second World War. Even though modified and adapted from time to time, these had not been subjected to any comprehensive appraisal to bring them in line with modern practices in the field of material management.

The audit review, therefore, examined whether the prevailing inventory management policies, practices and procedures were contemporary and cost effective, bearing in mind the imperative need for the Army to remain in a high state of operational readiness at all times.

The important findings of the Report are captured briefly below:-

- ❖ Provision review, (which is the most important function of Ordnance Services) requires authentic data on consumption and timely information on future force levels besides equipment maintenance policies to enable accurate forecast of requirements followed by prompt procurement action. Audit found that provision related documentation was incomplete or not updated, the system lacked selectivity resulting in according equal treatment to the entire range of inventory irrespective of cost, criticality or ease of availability. An analysis of a few transactions revealed avoidable lock up of inventory valuing Rs. 40.15 crore and procurement of spares worth Rs. 180.72 crore by circumventing the established procedures.
- ❖ The supply chain drew adverse comments and was found sluggish in responding to the needs of the troops. It was also highly inflexible chain and non-selective where almost all items were procured centrally and

then following the same channels of distribution. It ignored the ready availability of large inventory items of common civil end use in most parts of the country.

- ❖ Delays were galore in the issue of initial stocking guides. Certain stocks were so high that they were likely to last for indefinite period of time. There was no provision for financial approval of the inventory scales by Ministry of Defence.
- ❖ The existing arrangements for budget and inventory control were found inadequate and were fraught with risks of over or under provisioning.
- ❖ Audit commented heavily on the store keeping and clerical staff because there was no system or structural arrangement for induction training while their educational qualification was only up to SSC. A remedial measure suggested by Fifth Central Pay Commission could not be put to use due to resistance from staff.
- ❖ Inventory valuation procedure was unscientific and unreliable for decision making.
- ❖ On computerization of inventory, audit finding was that although initiated in late sixties, its implementation has been discontinuous and fragmented. As a result, full use of computerization could never be made. A project sanctioned in 1994 to get over the problems was lagging behind schedule.
- ❖ A serious point noted was absence of agreement in the inventory reported as verified by the depots and that reflected in the annual audit certificates rendered by the concerned Controllers of Defence Accounts. Surpluses/ deficiencies remained unreconciled for a long time. Huge inventory of spares as revealed by test check was lying unidentified even after four years of its receipt despite depots reporting continuously 100 percent stock verification every year.
- ❖ The overhaul / repair programmes were affected due to non—availability of critical and vital spares. Also, cases of rejection of stores not meeting the specifications were a common occurrence.
- ❖ Large scale proliferation in variety of items of civil end use was found in the Ordnance inventory. Standardization was never seriously attempted.
- ❖ The stock holdings were ranging from 2.79 times at one depot to 29.28 times at another depot, of the average annual issues made. Audit estimated that based on the prevailing consumption trend, the stores in hand were likely to last up to 100 years and beyond in some cases and for an indefinite period in some other cases.
- ❖ The prevailing system of identification of surplus stores and their disposal were severely constrained by time consuming procedures. Delays in disposal action were galore. Audit noted that while inventory valuing Rs. 55.09 crore was pending for disposal, serviceable stores valuing Rs. 156.4 crore were lying in open as unwanted stores and occupied precious covered accommodation.

Recommendations: A commendable feature of the Audit Report was that it made 68 recommendations and Ordnance Services and the Ministry fully agreed with 51 of these. Audit view was that if these recommendations were implemented, there could be great value addition in the following areas:-

- ❖ Segmentation of inventory for selective inventory control
- ❖ Reduction in procurement lead time resulting in lesser investment on inventory, besides saving of storage space and inventory carrying costs.
- ❖ Realistic scales for procurement resulting in avoidance of over—provisioning.
- ❖ Delaying of supply chain which would respond effectively and enhance user satisfaction
- ❖ Enhanced stock-visibility
- ❖ Variety reduction through standardization
- ❖ Speedy disposal of surplus stores.

Ministry of Defence had in July 2001 acknowledged that this review 'was sharply focused and very useful'³.

3

PERFORMANCE AUDIT OF THE DIRECTORATE GENERAL OF QUALITY ASSURANCE

QUALITY ASSURANCE OF ARMAMENTS⁴

A high quality Audit Report brought out in 2005 by C&AG dealt with a vital organization of the Defence Services namely, Directorate General of Quality Assurance (DGQA). This office has the responsibility of ensuring high standards of quality and reliability of defence equipments. The responsibility of this office extends to 'effective production and procurement quality management policies, procedures and practices that form the basis for establishing confidence that items inducted into service not only conform to the quality standards required by the users but would stand up to the rigours of expected use and also represent good value for money'. An Audit Report on Equipment Management brought out during the earlier periods had commented adversely on quality deficiency during production, procurement and exploitation stages of the equipment life cycle. This performance audit report, therefore, was very timely and aimed to examine 'whether the quality assurance policies, procedures and practices in vogue were in tune with the present day needs and whether DGQA was suitably organized, equipped and staffed to discharge its responsibilities effectively ...'.

This performance audit was undertaken by the Director General of Audit, Defence Services by involving a consultant expert who was a high ranking retired army officer. The involvement of a consultant expert, proved to be of great value. The report was prepared with the full involvement of DGQA, the Army and the Secretary (Defence Production Units) as well as heads of auditee (29 meetings with these authorities are listed in the Report). The Report contained eleven recommendations, most of which were accepted by Ministry of Defence and DGQA.

The Audit Report opened with the significant observation that DGQA's functioning under the Department of Defence Production was an organisational infirmity which was impinging on its independence. Audit supported the

assertion by comparing the position in this regard obtaining in several countries, specially in UK and Australia where the quality assurance was organised as an independent support group under Ministry of Defence, while in USA many of the quality assurance services were outsourced. Audit recommended that DGQA should be distanced from the production organisation and assume 'the role of a second party quality assurer within the ambit of the Ministry of Defence'. The report also recommended feasibility of creating a Defence Quality Assurance Board (DQAB) with due autonomy as per the recommendations of Rajadhyaksha Committee. The Ministry of Defence responded to this saying it had no objection to transfer control of DGQA to Defence Quality Assurance Board, as and when constituted.

The report brought out some more infirmities in the system as given below:

- ❖ No quality policies or standards had been laid down either by the Ministry of Defence or by the Army.
- ❖ Essentially DGQA had not been able to evolve from being an inspection agency into a quality assurance agency as regards systems, procedures and practices.
- ❖ Multiplicity of Controllerates of Quality Assurance, who were the nodal field formations for quality assurance, also contributed to inefficiencies and problems of coordination.
- ❖ DGQA was unable to effectively perform quality assurance functions primarily because of the inappropriate model of quality assurance where DGQA had assumed the role of first party quality assurer, even though, it was conceived as a second party quality agency on behalf of the Army. Its role of inspection in the production process was intensive and obviously diluted the responsibility of factory for quality.
- ❖ Similarly, the approach of DGQA to quality assurance of supplies from industry was inspection based. It was again defective since it did not take into account the risks involved in procurement of different categories of supplies.

The report depreciated the existing system of vendor management and vendor development being not conducive to tapping the potential of the industry and development of defence industrial base since DGQA was involved only in registration while the selection of vendors, price negotiation and placing of orders was in the hands of procurement agencies. In particular, Audit was concerned that while DGQA maintained information about the vendors which should ideally be shared with the procuring agencies to help them in taking procurement decisions, but, from an analysis of 25 cases of procurement decisions selected at random, it came out that, in atleast 7 cases the decisions taken were not in conformity with the vendor information available with DGQA; it also found that vendors' grading and rating were not made available to the Tender Purchase Committee (TPC) during selection of vendors for order placement which defeated the very purpose of vendor rating. The contractual provision was found weak by Audit and inadequate pre-despatch inspection militated against effective quality assurance of imports. Most of these were suppliers dictated with little or no redressal available. The accountability system suffered due to dispersal of responsibility for ensuring

serviceability and reliability of ammunition stocks held by the Army, between Ordnance Service and DGQA.

Audit was also concerned that documentation of specifications was not a priority issue with DGQA. The DGQA had been able to document the particulars in full for only 47 per cent of the defence products in use. Since the DGQA performed the function of Authority Holding Sealed Particulars (AHSP) any waiver or deviation required their approval. Audit also found that control in this regard lacked consistency and was often discretionary resulting in conflict with the manufacturers. Audit concluded that AHSP was an outdated method of controlling the specifications since world over countries were adopting the 'configuration management' to achieve documentation control and management of specifications.

Other points dealt with in the Audit Report related to direct recruitment of technically qualified personnel to DGQA and existence of multiple cadres and levels of posts that created a layered organization unsuited for quality assurance work.

The Report expressed the hope that since both Ministry of Defence and DGQA had accepted most of the recommendations of Audit, the implementation of these would help in improving the systems to be in tune with contemporary needs of production units and the Army.

In the opinion of C&AG Kaul this Performance Audit was conducted 'incorporating a management audit angle to enable the executive to streamline the organization and the system. The systems were studied by Audit in comparison to best practices world wide in other armies of the world.'

This paragraph was not selected by PAC for evidence. However, ATN received from the Ministry of Defence revealed that action as per the recommendations of the Audit Report had already been taken/ initiated in many cases.

4

ACQUISITION OF SU-30 AIRCRAFT⁵

The Air Force suffered serious combat capability due to fleet obsolescence most of which was inducted in mid nineteen seventies and early eighties and the Ministry of Defence entered into a contract with manufacturer of SU-30 aircraft to supply 40 SU-30 MK aircraft at a cost of Rs. 6310 crore inclusive of indigenous development and import of avionics systems. The contract was for supply of fully upgraded SU-30 MK aircraft in a phased manner commencing from the first half of 2001. The upgradation was to be completed by integrating avionics to be supplied by India to the aircraft manufacturer. The induction of the aircraft into the Air Force had been greatly delayed due to reasons which were analysed in Audit Report. As per the contract, 10 aircraft out of 40 were to be delivered fully upgraded during 2001 while the remaining 30 were to be upgraded in India/plant site in a phased manner during 2001 to 2002. Audit Report made following observations on the deal:

- ❖ Unrealistic assumptions were made regarding the indigenous development of certain avionics systems and lead time for import of the systems of western origin for upgradation of the SU-30K air defence aircraft into multirole SU-30MK version.
- ❖ The milestones set by the Ministry were unrealistic since the track record of government in this respect in the past, in similar circumstances of dependence on imports had been dismal, going by the 'failures and delays in development of vital defence equipment brought out in several cases by the Audit'.
- ❖ The original induction programme of SU-30MK multirole aircraft has already been delayed by 18 to 24 months and was likely to be further delayed. 'Meanwhile, the Air Force will have to either live with the depleted force level or will be compelled to use the ageing fleet despite an expenditure of Rs.2432 crore as of August 1999'.
- ❖ The Ministry chose to follow an uncertain route of joint development by equipping the SU-30K air defence aircraft with modern avionics systems to be imported and supplied by Government of India and through indigenous development and production, to convert it into a multirole aircraft. This divided responsibility for procurement of the systems and their integration blurred the responsibility of the manufacturer towards producing an integrated state-of-art multirole aircraft system.
- ❖ The development and production of key avionics systems like mission computer, display processor, radar computer etc. taken up by the DRDO and associated production agencies had been delayed by 30 months. Certain sub-systems were still in the development stage.
- ❖ Not only did the Ministry fail to ensure development of the systems identified for indigenous development, it also failed to place procurement orders for western avionics items for supply to the manufacturer as per contracted schedule. Selection and procurement of Western avionics systems had been delayed by 4 to 24 months. Contracts for some of the systems had not even been concluded.
- ❖ The delay compelled the Ministry to re-schedule the delivery of 22 partially upgraded and 10 fully upgraded versions of SU-30MK multi-role aircraft and ultimate upgradation of the eight SU-30K air defence aircraft. Even this revised schedule was not likely to be met. (The latest update indicated that the last batch of 10 aircraft were finally delivered by December 2004 without fully customized).
- ❖ The aircraft was evaluated without formulating the ASR and firming up the need in disregard of the approved guidelines issued in 1992, as recommended by the Public Accounts Committee.
- ❖ Due to delay in development and delivery of indigenous and western avionics, the Ministry was compelled to import 10 additional SU-30K aircraft at a cost of Rs. 1187 crore, which was not suitable for multi-role performance.
- ❖ The manufacturer violated the contractual provisions and supplied old, used, defective and unserviceable items valued at Rs. 15.51 crore. The Ministry had to release the payment as it was contractually bound.

PAC observed that the unrealistic assumptions regarding the capability of timely indigenous development of certain avionics systems and lead time for import of the system of western origin for upgradation of the SU-30K air defence aircraft into multi-role SU-30MKI version seriously jeopardized the schedule of induction of this aircraft into the Air Force. The delayed induction programme not only afflicted the operational equation of Indian Air Force 'but would also entail additional financial burden on the exchequer estimated to be US \$ 9.82 million towards upgradation of the aircraft to multi-role version'. Besides, indecisiveness of the Ministry led to non-establishment of a service Support Centre at the operating base of IAF, considered essential to reduce the down time of the aircraft, which also affected the maintainability of SU-30 fleet. The product support from the manufacturer was far from satisfactory, imposing operational limitation on the fleet. Another disquieting fact was that a viable repair / overhaul facility was yet to be realized even though the SU-30 fleet was more than three years old (at that time). Over and above, the manufacturer violated the contractual provisions and supplied defective and unserviceable items, but due to the faulty provisions drafted into the contract, the Ministry failed to adequately safeguard and secure the legitimate claims of the Government. The Committee came to the inescapable but unhappy conclusion that this complex collaborative venture, fraught with many uncertainties, was badly executed and ultimately turned out to be one of the main causes for abnormal delay in the availability of the SU-30 multi-role aircraft for the Air Force.

On the Action Taken Report on their recommendations placed in Parliament in December 2003, the Committee were extremely constrained to observe that the Ministry again failed in their joint development mission to accomplish the induction programme despite seeking repeated revisions in delivery schedule. While pointing out that the fully upgraded SU-30 multi-role aircraft still eluded the Air Force, the Committee urged upon the Ministry to gear up their core monitoring mechanism for expeditious completion of the Joint development programme so as to equip the Air Force with the much needed aircraft at the earliest.

5

PERFORMANCE AUDIT OF NATIONAL HIGHWAYS DEVELOPMENT
PROJECT
OF NATIONAL HIGHWAYS AUTHORITY OF INDIA⁶

National Highways Development Project (NHDP) is a flagship programme of the Government of India, being executed by National Highways Authority of India (NHAI). NHDP was to be executed in two phases: Phase 1 comprised 6,359 km of road length at an estimated cost of Rs. 30,300 crore scheduled to be completed by June 2004. The completion of Golden Quadrilateral which was meant to link four metro cities of Delhi-Mumbai-Chennai-Kolkata was the main component of this programme. Apart from the Golden Quadrilateral, the NHDP was also to execute in Phase I, 671 km of North-South-East-West

corridor out of total 7,300 km and in addition, 674 km was to be executed for works like port connectivity and by-passes. The scheduled completion date was June 2004, NHAI could complete works only to the extent of 1846 km (29 per cent). The latest update on this available from the COPU Report and based on the audit submission was that as of 30 April 2006, NHAI had completed 4026 km completely and 1298 km partially (83.71 per cent). This meant that the revised target date of December 2005 was also overshoot. In implementing the project NHAI, was expected to execute it within the time frame and within the cost estimates.

As an executive agency, NHAI had a broad mandate to source funding options including loans from external multilateral agencies, involve private sector in financing the construction, operation and maintenance of National Highways and wayside amenities, develop and maintain National Highway Network. Implementation of road safety measures including environmental management and introducing information technology in construction and maintenance of National Highways were other aspects of the mandate. The project was cleared by the Cabinet in April 2000 at an estimated cost of Rs. 58,000 crore. The NHAI followed an implementation model under which some works were outsourced like Detailed Project Reports (DPRs) through competitive bidding, Project Supervision through Project Supervision Consultants (PSC). In general, NHAI followed FIDIC (International Federation of Consulting Engineers) system of project supervision.

The audit of this project was initially taken up in 2002 with some pilot studies, results of which suggested that the assumptions of audit that this project was not being implemented efficiently and economically were correct. The pilot study covered sample size of six PIUs only and detected irregularities with financial implications of about Rs. 198 crore. After this, a full fledged review of the implementation of NHDP Phase I by NHAI was taken up in Audit.

This audit was carried out before the Performance Auditing Guidelines were published. However, its methodology and approach resembled so closely to the new performance audit methodology that it could as well be categorized as a performance audit conducted under the new guidelines. The audit objectives were clearly spelt out and as far as audit methodology was concerned apart from carrying out the pilot study, an expert consultant (M/s Central Road Research Institute) was also engaged for preparing detailed guidelines on the technical aspects and records to be seen during audit, technical inspection of selected stretches of National Highways and providing technical guidance during the course of audit. Audit discussed the audit programme methodology and audit objectives in an Entry Conference with the Member (Finance) of NHAI, in May 2003 besides having several meetings with the management during the course of audit. An Exit Conference was held after management's response was received by Audit. An Exit Conference was also held in April 2005 with the Secretary, Ministry of Shipping to obtain the views of the Ministry which was received on 19 April 2005. The Report was placed in Parliament on 11 May 2005. Audit Report has acknowledged the cooperation of NHAI during the meetings and during the course of audit.

This audit was undertaken when the Project was still on and therefore, its merit lay in the fact that mid-course corrections or future corrections on the basis of recommendations made were possible. And as it came out subsequently, the NHAI did carry out a number of reforms based on the audit recommendations and subsequently, on the basis of COPU recommendations. This is the main achievement or impact of this Audit Report.

Main Findings: Findings on this Project revealed serious deficiencies in NHAI's procedures and contract documents causing execution of sub standard works in several stretches out of 32 examined in Audit. The main audit findings in the review can briefly be summarized as below:

- ❖ Serious deficiencies in planning were noted for e.g non-synchronization of pre-tender activities, non-preparation of DPR in many cases and non-coordination or prioritization of the various packages of the work.
- ❖ The foremost risk to the Project was due to imprecise terms of contract with design consultants who were to prepare Detailed Project Reports (DPR) and Project Supervision Consultants (PSCs) who were responsible for supervision of works. They were eventually the main reason for the underperformance of PSCs and resulted in time and cost overrun. The terms of reference for preparation of DPRs by the design consultants and of Project Supervision by PSCs were not determined comprehensively. Result: the quality of DPRs and the project supervision were left to the discretion of the consultants and their underperformance could not be linked to any relevant terms of reference like performance warranty and penalty for underperformance. DPRs were deficient in so many aspects (like precise determination of quantities, nature of items of works, land to be acquired, sub-soil investigation, bridge design, services/ utilities required to be shifted and design of key items of work etc.).
- ❖ Tender documents were not prepared with due care and inconsistencies in several clauses like variation clause, price escalation clause, recovery clause for mobilization advance were noticed in different documents, meant for different stretches of road (work packages). This observation of audit had an impact on the Ministry who responded to Audit saying that bid documents had been standardized in case of mobilization advance clause and variation clause.

A more worrisome aspect was wide variations in the estimated quantities and quantities actually executed. Bill of Quantity was also not standardized.

Audit noted that no uniform system or practice of tender evaluation was followed. There was no reliable system for verifying credentials of the bidders and for keeping bank guarantees valid through periodical renewals.

One of the key audit findings was the failure of the project supervisory consultants (PSC) in the discharge of their functions and audit reckoned this as one of the major cause of the underperformance of this project and time and cost overruns. The PSCs failed to demonstrate efficient contract management abilities. This was evident from a number of non-compliance to contractual provisions which were abandoned and which resulted in significant losses and extra payments. Some typical mismanagement included the issue of variation order in individual bill of quantity far above their own authority.

Liquidated damages in five works packages totaling Rs. 51.49 crore were not proposed even when due.

PSCs did not conduct eight mandatory tests out of 14 such tests prescribed for them. This, therefore, defeated the very purpose of engaging highly qualified engineers as PSCs. PSC failed to carry out several other responsibilities and duties assigned to them.

While PSCs performed very poorly and their deficient functioning and supervision was the main cause of the project's time and cost overrun, in the absence of any contractual clause regarding performance warranty or penalty for underperformance, no action could be taken against them. This showed total casual approach of the NHAI in the drafting of terms of reference for PSCs.

Another contributory factor for deficient management of the contract was non-mobilization of key personnel as defined in bid documents or their frequent replacement. This resulted in compromise of quality of supervision.

The audit comment on the role of PSCs was seemingly very pointed and the Ministry eventually moved in the matter by appointing a Committee in July 2003 with a promise to take action against erring PSCs.

In terms of overpayments and losses, a large number of cases were quoted in the Audit Report: the total implication of the lapses or deficient management in terms of overpayments, avoidable payments, extra payments etc. was Rs. 1547.97 (or 1548 crore rounded) in the sample checking of 32 stretches out of 175 stretches under execution. This would give an idea of sloppy performance of NHAI in executing such an important National Project.

COPU discussions: The COPU discussed the main areas of the working of NHDP as covered in the C&AG's Audit Report and made recommendations thereon. Of these, more important ones related to delay in completion of NHDP phase I, consultants and contractors, standardization of stretches, contract management, restructuring of NHAI, toll revenue, project monitoring, information system and accounting practices. COPU made twelve recommendations in all. The Committee recommended a modified system of monitoring so as to ensure that the delay occurred in phase I of the project was not repeated in subsequent phases of NHDP. This had a ten point agenda that comprised preparation of monthly progress reports project/ sub-projectwise by the NHAI, its consideration by the NHAI Board with a view to identify the areas of concern for taking remedial measures on them and more frequent meetings by Committee of Secretaries (COS) headed by the Cabinet Secretary for review meetings at least every quarter on the Action Taken Note of NHAI Board.

The main recommendation on this subject related to speedy resolution of problems relating to land acquisition and other matters. The Committee made recommendations for review of existing procedure on land acquisition in the light of experience gained during the implementation of NHDP. Another recommendation of concern was laying down a time limit for processing of bids for award of contracts to avoid any delay in this work.

It wanted a day to day monitoring of performance of contractors and stiffer penalty if they underperformed. Similarly, the Committee wanted that

monitoring role of Project Implementation Unit (PIU) of NHAI should be strengthened. Finally, the Committee recommended that National Highways Act, 1956 needed suitable amendment for expeditious acquisition of land. It also outlined the lines on which such amendments should be carried out.

Although, the Committee fully agreed with the recommendations of Audit that NHAI needed to frame and issue guidelines/policy directives to the DPR consultants for ensuring uniform design practices and for initiating action against consultants in case of deficiencies etc. it noted with some satisfaction that NHAI already had strengthened the system by revamping the system of DPR preparation, providing for peer review of DPRs and associating the field officers of NHAI in preparation of DPRs. On the role of Project Supervision Consultants (PSCs) who were responsible for the overall supervision of the works related to project implementation, the Committee while accepting the audit view in the matter reviewed NHAI's reply and their efforts to proceed against erring PSCs including debarment of the consultants for participating in future contracts and for recovering damages for negligence and misconduct. They came to the conclusion that the shortcomings have been properly addressed and with the modification of standard contract documents for civil contracts as well as consultancy contracts, the position had become much better.

The Committee further observed that NHAI miserably failed in lot of areas concerning project supervision and recommended that overall mechanism of supervision by NHAI should be strengthened and given a radical reorientation for making it more effective. The Committee appreciated audit observations on quality of work executed and felt that adherence to quality assurance procedures was vital for the success of the entire NHDP. The Committee was very sore that NHAI did not react to the quality audit reports endorsed to them by the Audit. The Committee called it a bluff of NHAI that they had issued guidelines to all Project Implementation Units covering general deficiencies observed by Audit because their own consultants Engineers India Limited pointed out several deficiencies in the quality assurance procedures. The Committee finally agreed with the recommendations of Steering Group constituted by the Ministry in the year 2001 and recommended that NHAI should follow these recommendations in letter and spirit and should not compromise on any aspect of quality of the executed works.

Regarding preparation of contract documents, the Committee noted with satisfaction that the deficiencies pointed out by Audit have been corrected by the NHAI and the same had been verified and found correct in the follow up of audit conducted by C&AG.

Regarding the issues of standardization of Bills of Quantities, specially standardizing the per km quantity of bituminous work, the Committee were not satisfied with the response of the NHAI that it was not feasible to do such standardization for various reasons. The Committee were of the strong view that NHAI must explore the possibility of standardization of bituminous course to the best possible extent in view of data collected so far in this regard. It also wanted that the whole set of operations be made more transparent and accountable.

On the Bank Guarantees, where the Audit comment was that no reliable system or mechanism of verifying the credentials of the bidders and keeping

the bank guarantees valid through periodical renewals to avoid their expiry existed, the Committee came down heavily on the NHAI and recommended that responsibility must be fixed on the concerned officers of NHAI who were responsible for verification and timely renewal of bank guarantees in view of the losses suffered by NHAI on these counts. It further, wanted that NHAI must put into place a fool proof and legally sound system of handling the bank guarantees.

Regarding the escalation payment, the Committee noted that NHAI/ Ministry admitted that contract conditions for 15 out of 28 contract packages relating to escalation payment were worded differently leading to inadmissible payment of escalation. The Committee strongly recommended, therefore, that NHAI should make all possible efforts to recover Rs. 65.98 crore so paid after reducing the recovered amount of Rs. 11.73 crore.

On the toll collection which was a very important point in the Audit Report and on which as per audit observation, there was a loss of toll revenue of Rs. 42.23 crore, the Committee was of the view that proper collection of toll revenue was of great significance and wanted that proper planning, timely action for issuance of toll notifications and putting up of toll plazas and engagements of agencies timely for toll collections are of paramount importance. It wanted the implementation of the Modern Toll Collection System as a future solution. It gave detailed directions as to how NHAI must proceed for future tollable stretches.

In a significant recommendation, the Committee, while recommending restructuring of National Highways Authority of India in line with the recommendation of Inter-Ministerial Committee constituted under the chairmanship of Secretary, Road Transport and Highways, lamented that there was a laxity on the part of Government for not initiating these measures during the initial stages of NHDP. It desired that all efforts must be made to complete the whole exercise of restructuring the NHAI by the end of the year 2006.

Overall, the Committee said that it was inclined to give a lenient view to NHAI with regard to the deficiencies pointed out in Audit, keeping in view, the fact that 'Authority' was performing such a mammoth task for the first time. It attributed this to the lack of experience by NHAI in handling projects and programmes of this magnitude. It hoped that in subsequent phases i.e. phases II and phase III already under implementation by NHAI and the approval for other phases like phase IV to phase VI which were already being given by government would be implemented without lapses. It wanted the NHAI to evolve the system for continuously storing and using experiences gained over the passage of time.

From the foregoing fact, what comes out very strikingly is that the Audit Report made after the fourth of the operation of the scheme was able to bring about substantial improvements in systems and procedures of NHAI. Apart from this, audit observations led to recovery of a significant amount due to its pointing out the overpayments etc. to the executive. Overall, the impact, this Audit Report produced either directly or via the recommendations of the COPU was tremendous and possibly it was one of the most productive audit reports in that sense and the fact is that all these were achieved with the involvement and cooperation of the executive.

ADVANCE LICENSING SCHEME

The Advance Licensing Scheme⁷ also called Duty Exemption Entitlement Certificate (DEEC) introduced in 1976 had the objective of providing registered exporters with basic inputs at international prices without payment of customs duty in India. Various notifications issued from time to time granted duty free inputs of raw materials, intermediates, components, consumables, parts, computer software, accessories, mandatory spares, etc. The scheme permitted the exporters to import all of these without any payment of customs duty but the underlying condition was an obligation on the part of the importers to export the finished product as per the prescribed input/output norms within the prescribed time frame. The licensing authority was to obtain a bond/bank Guarantee or legal undertaking from the importer which could be, if necessary, enforced by licensing /custom authorities in the event of default in the prescribed conditions by the importer.

The scheme is administered by Ministry of Commerce/DGFT and the Ministry of Finance Accounts (customs) issues sanctions for exemption from levy of customs duty on imported inputs. Advance licensing offices are granted under relevant Exim policy.

Advance licensing scheme has been reviewed in Audit from time to time and specially the noteworthy Audit Reports were Audit Report No. 4 of 1996 on Indirect Taxes, Audit Report for the year ended 31 March 1998 (presented to the Parliament in October 1999) and the latest Report on this was Audit Report on Indirect Taxes-customs, Central Excise and Service Tax (Performance Audit) No. 6 of 2006.

The 1995 Audit Report had reported the weak implementation of the scheme and absolutely dismal monitoring mechanism resulting in short fulfillment/non fulfillment of export obligations against the duty free imports. The penal custom duty recoverable for unfulfilled export obligation was not realized and eventually when the Audit Report was discussed in the PAC in 1997, it came down heavily on the malfunctioning of the scheme in its Report presented to the Parliament in November 1997. Amongst the more glaring deficiencies on which the PAC commented included substantially different figures of number of licences issued, their CIF value, export obligation attached etc to the Audit and to the PAC in addition, the figures supplied by the Ministry of Commerce, and that compiled by the Ministry of Finance from the custom houses also differed widely hence the very database was defective on which the PAC expressed its grave dissatisfaction and desired that responsibility be fixed for these lapses in the maintenance of the cost. The second point that disturbed the PAC was shifting data of the Ministry regarding export obligations. The PAC was very much concerned about laxity /failure in monitoring the fulfillment of export obligations.

PAC was also concerned about the grant of extensions to exporters where it came out due to sustained questioning by the PAC that complete information of extension cases was not available and more important no precise guidelines were laid down for the grant of extensions to exporters. It therefore, desired a

thorough probe into the matter of grant of extensions to ensure the exercise of powers in a discreet and transparent manner in genuine cases only and timely fulfillment of export obligations.

The PAC's own assessment, in the case of government's inability to furnish complete and reliable data of the customs duty forgone due to failure to fulfill the export obligations was that about Rs. 5,900 crore were due as customs duty and Rs. 32,805 crore to licensing authorities from these defaulting exporters. The PAC wanted that these cases of default should be firmly dealt with and stern action taken against the defaulters.

The PAC was shocked that the most important and only yardstick for efficacy of the scheme, namely, the amount of additional foreign exchange actually generated through the scheme was not being tracked by anyone of the government agencies. In this matter, there was a blame game played by all the concerned authorities during their evidence. The PAC eventually made recommendation that the RBI should be made responsible for scheme-wise accounting of the collection of foreign exchange.

The PAC was also concerned about the absence of any mechanism for verification of information supplied by the importers in their applications for grant of advance licences, and in regard to the availment of relief by certain importers in excise duty in violation of the scheme, the Committee was extremely unhappy with the dealing of the matter and concluded that 'the inescapable impression that the Ministry of Finance was rather over-concerned in helping out the unscrupulous exporters with little concern for realization of the legitimate dues of the Government'. These remarks followed after the PAC gathered during evidence that even after it became clear through the Audit Report and otherwise that importers had availed of the MODVAT benefit as well as import duty exemptions simultaneously and that Rs. 146.17 crore were recoverable in these cases, no worthwhile action was been taken on this. The lack of accountability was obvious from the fact that these irregular availment were in the knowledge of Finance Ministry since 1994 and the MODVAT credit amount in December 1994 was placed at amount Rs. 500 crore but in January 1995, a study revealed that this was under estimation and actual loss was much more since in one collectorate alone the manufacturer/exporters of one product had taken undue benefit of exemption of Rs. 240 crore. No effective action was taken to recover the amounts and fixing the responsibility for lapses despite orders of the Finance Minister to this effect.

While PAC wanted strong action against erring officials but sadly nothing was done despite the orders of the Finance Minister. The Revenue Secretary admitted as much to the PAC but assured the PAC that 'he would now immediately get an inquiry conducted'. PAC had recommended that a high powered independent inquiry to find out the unscrupulous elements responsible for rampant abuse of the scheme and fix responsibility of the officers for various acts of omission and commission. While the Ministry took remedial steps in line with the recommendations of the PAC, it stated that the failure of the export obligation monitoring system in the past was widespread and therefore, the lapse was collective and it was not possible to identify the specific officers for punishment. The PAC, of course, was not happy with this explanation of the Ministry and reiterated its earlier recommendation for its

responsibility. The Ministry then informed the PAC that a high powered independent inquiry Committee as recommended by the PAC had been entrusted to a group of officers which was being set up to independently inquire into the operation of the Duty Exemption Scheme.

A revisit by Audit on the basis of its earlier study brought out in C&AG's Audit Report for the year ended 31 March 1998 (presented to Parliament in October 1999) that nothing much had changed. This study brought out a loss of revenue of Rs. 3532.20 crore as a result of misuse of the scheme. This was based on a study on three main Regional Licensing Authority (RLA) at Delhi, Kolkatta and Mumbai. Apparently, the old ways were continuing. In 2005, when C&AG yet again reviewed the implementation of the scheme, the results were no better. The data discrepancies on which both Audit and PAC had made such strong comments earlier in 1995 and 1997 respectively showed no improvement. Default in export obligations featured unabated even though the new Exim Policy had extended the period of fulfilling the export obligations from 12 months to 18 months. The outstanding customs duty (Rs. 67.85 crore) alongwith interest (Rs. 26.10 crore) payable to customs authorities was accepted by the RLAs and action was initiated for recovery of these amounts. Customs authorities continued to fail in their duty to initiate action against defaulting importers. Poor monitoring by the authorities was reflected in the non monitoring of 185 cases of non- submission of documents regarding fulfillment of export orders on the expiry of the prescribed period for such fulfillment which resulted in duty forgone of Rs. 187.82 crore besides interest of Rs. 56.02 crore. Several cases of non-monitoring of bonds and non- renewal of bank guarantees were noted involving Rs. 2537.50 crore and Rs. 33.52 crore respectively. The result was non discharge/non- enforcement of bonds/bank guarantees on expiry of their validity. Lack of coordination between the licensing authority i.e. DGFT and customs authority continued. Audit on its own by correlating the data from both Customs and EDI department established, that even though licencees had imported goods worth Rs. 128.21 crore but no export details were available and therefore customs duty of Rs. 76.79 crore with interest of Rs. 36.75 crore plus Rs. 1.28 crore representing one percent of the CIF value of unutilized import material, was recoverable.

Overall, in the audit scrutiny, it was found that as a result of the absence of proper mechanism for coordination between DGFT and customs authorities where importers defaulted, Rs. 130.03 crore remained without any demand and collection from licence holders. Total financial implication of audit comments in this review was Rs. 1371.46 crore, out of which at Audit's behest demand of Rs. 17.27 crore was confirmed in 40 cases. Audit Report therefore, broadly concluded on the same lines as it had in the earlier reviews about shortcomings of the implementation.

VOLUNTARY DISCLOSURE OF INCOME SCHEME⁸, 1997

The Finance Minister introduced the Voluntary Disclosure of Income Scheme, 1997 with effect from 1 July 1997. This Scheme offered a kind of amnesty to persons who had evaded tax in the past to declare their undisclosed income and thereby to return to the path of rectitude and civic responsibility. Broadly the objective was to unearth the undisclosed income. The Scheme was stated to be simple and easy to administer.

An audit scrutiny of the Scheme found it extremely complex because of several lacunae in the text of the scheme which were further compounded by the circulars, notifications, clarifications and press briefings by the CBDT, not all of them consistent with the provisions of the Finance Act 1997. These provided the declarants with an opportunity for widespread misuse through undervaluation of jewellery, bullion, shares and real estate and also 'creation' of capital loss to be set off against income in future years.

The Report also found that ineligible persons took advantage of the Scheme. Their subsequent assessments were also accepted summarily, thereby affording the benefits of the Scheme. The CBDT also created categories of eligible persons not envisaged in the Act such as minors whereby *benami* declarations were made possible. The net effect was that the immediate revenue gain was wiped out in the next few years. An important omission was that the Parliament was not informed of these circulars and notifications though expressly required under the Act.

Post-VDIS action was found missing in the department, which did not monitor the cases of declarations and the Commissioners failed to share information with the Assessing Officers. Audit found that most of assessments were completed under summary manner. Several kinds of irregularities in the implementation of the Scheme, such as multiple declarations, could not be rectified at the assessment stage during the preceding three years enabling the declarants to reap the unintended benefits.

Audit was also able to establish that most of the declarants were found to have taken advantage of earlier amnesty schemes too. A few business houses and family groups declared huge unaccounted income, which pointed towards failure of the department to properly assess such high tax groups in their normal tax collection efforts. There were very revealing findings about the competency gaps or system weaknesses in Revenue Department.

Audit, therefore, concluded that the scheme was not in the interest of revenue collection and in fact, it provided one more opportunity to dishonest assesses to pay tax at the preferred rate and then retire to the old habit of concealing income.

This review contained some observations that touched on the policy. For example, about the secrecy clause of the scheme, the C&AG said, 'while secrecy clause may have its advantage vis-à-vis the declarants who wish to make a clean breast of all the guilt of past years, it afforded an opportunity to several others for manipulations to their advantage'.

The CBDT 'adopted dilatory tactics to deny the C&AG access to VDIS documents and made a reference to Attorney General ignoring completely the provision of Section 72(2) of the VDI Scheme expressly providing for audit by C&AG. CBDT agreed to C&AG's audit after 8 months of C&AG's initiation and still the CBDT failed to furnish a key file requisitioned by Audit. Field parties too faced some problems.

This Review will be rated as a pioneering audit study for a very simple reason that apart from the significance of the subject audited, the audit methodology used was attempted for the first time successfully in this audit. This is best explained in the language of Audit Report itself. On the audit methodology used, the Audit Report says:

'As the declaration form contained minimal information as to the declarant and in view of the secrecy of the information thereof, audit could be conducted only with reference to the stated objectives, database analysis and implications vis-à-vis the regular returns of income and future impact of the Scheme.

Specially designed input sheet containing about 100 fields was used by the field audit staff to collect information. Additional information was extracted from the folders of the declarants on to notepads for eventual computerization. Approximately 12 lakh input sheets were scanned to convert the information into a database.

Separate databases were prepared for the names and addresses of the declarants, for the valuers of jewellery, for the notepad entries, for the search and seizure cases, for the names and addresses of the directors of companies, etc. These were analysed.

Micro-analysis of CIT-wise top 100 declarants was conducted by the field audit offices and for verification of other data.

The audit findings based on the analysis of data, field work of correlation with other files and conclusions have been included in this report'.

The foregoing brings out the enormous data mining done by the audit team, despite heavy odds and not too much of a co-operation from the Income Tax Department. And then the close scrutiny of the database created brought out wonderful audit results in this Review.

8

STATUS AND ADEQUACY OF 'FOLLOW-UP' ACTION IN SELECTED POST-VDIS-1997 ASSESSMENTS⁹

Audit attempted an evaluation of the status and adequacy of 'follow up' action in selected post VDIS 1997 assessments based on audit comments on VDIS 1997 in the Audit Report 12A of 2000. Audit requisitioned assessment records in respect of 21,853 VDIS declarations that were either 'invalid/ non-est' or pertained to new assessee, out of which the department could produce only 4906 cases. The limited test check in Audit revealed short levy of tax of Rs. 228.55 crore in 1081 cases only.

Audit noticed that the action taken by the Income Tax Department to bring such declarants to tax under normal provisions of the Act where

certificates were issued even though tax was paid after the lapse of prescribed period of three months from the date of declaration was inadequate. The department did not have a system to monitor whether the declarants who had declared under VDIS, 1997 had continued to file their income tax and wealth tax returns in subsequent years also.

Audit could not ascertain whether the department had taken action to apply the normal provisions of the Income Tax Act in respect of ineligible persons involved in the 'cobbler scam' or in the 'loan hawala racket' in 9 out of 23 cases produced to Audit which involved a tax effect of Rs. 35.10 crore.

Only one out of 25 cases of 'multiple' declarations produced to Audit had been taxed under normal provisions of the Act.

9

SYSTEM APPRAISAL ON SERVICE TAX

Service Tax was introduced first time from 1 July 1994 on the basis of recommendations of Tax Reforms Committee under Chairmanship of Dr. Raja J. Chelliah, set up by Government of India in August 1991. The Finance Minister admitted that he was beginning with a modest effort in this direction when he introduced the tax from July 1994. In the initial 5 years of introduction, service tax contribution towards additional resource mobilization or correction of physical imbalance was not significant. The appraisal on Service tax, included in the Audit Report¹⁰ of C&AG of India, (Indirect Taxes) for the year 1998-99 highlighted, in the main, the following:

- (i) Full revenue potential from service tax has not been realized due to the inadequate coverage of services.
- (ii) The rate of tax of 5 percent is not in consonance with the rationalized tariff structure of Central Excise and needs to be reviewed in the context of the imminent transition to a comprehensive VAT.
- (iii) Legislative and administrative arrangements for levy and collection of service tax are not at par with other taxes thereby weakening the efficacy of the tax machinery to protect revenue.

The Audit Report analyzed the reasons, which caused this meagre contribution by service tax. These were inadequate coverage of services, staggered coverage of services, exclusion of sub segments of service, grant of exemptions after notifying coverage and ineffective tax administration. The audit emphasis was that compared to the vast potential that this tax had, during the six-year period of its introduction, this tax has added only marginally to revenue realization. The Audit Report made the following comment in this regard '... the Government has failed to extend coverage of service tax to any other major service since its introduction and 72 per cent of its collections are coming from State owned service providers'. Audit, therefore, concluded that major segments of the service sector had been left untaxed. It went on to demonstrate its vast potential, which had been left out. It quoted the report of

the National Institute of Public Finance and Policy of 1995, which had estimated that Government could realize at least Rs. 5,000 crore from such services at the then prevailing prices.

Audit questioned the uniform rate of 5 per cent on the plea that since expenditure on services as a proportion of income increased with the increase in house hold incomes, the principles of equity would therefore require categorization of services along with such goods which were covered in the demerit rate of taxation in the rationalized duty structure enunciated in 1999–2000 Budget. Audit argued that the rate of tax levied was neither based on a realistic estimation of value added in the service sector nor in consonance with the indirect taxation philosophy as elucidated in the rationalized tax structure.

The foregoing remarks essentially attempted to demolish the flat tax policy as regards the coverage of services and the tax rates. Notably, it was articulated in the context of rationalization of tax infrastructure proposed by the government. Audit also observed that in the absence of an independent Act on service tax, revenue authorities were not been vested with punitive powers at par with administration of other taxes.

Audit also commented on the grant of exemptions of some services from levy of service tax after imposing tax on them for some period. In an oblique criticism, Audit commented that by this action of exemption, based on actual collections during the period of levy of service tax on these services 'the Government had chosen to forego estimated revenue of Rs.342.48 crore per year'.

In the foregoing observations of Audit, it can be seen that a discussion of the policy issues was involved. It is worthwhile to mention that all the forgoing comments on policy decisions were made, keeping the interest of revenue in view and it was very much in the mind of the Audit, as it pointed out in its internal notings, that these comments on extent of coverage, staggered coverage, rate of tax and grant of exemptions etc. might not meet traditional norms.

Audit venturing, sometimes, into a discussion on the taxation policy of the government, need not be taken as a violation of the usual norm that Audit does not discuss merits or demerits of government policies. That principle remains very much valid. But in the context of audit of receipts, exceptions to this guiding principle can arise occasionally. As the former C&AG C.G. Somiah said '...Audit evaluation of the raising of resources and their utilization as well as of the achievement of objectives may at times reflect on questions of policies and selection of strategies'¹¹.

The sore point in this audit was the stubborn attitude of the Ministry of Finance not to part with files on the subject even though earlier they had agreed to show these files to a sufficiently Senior Officer. There is a specific mention of a file on service tax relating to levy of the tax on goods, transport and subsequent exemption to it. The department refused to give this file. This was something very regrettable specially coming from the Ministry of Finance, which speaks on behalf of IA&AD in Parliament, if need arises.

Audit, therefore, had to do with a detailed questionnaire on service tax, which was issued to the Ministry. Regrettably, the CBEC did not furnish the information sought in the questionnaire despite the matter being taken up by Additional Deputy C&AG with the Chairman CBEC.

On the basis of audit paragraph, government appointed a Committee to recommend further potentials of service tax. Ten more services were proposed to be brought under Tax Net from Budget 2002.

Standing Committee on Finance in their Fourteenth Report on Demands for Grants (2001–2002) of the Ministry of Finance (Department of Revenue) recommended (April 2001) inter alia introduction of an independent Act on Service Tax, progressive increase on incidence of taxation on services, inclusion of PAN details in ST-1 Form to facilitate cross check of facts and figures provided by assesses. These recommendations endorsed audit conclusions.

10

PACKAGE OF CONCESSIONS TO EXISTING CELLULAR AND BASIC TELEPHONE SERVICE OPERATORS

C&AG conducted a special audit of cellular and basic telephone service operators at the request of the then Minister of Communication. Earlier, Audit had conducted a study of licencing of cellular mobile services in its Audit Report of 1998 and had come to the conclusion that in the licencing for cellular mobile telephone services in the four metros (Chennai, Kolkata, Delhi, Mumbai) in November 1994, the department had suffered a loss/given undue benefit totaling Rs. 837 crore to the licensees. The special audit in 1999, results of which were brought out in Audit Report No. 6 of 2000, had within its scope the following:

- ❖ Implementation of terms and conditions of licence agreements signed under National Telecom Policy 1994
- ❖ Offer to the existing licensees for migration from fixed licence fee regime to revenue sharing regime under New Telecom Policy 1999.

Audit came to the conclusion that licensees of cellular mobile and basic telephone services were given undue favour by the government decision to allow them to migrate from fixed licence fee regime to revenue sharing regime under the New Telecom Policy, 1999 on the basis of their plea that their projections of market size had gone wrong. Audit contended that the above presumption was not correct since the subscriber base of cellular licensees in metros was several times higher than their projections and in telecom circles, licensees were not covering the number of district Headquarters as per the prescribed schedule.

Audit also contended that no detailed study about the financial viability of the projects of basic service licensees was ever conducted.

Audit questioned government resorting to the reports of ICICI and BICP on the financial viability of cellular projects to grant these concessions. This was because the government had already taken action on these reports by March 1999 and granted concessions on the basis of those reports. Taking these reports again as basis for extending further major concessions and justifying the revenue sharing without any fresh studies by an independent agency, in Audit view, amounted to 'grant of double concessions and undue favour to licensees'.

Audit highlighted several other concessions that were uncalled for. For example:

- ❖ across the board extension of six months in effective date to all the existing licensees of basic and cellular operators without examining the cases on merit;
- ❖ for non –charging of one time entry fee from the licensees for migration to NTP 1999;
- ❖ non-payment by cellular licensees of wireless planning and co-ordination license fee and royalty as per Government of India orders (amount outstanding Rs. 162 crore on 31 May 1999).

Audit concluded that government gave the offer of migration in haste without (i) finally deciding the quantum of revenue share chargeable as licence fee, (ii) defining the gross revenue and (iii) finalizing modalities of verification of gross revenue of licensees and prescribing records to be maintained by each licensee for assessment of government share. Also, the undue haste shown in issuing offer of migration was fraught with serious risk of fraud and Audit feared that it might lead to demand for more concessions to licensees in future on similar grounds.

In nutshell, Audit was harsh on the decision of the government for the reasons stated above and concluded that whereas outstanding dues against these licensees stood at Rs. 3779.45 crore, the financial bank guarantees available were only of Rs. 1581.56 crore.

While today these companies look in pink of health and have huge projects and reserves, credit must go to government's largesse given to them at that time as brought out in Audit Report. Since Audit has to go by the rule book, the objections were valid. The reply of Government to Audit Review, reproduced below, will testify to this:

'Ministry in their reply in January 2000 stated that there were problems of financial viability and financial closures of telecom projects; it was in public interest to resolve the problems of private licensees. The Ministry further stated that under the old scheme of fixed licence fee, the basic and cellular licensees had their contractual rights to operate in a limited competition and it was not possible to induct additional operators considered critical and necessary to realize the vision of making India an IT superpower for which telecom infrastructure was a vehicle.'

Such a reply itself proves the audit contention that there was enough demand for cellular and basic services and their projects were financially viable and therefore, grant of migration package and concession was not justified. If that was not the case, how could government induct additional operators in the existing service area where the existing limited number of licensees were not able to profitably run the services in view of lack of demand.

EXCESS FRAUDULENT DRAWALS IN THE ANIMAL HUSBANDRY DEPARTMENT

A review on the above subject was included in C&AG's Audit Report for the year ended 31 March 1996 on Government of Bihar. The entire report is devoted to this subject. This is one of the most high profile cases which occurred in the recent times involving the names of high and mighty in the Government of Bihar. Popularly called the Fodder Scam case, it attracted media attention. A case registered by the CBI on the Fodder Scam is still pending in the courts against many accused in that case including the then Chief Minister of Bihar.

The case, as reported by C&AG, in brief, is detailed below:

The Animal Husbandry Department of the Government of Bihar was consistently incurring excess expenditure over its budget provisions from 1987-88 (21 per cent) to 1994-95 (229 per cent). The Audit Report highlighted that more than 80 per cent of the total drawals during 1993-96 was made from treasuries in Ranchi, Chaibasa, Dumka, Jamshedpur, Gumla and Patna districts. Audit calculated that as per approved scale, Rs.10.5 crore were required for feed/fodder for all kinds of animals that were kept by the Animal Husbandry Department for three years period mentioned above. Against this, Rs. 279.34 crore were drawn from six treasuries during these three years for purchase of feed and fodder. The Audit Report brings to light the fact that even though Finance Department knew the excess drawals in the Animal Husbandry Department at various stages, it took no action to investigate the excess drawals. Even though Finance Department had issued instructions every month restricting bill payments beyond budget allocation, these were totally disregarded by the Animal Husbandry Department Officers and Treasury Officers. The Finance Department failed to catch the excess drawals despite Chief Secretary's orders to enquire into few drawals from the treasuries. The Department did not even analyze the Reserve Bank of India's (RBI) statement of cash disbursements. The RBI's reports were dealt with only by the officers of the level of budget officers whereas it should have gone upto the Finance Commissioner. Similarly, Finance Department ignored the fact that monthly civil accounts were not received by the Accountant General (A&E) which reflected about non-availability of accounts of different months from treasuries.

Some other notable audit findings were:

Failure to render timely accounts by Treasuries to Accountant General was a big contributory factor and even when AG sent the delayed account these showed huge excess drawals which were not investigated. The fact of delay was brought to the notice of the Government at the highest level. While, the Principal AG (A&E) in February 1990, informed the Financial Commissioner that chronic delays in rendering accounts might lead to malpractice, when no improvement occurred, C&AG brought to the attention of the Chief Minister in February 1994 about these delays—this was an unusual letter for an unusual situation. Finally, the Principal AG (A&E) with the co-operation of Chief Secretary and Finance Commissioner was able to finalize, in a span of one and a half years four Annual Appropriation Accounts.

Some of the glaring misdeeds of the Animal Husbandry Department will be evident from the following cases as mentioned in the Audit Report:

- ❖ While as per the approved scale, estimated requirement of feed for the animals in the Government animal farms for three years was Rs. 10.50 crore. However, the department spent Rs. 279.34 crore during 1993–1996 on purchase of feed and fodder.
- ❖ Yellow maize and groundnut cake constituted 10 per cent and 15 per cent of the composite feed. Expenditure on these items during three years for Rs. 164.22 crore and Rs. 86.54 crore respectively amounted to excess purchase by 147 times and 55 times of their requirement.
- ❖ Vehicles types mentioned in the transport bills (for Rs. 1.24 crore) for transportation of feed and fodder to remote blocks included mopeds, scooters, motorcycle, trekkers, police van, bus, oil tankers and autorickshaw.
- ❖ Rs. 151.50 crore were paid for purchase of medicines in the six districts in 3 years. The districts hospitals and dispensaries confirmed that negligible amount of medicine was actually supplied to them and that no indents of medicines were asked from them. Thus the huge purchase of medicines were mostly fictitious.
- ❖ Test check of records of the Key Village Officers revealed that they did not indent for the equipment and materials required for artificial insemination. Many of such items paid for were never supplied to the field units.
- ❖ The DDOs manipulated allotment figures in the bills drawn on Treasuries. For example, bills drawn from Doranda, Ranchi and Jamshedpur were abnormally high such as Rs. 49.30 crore in Doranda and Rs. 22.90 crore in Jamshedpur. The allotment figures had no relation to budget provisions for Animal Husbandry Department.
- ❖ Many fictitious allotment figures of heavy amounts were quoted by the DDOs in the bills. The department did not have as many schemes or minor heads to justify so many allotment figures.

12

AUDIT REVIEWS ON FOOD SECURITY AND NUTRITIONAL SUPPORT

C&AG in his Audit Report of 2000 produced results of review of four schemes connected with Food Security and Nutritional Support namely Public Distribution System (PDS), Rural Employment Generation Programme, Integrated Child Development Services (ICDS) Scheme and Nutritional support to Primary Education. The Report was laid in Parliament during the winter session of 2000–01. During the period 1992 to ending March 1999, Government spent Rs. 82,763 crore on these schemes.

Public Distribution System: The objective of PDS was defined as ‘improving the availability, affordability and acceptability of food grains for all besides their accessibility’.

An important point that emerges from the Audit Report is that the total off-take of food grains was significantly less than procurement. Secondly,

while the objective of remunerative minimum support prices every year was achieved to a large extent, the other objective of supply of food grains, particularly to weaker sections at subsidized rates was, by and large not achieved. Thirdly, leakages and inefficiency in the procurement and release were galore. The estimate was that 60–70 per cent ration card holders did not purchase either rice or wheat from Fair Price Shops. Many of them visited the ration shop but only for buying sugar and kerosene and not for wheat or rice while the PDS policy provided for issue of 5 kg. of food grains per head limited to 20 kg. per family and in addition, TPDS (Targeted Public Distribution System) was to provide 10 kg. to BPL households at lower price; the total requirements on this basis (45 million tones) was far more than what the procurement was (23 million tones). This showed a clear mismatch between the policy aspiration and capability. The scheme of TPDS was clandestinely maneuvered by some of the states so that in the name of the poor there was an ever enlarging section of the population clubbed as BPL families. A typical case was of Andhra Pradesh where TPDS entitlements were over 80 per cent of the population.

The rampant corruption and malpractices in the fair price shops (test cases revealed 4.53 lakh such FPS) was another contributory factor to the failure of the scheme. FPS opened infrequently, harassed the consumers and 'stock out' was displayed by all too often.

The audit report summarized the findings as below:

'In summary, PDS has had several shortcomings, most significant of them being targeting inefficiencies. Leakages were widespread. Ineffective implementation, poor administrative arrangements and blurred accountability structure impaired the effectiveness of delivery. Distribution infrastructure and the quality of foodgrains supplied needed significant improvement. Besides, under PDS, per capita entitlement was inadequate and per capita off take was still worse. It delivered food at highly subsidized cost to poor in the states, which provided additional subsidy, but state governments, which had the highest population of poor, and incidence of poverty did not fully utilize PDS. This impacted on the efficacy of PDS. The basic pitfalls of the scheme were mostly in design...Overall, the benefit to the consumers in terms of food availability, income transfer, coverage of the needy and nutrition support did not accrue. However, the government incurred enormous expenditure for these very objectives over the years.'

Audit review of Public Distribution System (PDS) by the C&AG would rank as one of the pioneering performance audits on account of several factors : firstly, it was the most comprehensive examination of the implementation of the PDS scheme. Secondly, for the first time, C&AG engaged a reputed outside agency and commissioned them to carry out beneficiary survey of the targeted population to assess the impact of the scheme. Thirdly, an eminent retired civil servant who was earlier Food Secretary in the Government of India was associated as a consultant¹² with this study.

Rural Employment Generation Programme: The Rural employment programmes were intended to transfer incomes to the poor people, landless labourers which would increase their purchasing power so that they could use it for buying food grains. The two programmes covered in audit report were

Jawahar Rojgar Yojna (JRY) and Employment Assurance Scheme (EAS). The audit reviews revealed 'serious shortcomings in the critical area of targeting, adequacy of resources leading to insignificant employment generation, absence of evidence of employment actually generated and assets stated to have been created'. Cases of misuse of the funds for unauthorized purposes were noted in Audit (about 30 per cent of total expenditure). The financial resources provided could give employment, on an average of only 16 days to a person seeking employment. Objective of Rural Employment Programmes, therefore, was not fulfilled due to unsatisfactory execution.

The ORG market survey revealed:

- 1) significant presence of beneficiaries from the better off category (above poverty line category).
- 2) Lack of awareness on the part of the targeted people of the general features of the scheme.
- 3) Absence of beneficiary participation in Gram Sabha meetings to decide development works.
- 4) Significant presence of contractors in execution of works.

Often, the assets were created on private land. The ORG survey concluded that almost 1/5th of all rural house holds faced the prospect of hunger specially in States like Bihar, Orissa, Assam, Nagaland, Tripura and Madhya Pradesh. These were also the states which misused the funds mechanism by diverting them to the personal ledger accounts.

Integrated Child Development Services: This scheme launched in 1975 on an experimental basis in 33 blocks was universalized in the beginning of Eighth Plan and extended to all the 5320 development blocks of the country. It aimed at promoting comprehensive development of children under six years of age and included a component directed at the well being and awareness of mothers, including adolescent girls as potential mothers.

While the scheme objectives are laudable, audit appraisal found the delivery mechanism very deficient. The focal point in the delivery mechanism is Anganwadi which numbered 100. The main functionaries of the scheme viz. Child Development Project officer (incharge for each Project), helped by ACDPOS, Supervisor called Mukhya, who is responsible for supervision and guidance of Anganwadi works and finally, the Anganwadi worker who is a community based voluntary frontline worker of the programme responsible for delivery of all services under the scheme to the beneficiaries. A large percentage of above posts were vacant persistently from 1992-93 to 1998-99, averaging about 32 per cent for CDPO/ACDPO, 33 per cent for supervisors and 26 per cent for anganwadi workers. As audit report observed 'with more than one third vacancy in the cadre of anganwadi workers which constitutes the very foundation of the delivery system, the working of scheme suffered'.

The Ministry failed to implement the policy of universalisation of the scheme and the policy remained a paper policy only.

Regarding the major causes for the poor performance of the scheme, the Audit Report said 'despite so many inputs in the programme from multifarious agencies, the scheme could not achieve the desired goals, because of the

incredible/un-manageable complexity of the programme as is evident from the review findings on medicine kits, provision of Vitamin 'A' and utilization of foreign aids in cash/kind etc.'.

The supplementary nutrition component 'failed to improve the health status of beneficiaries due to various reasons like non-identification of beneficiaries, insufficient coverage of beneficiaries, significant interruptions in feeding, deficiencies in the nutritive value of food, sub-standard food, etc.'.

'The implementation of the component of health check up and referral services was found to be particularly deficient due to absence of baseline surveys for identification, incomplete/non-maintenance of concerned records/registers, lack of co-ordination with the State Health Department'.

As regards immunization component the Report concluded 'In providing immunization as a component of the Scheme, the major bottlenecks were non-fixation of targets, absence of monitoring mechanism to ensure full coverage, non-maintenance/ incomplete maintenance of records besides numerous cases of shortfalls in coverage'.

The Audit Report came down heavily on the system of monitoring of the ICDS scheme which was 'largely ineffective due to lack of proper commitments towards ICDS on the part of State Governments and due to dependence of the Ministry only on the monthly progress reports and monthly monitoring reports for evaluation'.

Nutritional Support to Primary Education: This is a hundred percent centrally funded scheme with the objective of improving the nutritional status of school going children in the age group of 6–11 years; additionally, the scheme aims at improving enrolment and retention of children in the school. According to the Audit Report, the programme, introduced in August 1995, had incurred an expenditure of around Rs. 4,000 crore till 1999–2000 but it was not a success. Amongst the failures of the scheme, audit identified failures in the conception, the execution and monitoring of the scheme. The significant findings were:

- (i) the basic component of the scheme viz supply of cooked food to the students was not implemented in most of the States—only 2.18 crore out of the total 11.50 crore children were provided cooked or processed food.
- (ii) Insufficient budget provision was attributed as one of the reasons for low take off of the food grains by the State Governments. Additionally, there was no clear cut demarcation of responsibilities in the matters of supply chain of food grains, transportation, distribution network and ensuring the arrangements for cooking.
- (iii) The basic failure of the scheme was its inability to achieve either the goals of increased enrolment or higher retention and also improvement in nutritional status. In fact, enrolment decreased in many states and retention levels worsened after the introduction of the programme. As regards, improvement of nutritional level of students, the fact that average food grains actually reaching the beneficiaries was merely 1.17 kg. per student per month would be enough indication of the absence of any dent made by the scheme in this area.

Common weaknesses in the programmes: The C&AG's Audit Report for year ended March 1999, was remarkable in the sense that it carried audit appraisals

on four centrally sponsored/funded schemes (as described above) that were inter related and in the main dealt with the common themes viz. food security, income transfer and nutritional support. C&AG, in his Overview to this Audit Report, summarized the similar set of shortcomings observed in audit in these 4 schemes leading to sub-optimal benefits to the beneficiaries and consequent significantly low value for money'. These reproduced below:

- ❖ All four programmes suffered from serious targeting problems. The coverage in each of them was substantially less than the targeted output.
- ❖ The execution of the programmes by the state governments betrayed lack of sense of ownership by them. The manner of implementation of the programme by the state governments provided an impression that mostly these were run essentially with the objective of spending the money rather than on ensuring the benefits to the target population.
- ❖ There was no attempt either by the executing agencies/state governments or by the Central Government to correlate the actual output of these programmes with either the targets set by Union/state governments or with reference to any acceptable/established criteria.
- ❖ There were wide spread diversions and misuse of the resources provided under different programmes for the weaker sections.
- ❖ The inaccuracy in reporting the physical and financial performance by the state governments and their failure to substantiate the claimed performance continued, despite similar acts of omissions and commissions having been pointed out through earlier Audit Reports. The Ministries were unable to either verify the correctness of the reports or ensure their correctness, leave alone taking any measures for establishing accountability for deliberate error in reporting or failure to substantiate them.
- ❖ Despite questionable execution of the programmes and poor or unsubstantiated outputs and misuse/diversion of funds, no accountability procedures/systems have been formally established under any of the programmes. This depressed the standard of responsibility/accountability of individuals and agencies towards faithful implementation of the programme and, in fact, encouraged poor performance.
- ❖ The resources deployed by the Government on these programmes, though large in absolute terms, were uniformly inadequate to fulfill the ambitious objectives. The budget provisions and infrastructure never matched the total requirement for achieving the stated objectives.
- ❖ The most significant cause of failure of the programmes was the complex executing mechanism and reporting system, which did not provide specific accountability of the individuals running the programme on one hand and on the other, made it extremely difficult, rather impossible, to monitor their execution centrally.
- ❖ The net result was that while Government spent an amount of the order of Rs. 13790 crore annually on these four programmes, the benefits either did not reach the target in the intended manner or the benefits claimed to have been provided remained unsubstantiated. The trickle benefits were too meagre to make a difference to the institutional support and food security to target population.

SAFETY PERFORMANCE OF INDIAN RAILWAYS¹³

Organizationally, Railway Board has a Safety Directorate headed by an Executive Director. At the Board level, the Safety Directorate is more concerned with accidents, their enquiries, analysis and follow-up. It does not really function as the nodal agency for over-all safety performance. Thus, there is no clear responsibility centre. Out of 14,000 accidents during 1993-98 (3,782 consequential and 10,218 miscellaneous), only 3,157 accidents (22.55 per cent) were reported to Railway Board. In turn, Railway Board reported 2,187 accidents (15.62 per cent) to the Parliament.

Commissioners of Railway Safety (CRS) are supposed to enquire into all the serious accidents. Yet, out of 2,274 serious accidents reported during the period of review, only 126 (5.54 per cent) were enquired into by Commissioners of Railway Safety. Out of 1,529 stations required to be track circuited on A and B routes on eight zonal railways till 31 March 1998, track circuiting had been completed only on 911 stations. The provision of Auxiliary Warning System (AWS) on trunk routes with speed level of 100 kmph and above had not even been taken up in five Railways. Provision of radio communications between trains and control centers has not been provided at all. In the others, there has been some implementation, but to a rather limited extent. Remote Controlled Train Activated Automatic Warning devices at unmanned level crossings were not installed at any of the 1,707 unmanned level crossings on A and B routes. Incidentally, during 1993-98, 581 deaths (24.70 per cent of total deaths) had occurred at unmanned level crossings on A and B routes.

In 9 Zonal Railways and in 21.89 per cent trips of drivers, the duty hours exceeded 10 hours. There has been substantial shortfall in training of 'Safety category staff'. Study of 1,327 accident cases on eight Zonal Railways indicated that around 30 per cent were due to equipment failure related to rolling stock and permanent way. In 18 divisions test checked on 8 Zonal Railways, 8,758.68 kms of track were not replaced with higher standard rails. 64.06 per cent of wagons / coaches (3,86,293 out of 6,03,023 rejected by the Neutral Control Wing (NCW) were passed locally by Railway Administration on 8 Zonal Railways without final clearance of NCW. The failure to adhere to the prescribed procedure was very pronounced in 3 Railways (100 per cent on Central Railway 91.98 per cent on Southern Railway and 89.24 per cent on Eastern Railway).

In order to clear the arrears of safety related works, Ministry of Railways created a Special Railway Safety Fund and prepared a plan for clearance of the arrear works within a time bound manner. Rs. 17,000 crore was allocated under SRSF and as a result the entire arrears in track renewal works are likely to be wiped out by the end of 2007-08. Apart from track renewal works, the fund was also utilized for replacement of distressed bridges, improving Signal and Telecommunication system, and introduction of new design rolling stock. With the measure now taken / initiated, train accidents have been reduced to some extent and expected to be reduced further in due course of time.

14

CHIEF MINISTER'S DISCRETIONARY FUND

As per the rules and procedure grants could be given to an individual / organization upto Rs.5000 (Rs. 35,000 in certain cases). This rule was amended in April 1994 giving unlimited power to the Chief Minister to grant any amount in special cases. On scrutiny of the transactions of the Fund the following irregularities and lapses were noticed in Audit:

- (i) During the years 1991-95, budget allocations against this Fund was Rs. 20 lakh per year. As against this, actual release by Chief Ministers varied between Rs.80 lakh and Rs.30.65 crore.
- (ii) Rs. 67.91 crore was released from this Fund by Chief Minister / Governors as furnished below :

Chief Minister / Governor	Period		Rs. / crore
	From	To	
Shri Mulayam Singh Yadav	1 April 1991 5 Dec 1993	23 June 1991 3 June 1995	41.44
Shri Kalyan Singh Km. Mayawati	24 June 1991 4 June 1995 21 March 1997	6 December 1992 18 October 1995 31 March 1997	2.11 2.5
Governors	7 Dec. 1992 19 Oct. 1995	4 Dec. 1993 20 March 1997	21.86
Total			67.91

- (iii) Chief Minister's Discretionary Fund does not prescribe sanction of grants for award or gifts. But in violation of rules and propriety Rs. 33.18 lakh were given to staff attached mainly to Chief Minister's / Governor's Secretariat.
- (iv) This Fund was used by the Chief Minister as a means of patronage for a particular individual / institutions at the cost of the exchequer. Rs. 861 lakh were disbursed to various press clubs and media centres.
- (v) Grants of Rs. 1.21 crore were given to various Bar Associations / Judge's Clubs without recording any justification. A few instances for construction of buildings / chambers and for furniture and books came to notice.

The above para was significant in the sense it brought before the Legislature and the people at large, the improper use of these funds in several cases by high dignitaries.

MEMBER OF PARLIAMENT LOCAL AREA DEVELOPMENT SCHEME
(MPLADS)¹⁴

Member of Parliament Local Area Development Scheme (MPLADS) which was launched from December 1993, authorized the Members of Parliament to spend upto Rs. 2 crore per year on small works of capital nature which the MP identifies based on locally felt need in his constituency (a Rajya Sabha MP can recommend such work located in one or more districts of his/her choice from the state from where he/she has been elected). The grants are non-lapsable and are released to the concerned District Collectors directly by the Central Government (Ministry of Programme Implementation). While the district collector (DC) is the implementing authority, the works are selected and recommended to him for implementation by the concerned Member of Parliament. The works are implemented through Government agencies. The work should result in creation of durable assets and these should be completed in one or two working seasons. The works taken up should be developmental in nature and based on locally felt needs. There is a list of works which are prohibited to be taken up under the scheme while another list details the works which can be taken up under the scheme.

MPLADS has generated considerable discussion and debate in the media and in public in general as regards its necessity, use and utilization of funds under the scheme. The C&AG reviewed this scheme on two occasions- his first review on the scheme appeared in his Audit Report for the Union Government for the year ended March 1997 and his second Audit Report on this scheme appeared as stand alone Audit Report on Union Government (Civil) for the year ended March 2000.

Audit Findings: The one common striking outcome of scheme review is the very poor utilization of the funds—roughly, about 64.2 per cent of the total funds released since its inception had been utilized till the year ending March 2000. Worse, the fund utilized had not yielded commensurate assets. The District Collectors were sitting on the remaining unspent funds totaling Rs. 1796.59 crore stacked in bank accounts.

The poor utilization of funds had been commented by the C&AG in his first Report also. An interesting finding in this context was the wide variation in the utilization of funds amongst various regions. A table printed in audit report depicting regional stratification of the use of these funds brought out that UTs like Manipur, Meghalaya, Mizoram, Nagaland, Sikkim , Andaman and Nicobar and Daman and Diu faired much better compared to others by utilising more than 80 per cent of their funds allocation. Five States/UT namely Jammu and Kashmir, Tripura, Dadra and Nagar, Lakshwadeep and Puducherry were the worst offenders in utilising the funds having made use of less than 50 per cent of their allotted funds. The remaining 20 States/UTs had a percentage utilisation of funds ranging from 50 per cent to 80 per cent. The percentage utilisation of funds was slightly better at the end of March 2000 compared to what it was at the time of previous audit review i.e. for period ending March

1997. Funds shown as utilized as per accounts but not actually incurred as detected by Audit in their test check of various districts amounted to Rs. 168.18 crore. To this extent, the actual expenditure shown in accounts was overstated.

Audit commented upon the flawed financial administration of the scheme at the Ministry's level. This was based on several factors as releasing funds without any correlation with their end use i.e. without even insisting upon the utilisation certificates, not devising any appropriate accounting procedure either at the stage of formulation of the scheme or upto the seven years later when the second audit review was done and finally the Ministry washed its hands off from conducting any evaluation or monitoring of the programme.

An interesting point brought out in first Audit Report was that works of Rs. 24.89 crore were sanctioned on the recommendations of representatives of MPs. The scheme clearly prohibits such an action because under the scheme recommendations made by the MP on his letter head and under his signature alone is to be considered by the DCs. Cases quoted in this regard are very interesting. In Haryana, e.g. a Rajya Sabha MP authorised the Chief Minister of the State to utilise Rs. 1 crore from his funds 'anywhere and for any work'. The Chief Minister promptly acted upon his authorization recommending work of Rs. 51 lakh and for the remaining 49 lakh he in turn authorized 5 other MLAs of Ambala district to suggest the works. In UP, District Magistrates of three districts sanctioned work costing 22.01 crore on the basis of recommendations made by representatives of the MPs concerned.

The second review by Audit also brought out that a large number of irregularities pointed out in the earlier review report were not only persisting but the situation actually worsened. Some of these were:-

- ❖ the implementing agencies did not submit the utilization certificates to the District Collectors;
- ❖ they did not refund unspent balance;
- ❖ there was misreporting of the financial progress of works by them;
- ❖ they irregularly clubbed the schemes funds with the other schemes;
- ❖ diverted funds to inadmissible purpose;
- ❖ there were executions of inadmissible works;
- ❖ the District Collectors sanctioned works for commercial and private organizations, for repairs and maintenance works and on places of religious worship;
- ❖ there were unauthorized purchases of stores and stock items;
- ❖ District Collectors sanctioned and executed the works without the recommendation of the MPs without technical sanction and administrative approval;
- ❖ The nodal agencies did not maintain any asset records.
- ❖ The scheme guidelines contain contradictory provisions.

Audit findings included execution of works at an estimated cost of Rs. 35.79 crore without technical sanction. Similarly, in a test check of 23 constituencies, Audit discovered 1688 contracts being awarded by DCs involving work costing Rs. 35.74 crore in a irregular manner. There were several cases cited of short recovery from the contractors, of the irregular expenditure noticed in Audit, Rs. 74.12 lakh related to such expenditure on places of religious worship,

Rs. 54.55 lakh in the audit sample of 13 works of memorial buildings and an expenditure of over Rs. 1.85 crore involving execution of works on private land without surrender of title. The inadmissible construction included rest houses, railway rest houses, buildings for bar association, shopping complex, etc. In Orissa, 69 schools were provided with computer systems at a cost of Rs. 188.10 lakh during 1997–2000 when none of these schools were eligible for having computer systems and in procurement of those computer systems, the prescribed formalities were not gone through and these were not purchased from any of the firms listed in the list of indigenous manufactures contained in Project Guidelines, through an open tender or from enlisted firms. The cost of Rs. 188.10 lakh included 89.70 lakh as recurring expenditure.

The overall picture which emerged from audit review was that implementation of the scheme had become worse during the subsequent period of 1997–2000 when the second review was conducted. This is evidenced by low utilization of released funds and a very poor record of completion of the work. These achievements were worse than previous period. The most disturbing position was that the amount spent had not yielded commensurate assets due to a large percentage of works remaining incomplete. Worse, works carried out in a large number of cases did not qualify for the definition of durable assets. Audit, therefore, concluded that the scheme failed on several fronts like in operationalising the MPLADS in meeting its stated objectives, in conferring to the prescription of the schemes by MPs at the recommendation stage and later by District Officers at the execution stage and finally the failure of the Ministry to effectively monitor and administer the scheme. The report recommended, therefore, the Central Government 'needs to re-evaluate the need, manner and modality of resource transfer under the scheme as at present'.

16

SOCIO –ECONOMIC DEVELOPMENTS OF BASTAR REGION¹⁵

This is one of the first attempts to carry out an audit evaluation of the socio-economic development programmes, launched by government in a particular district. This approach differed from the standard audit practice of auditing DDO wise as far as transaction audit was concerned, or scheme wise/ programme wise as far as Performance Audit was concerned. This study combined the entire range of developmental programme in Bastar region. This involved audit party not only examining the records of various offices involved in executing such programmes but also looking at the results of Government investment in an integrated fashion from the perspective of the development of the entire region. It needed a very knowledgeable audit team backed by a competent leader of the Audit party and a clear perception by the Accountant General/Headquarters of what such audit should look at. The preparatory work like preparing suitable guidelines for audit assumed great significance.

This audit covered and commented on activities of the 10 departments of the Government which together made an investment of Rs. 1083.98 crore in the three districts of Bastar division during 1992–99. Despite such investments,

the number of families living below poverty line increased from 1.99 lakh in 1991–92 to 2.19 lakh in 1997–98, the region was beset with extremely poor medical facilities, and lacked basic infrastructure, such as roads, irrigation and power. Many areas went without safe drinking water, and exploitation by middlemen was common. Some specific findings were:

- ❖ Irrigated area decreased from 3 per cent of net sown area in 1993–94 to 2.87 per cent in 1996–97;
- ❖ The per hectare yield of the major crop rice declined drastically over the period. Similarly, utilization of advanced seed declined.
- ❖ Education was found to be in a mess with literacy rate just 24.9 per cent against 44 per cent in the State. The retention rate at the primary level was 36.2 per cent as against 61.3 per cent of the State;
- ❖ Medical facilities were in shambles and forest, which is the main stay of the economy of Bastar remained un-surveyed and un-demarcated by 22.6 per cent of the total area even after 50 years of being declared as protected forest. Illicit felling of forest was rampant. While area under dense forest reduced by 16 per cent during two years 1995–97 bad management of forest resulted in apart from other things loss of crore of rupees in production and in mandays. Losses due to exploitation of the tribal by the middle men in the purchase of minor forest produces was reckoned by Audit at Rs. 510 crore annually.
- ❖ There were number of cases of cost overrun in road construction;

This report generated great interest in the PAC of the newly formed Chhattisgarh State which made several recommendations in their three Reports—Report of July 2003, December 2005 and March 2006 in the light of audit observations and departmental evidence.

NATIONAL SCHEME OF LIBERATION AND REHABILITATION OF SCAVENGERS AND THEIR DEPENDENTS¹⁶

The programme for liberation and rehabilitation of scavengers and their dependents attracted the attention of Government from very early times—the first initiative in this direction was taken by erstwhile state of Bombay in 1952. Subsequently, in 1995, first Backward Classes Commission had also recommended measures for alleviation of ‘sub-human living conditions of scavengers’ which were brought to the notice of state Governments in 1956. In 1956, Central Government constituted a Central Advisory Board of Harijan Welfare which reviewed the working and living conditions of scavengers and recommended that a Centrally Sponsored Scheme for the alleviation of their conditions may be introduced in the Third Five Year Plan. This was indeed introduced but it did not yield desired results, primarily, because it only concentrated on shifting the mode of carrying night soil from the head to a wheel-barrow module. This scheme was discontinued during Fifth Five Year Plan. After some more abortive attempts to upgrade their living conditions, a major initiative was taken in 1980 when Ministry of Home Affairs introduced

a scheme for conversion of dry latrines into sanitary latrines and rehabilitation of the liberated scavengers and their dependents in dignified occupations in selected towns. Finally, the scheme by the name 'The National Scheme of Liberation and Rehabilitation of Scavengers and their Dependents' was launched in Eighth Five Year Plan with the objective of providing alternative, dignified and viable occupations to scavengers and their dependents by the end of Eighth Plan period.

It was just apt that this subject was chosen for audit evaluation in 2002. The results of this performance appraisal of the scheme laid bare the 'half hearted efforts' and 'absence of a coherent strategy for policy initiatives'. As the Report said 'Divorcing liberation from rehabilitation was an error of judgment that weakened the foundation of the Scheme and led to uncoordinated efforts without focus'. 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. The Report highlighted the fact that 'The Employment of Manual Scavengers and Construction of Dry Latrines (Prohibition) Act', 1993 even though adopted by 16 States upto April 2002, was not seriously enforced in any State. Apparently, the scheme suffered due to absence of linkage with the law. In fact as the Audit Report brought out, the scheme did not even make a mention of the existence of the Law. The Report found fault with the targets fixed by the Ministry for training of scavengers in low-skill areas. Shortfall of such trainees was a key failure of the scheme. As regards liberation of the scavengers, even after reduced targets from 4 lakh to 2.02 lakh in the Ninth Plan, the performance slipped and target was not achieved. The specific shortcomings in occupational rehabilitation as revealed in Audit Review were mis-application of the resources, preponderance of unviable low cost projects and rehabilitation of untrained scavengers even as trained scavengers remained un-rehabilitated. More serious was the role of organizational mismatches. The role of District Collectors who were to act as key functionary in all matters and coordination etc. was reduced due to the transfer of scheme to Scheduled Castes Development Financial Corporation which was not accountable to the District Collectors in the normal course of their functioning.

And finally, the Audit Report analysis established that loss of link between 'liberation' and 'rehabilitation' defocused the scheme in its work. This was vividly demonstrated by the fact that the Ministry of Social Justice and Empowerment, the nodal Ministry for the scheme claimed to have rehabilitated 4.71 lakh scavengers during 1992-2002 while the Ministries of Urban and Rural Development projected that only 0.37 lakh scavengers were liberated during the period. There was no evidence to suggest if those liberated were in fact rehabilitated.

Overall, the Audit Review found the scheme lacking in performance on all critical parameters namely, identification of scavengers, training of beneficiaries, rehabilitation, monitoring and evaluation of the scheme.

The PAC which took up this review for detailed examination and in its 9th Report (Fourteenth Lok Sabha) gave its observations and recommendations on the scheme. While the Committee acknowledged that the scheme was 'well intentioned with the objective to provide and alternate, dignified and viable occupation to scavengers and their dependents in a stipulated time span', it was disappointed at the way the scheme was implemented. It observed in this context

that the Ministry failed to implement the operational parameters of the scheme in a highly stratified society resisting change from a hereditary occupational structure even after ten years of its implementation involving investment of more than Rs. 620 crore. The committee further observed that scheme continued to remain a prisoner of its own statistics. Committee attributed failure of the scheme thus 'it was not calibrated to relate its parameters to the legal framework provided by the Act'. The committee highlighted the continuing shortcomings of the scheme and after identifying these shortcomings, the committee recommended that Ministry should lay down requisite targets for training purposes of the scavengers liberated and that the need for revitalizing training infrastructure needed to be looked into in greater depth. Noticing that more than 40 per cent of the beneficiaries remained unrehabilitated even after a decade of implementation of the scheme, the committee felt that rehabilitation efforts were characterized by misapplication of resources, emphasis on low cost projects without income generation and mismatch between skills and occupations. The Committee depreciated the diminishing role of District Collectors who were to act as key functionaries for coordinating with training institutions, financial institutions and various departments of state governments executing welfare schemes. The Committee wanted Ministry of Urban Development and Poverty Alleviation to impress upon the Scheduled Castes Development Financial Corporation (through the State Governments) to formulate technically and commercially viable projects to avoid rejection of loan applications by banks. The Committee criticized the role of Central Monitoring Committee who met only once during 1992–2002 while it should have met at least 40 times. It found deficiency in monitoring at all levels. The Committee wanted District Collectors to be involved in finalization of projects and disbursement of funds.

18

PERFORMANCE REVIEWS ON EMPLOYMENT GENERATION
PROGRAMMES CONDUCTED BY C&AG FROM 1990

In the planning process of the country, perhaps the most important and also recurring programme has been the Rural Employment programme. These programmes, by whatever names they have been called, have been a continuous feature of successive Plans. Since 1990, Audit has carried out performance audits of eight such programmes mentioned below:

Serial no.	Audit Report No.	Name of Scheme
1.	13 of 1990	Jawahar Rozgar Yojna
2.	19 of 1990	Landless Employment Guarantee Programme
3.	2 of 1994	Integrated Rural Development Programme
4.	2 of 1994	Nehru Rozgar Yojana
5.	2 of 1995	Jawahar Rozgar Yojana
6.	3 of 1997	Employment Assurance Scheme
7.	3 of 2000	Rural Employment Generation Programme
8.	3 of 2003	Swarnjayanti Gram Swarozgar Yojana

A recurring weak area, which has attracted audit comments in practically all the programmes, was the deficient design and very poor implementation of the programmes resulting in negligible achievements vis-à-vis the expected targets. Most of the Audit Reports on these programmes have highlighted factors like poor targeting system of beneficiaries, inefficient and perhaps non transparent delivery system, lack of coordination amongst the various agencies involved in the programme and poor funding of the programme. The Government funds provided employment ranging between 7 and 21 days under Jawahar Rozgar Yojana and between 9 and 18 days under Employment Assurance Scheme respectively in a year. The reading of the successive audit reports brings out that same mistakes were recurring in each scheme and overall results were same—there was no evidence of the succeeding programme taking corrective lessons from the previous to improve the matters.

C&AG, in a communication to Deputy Chairman, Planning Commission in September 2005, in the context of the then promulgated National Rural Employment Guarantee Act that promised 100 days employment to a person from each rural household in selected district of the country mentioned that flagship programme would succeed only if lessons learnt from past programmes of this nature were kept in mind while implementing the programme. In this context, C&AG forwarded highlights of two audit reviews of Rural Employment Generation Programme (REGP) that appeared in Audit Report 3 of 2000 and Swarnjayanti Gram Swarozgar Yojana (SGSY) in Audit Report 3 of 2003.

This Appendix, separately discusses the findings of the Audit Report on REGP appearing in Audit Report 3 of 2000. Below is presented highlights of SGSY as extracted from Audit Report 3 of 2003.

The Swarnjayanti Gram Swarozgar Yojana was launched in April 1999 in place of the earlier Integrated Rural Development Programme and other complementary self-employment schemes. The programme envisaged development of micro enterprises in rural areas through social mobilization of the rural poor and coverage of all aspects of self-employment and through the integration of various agencies—DRDAs, banks, line departments, Panchayati Raj Institutions, non-government organisations and other semi-government organisations. The success of the programme largely depended on proper execution of the complex design and net working envisaged in the guidelines of the scheme. The mid-term audit review revealed that the various assumptions underlying the scheme, particularly in regard to co-ordination amongst the different agencies involved, were not grounded in reality. The implementation of the programme was deficient in certain critical areas.

- ❖ Achievement of the objective of covering 30 *per cent* of the BPL families in a time frame of 5 years would appear to be difficult because only 4.59 *per cent* of the population had been covered in the initial three years.
- ❖ The shift of focus from the individual beneficiary to Self Help Groups (SHGs) was not evident at the field level. The evolution of SHGs could not also be ensured by the implementing agencies as only 32.21 *per cent* of the total SHGs formed had reached the income generation stage.
- ❖ In most States, there was no evidence of proper planning and survey. Identification of key activities, preparation of project reports, and

identification of infrastructure, technology and marketing support, which were essential processes for sustainable income generation, was not pursued, as envisaged, effectively.

- ❖ There were large-scale diversions, mis-utilisation and retention of funds in deposits, restricting the availability of resources for the programme.
- ❖ The forward and backward linkages at the operational level were largely not established owing to lack of coordination amongst the multiple agencies involved in programme implementation.
- ❖ Instances of delay in disbursement of loans and subsidy by the banks and under-financing of the projects were prevalent as in the case of the earlier programme.
- ❖ Implementation of Special Projects was also deficient. 15 Special Projects sanctioned during 1999–2000 in 8 States, scheduled for completion by March 2002, remained incomplete as of June 2002.
- ❖ The restructured programme does not appear to have emerged as yet, as an improvement over the earlier programmes’

REPORT ON NON-TAX REVENUE

A standalone Audit Report on Non-Tax Revenue, titled ‘Union Government (Non-Tax Receipts) No.9 of 2006’ was placed in Parliament in December 2006; this was a landmark development in Receipt Audit reporting, since it was first time that an Audit Report exclusively on non-tax revenue was presented to Parliament by C&AG.

While the report highlighted several systems deficiencies in revenue management of telephone department: it also unearthed several cases where considerable revenue was either foregone, lost or was not realized due to weak verification procedure.

The report highlighted some very interesting and important points in the audit of the Registrar of the Companies and one of these highlights of the report was that Investor Education and Protection Fund which was to be created as per the provisions of section 205 (c) of the Companies Act was yet to be created despite the fact that the amended Section 205 (c) to the Companies Act was effective from October, 1998 and the fund was to be credited with the proceeds of unclaimed or unpaid dividend, share application money, matured deposits etc. for 7 years with the companies. The total amount to the credit in this manner was Rs. 320.85 crore but in the absence of setting up of the fund, this amount was credited to the Consolidated Fund of India whereas expenditure on Investor Education and Protection Fund of a small investor awareness was funded through normal budgetary procedure.

In another very significant finding, the report highlighted a serious lacunae in the nature of lack of coordination and information sharing between Registrar of Companies and the RBI, as a result of which the test check in audit of records of Regional Office of Registrar of Companies in 4 States disclosed 303 Non-Banking Financial Companies (NBFC) functioning without certification of registration from the RBI. One of the highlights of the report was its

recommendation for the better management and accountal of revenue receipts by the Department of Atomic Energy.

Another interesting aspect of this report was that this report was prepared in a very short period by a small team of 3 officers led by PD (DT). It is creditable that this report, first of its kind, was brought out with the initial work being directly handled by the senior officers. The report is also noteworthy for the fact that extensive use of I.T. skills was made specially in the case of auditing of Registrar of Companies where analysis of computerized data was done using Computer Aided Audit Technique, Interactive Data Extraction and Analysis (IDEA, 2001) was used.

The audit report was well received by the concerned ministries and the Finance Secretary¹⁷ stated in his DO to C&AG that 'recognizing the importance of this contribution, a meeting of the concerned Financial Advisors was convened under the Chairmanship of the Finance Minister during the course of which the Financial Advisors were asked to take corrective action based on the recommendations contained in the report'.

While an exclusive report on the non-tax receipts may not be an annual feature, the expectation of C&AG was that it would appear periodically.

NOTES: APPENDIX-B

¹ S.K. Bahri

² Report of the Comptroller and Auditor General for the year ended March 2000 No. 7A of 2000, Union Government (Defence Services)

³ DO No. 8752/JS(O)/2001 dated 25 July, 2001 from Shri Ranjit Issar Joint Secretary (Ordnance) to Shri. S. Lakshminarayanan , Addl. Dy C&AG (Defence)

⁴ Audit Report of the C&AG for the year ended March 2004—Union Government (Defence Services) Army and Ordnance Factories—No. 18 of 2005.

⁵ Para 2 of Audit Report No. 8 of 2000

⁶ C&AG's Audit Report Commercial No.7 of 2005

⁷ The write up draws heavily on the article by Shri DharamVir titled 'The Advance Licensing Scheme Yes, Minister; Yes, PAC' published in Indian Journal of Public Audit and Accountability Volume 1 No. 1 January 2007.

⁸ Report No. 12 A of 2000

⁹ Chapter VI of Report No. 12 of 2005

¹⁰ C&AG's Audit Report No. 11 of 2000—Indirect Taxes

¹¹ From the selected speeches of C.G. Somiah Comptroller and Auditor General of India, Research and International Relations Division, Office of the C&AG of India December 1995—Valedictory address by Shri C.G. Somiah at the course on Fiscal Policy and Economic Development on October 27,1990

¹² B.K. Taimini

¹³ Para 5.3 of Audit Report No. 9 of 1999

¹⁴ C&AG's Audit Report—Union Government (Civil), Performance Appraisals No. 3 of 1998 & 3A of 2001

¹⁵ Para 5.1 of C&AG's Audit Report (Civil) No. 4 of 2000

¹⁶ Chapter I of Audit Report No. 3 of 2003 Union Government, Performance Appraisals

¹⁷ DO No. 6(23)-B(R)/2006 dated February 12, 2007 from Ashok Jha, Finance Secretary to C&AG

APPENDIX 'C'

COMPOSITION OF AUDIT ADVISORY BOARD (2007–2008)

Sl.No.	Name	Designation
CHAIRMAN		
1	Shri Vijayendra N. Kaul	Comptroller and Auditor General of India
MEMBERS		
2	Shri N.R. Narayana Murthy	Chairman of the Board and Chief Mentor, Infosys Technologies Ltd., Bangalore
3	Shri Naresh Chandra	Former Cabinet Secretary
4	Shri T.S. Krishna Murthy	Former Chief Election Commissioner
5	Dr. R.A. Mashelkar	CSIR, Bhatnagar Fellow National Chemical Laboratory, Pune
6	Shri Pratyush Sinha	Central Vigilance Commissioner
7	Shri Deepak Nayyar	Member, Knowledge Commission
8	Shri Dharam Vir	Former Deputy Comptroller and Auditor General of India,
9	Shri C.P. Jain	Former Chairman, National Thermal Power Corporation Ltd
10	Shri C.L. Kaw	Former Chairman, Railway Board
11	Vice Admiral (Retd.) Avnish Rai Tandon	Vice Admiral (Retd.)
12	Ms. Sunita Narain	Director, Centre for Science and Environment
EX-OFFICIO MEMBERS		
13	Shri Sunil Talati	President, The Institute of Chartered Accountants of India
14	Shri Shailendra Pandey	Deputy C&AG
15	Shri C.V. Avadhani	Deputy C&AG

SPECIAL INVITEES

16	Ms. Mahua Chatterjee	ADAI
17	Shri N.R. Rayalu	ADAI
18	Shri K.P.L. Rao	ADAI
19	Shri B.K. Chattopadhyay	ADAI
20	Shri Baljit Singh Gill	ADAI
21	Shri S. P. Singh	ADAI

SECRETARY

22	Ms. Ajanta Dayalan	DG (Audit)
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Index

- Accountants General Conference 57,76,
77,182,293,523,546,563,703,704,
705,718,734,774,778,838
- Accounting Standards 4, 724
- Accounts of Panchayati Raj 719
- Acquisition of SU-30 Aircraft 869
- Administrative Reforms Commission
19,22,321,337,516,606,814,821,844,
845,846
- Advance Licencing Scheme 877
- Advanced Professional Programme in
Public Administration 753
- Advocate General 161,162
- Airborne Surveillance Platform 406
- All India Review 162, 175, 194, 207,
208, 209, 210, 517
- Ambedkar, Dr. B.R. 10,11
- Annual Accounts 80, 110, 111, 113, 157,
201, 202, 324, 325, 326, 329, 331,
333, 337, 341, 348, 350, 352, 405,
442, 453, 470, 552, 553, 560, 626,
674, 700, 702, 703, 704, 709, 720,
722,
- Apprising Planning Commission 213
- Appropriation Accounts 1, 7, 16, 108,
109, 110, 111, 119, 157, 158, 159, 175,
176, 177, 178, 179, 201, 202, 215, 231,
384, 400, 470, 471, 519, 670, 699, 704,
705, 709, 710, 722, 724
- Asian Journal of Government Audit 800
- ASOSAI 2,3,24,82,129,169,281,287,534,
670,682,683,737,738,739,742,749,754,
755,795,796,797,800,802,807
- Atomic Energy Commission 19
- Attorney General 67
- Audit
- Compliance audit
104,109,112,114
 - Department wise audit 114
 - Financial audit 104,109,110,122,132
 - Transaction Audit 103,112,114,124,
127,129,131,172,173,471
- Audit Arrears Committee 355
- Audit Management System 675, 677, 678
- Audit of fraud 122, 129,131,345,597
- Audit of Internal Oversight System 847
- Audit Report Brochure 167, 182, 183,
216, 217
- Audit of Technology Mission 162
- Audit Advisory Board 2,4,69,138,
139,842,848
- Audit Planning 4,46,66,69,79,82,102,
113,114,115,120,121,122,123,130,
137,138,139,205,282,283, 284,389,392,
468,469,470,500,535,595,674,677,
679,683,710,803,830
- Audit of Science and Technology
19,20,497-511
- Audit and Accounts Order, 1936 6,7,13
- Audit of Receipts
14,37,104,139,229,231,279
- Direct Taxes 276,281,282,302
 - Indirect Taxes 276, 291,306
- Audit Review Committee for
Comprehensive Appraisal of State
Receipts 301
- Autonomous Bodies 30, 54, 110, 111, 116,
159, 180, 195, 390, 530, 551, 552, 553,
554, 555, 558, 559, 560, 561, 563, 564,

- 565, 566, 567, 568, 569, 571, 573, 829, 830
- Autonomous Statutory Corporations 17
- AWACS 406
- Biennial Audit Plan 122, 301
- Bilateral Ties 796, 797, 806
- Blue Ribbon Committee Report 354
- Bond Copy 158, 161, 181, 218, 219, 300
- Budget Information System 47
- Budget Monitoring 47
- Business Process Re-Engineering 39, 54, 668, 676
- C&AG
- Duties 6, 7, 10, 11, 12, 13
 - Functions 11, 699
 - Powers 11, 13
 - Strengths and Weaknesses 832
- Capacity Building 72, 81, 82, 597, 605, 645, 754, 755, 844
- Capital Market Reforms 31
- Central Vigilance Commission 130, 131
- Certification of Accounts 111, 123, 351, 470, 558, 559, 595, 627
- Certified Internal Auditor 57
- Chief Minister's Discretionary Fund 893
- Coast Guards 388, 406
- Coffee Board 568
- Combined Finance and Revenue Accounts 7, 717
- Common generic framework 847
- Communication Policy 771, 777, 778, 779, 783, 785
- Complete Audit of District 115
- Comprehensive Appraisals of the working of PSUs 340
- Computer Assisted Audit Techniques 127, 680, 683, 684
- Computer Based System 671
- Computer Policy
- Computerisation of accounts 667
 - EDP Steering Committee 669
 - Review of Policy 667
 - Revised Policy 669
- Conference of Commonwealth Auditors General 807
- Conservation and Protection of Tigers 502, 510
- Contract Audit 390, 445, 446, 457
- Coordination Committee 523, 533
- Corporate Governance 326, 333, 343, 347, 350, 353, 354, 358
- Creation of EDP Posts 51, 669
- DAI's Committee 135
- Defence Audit
- Manuals 388
 - Organisational structure 384
 - Special features 386
 - Consultants 409
 - Defence Procurement Procedure 393
- Delegation of Financial Powers 61
- Departmentalised Accounting system 22
- Development of Multi Barrel Rocket Launcher System 403
- Disaster Management 71
- Disinvestment Audit 166, 169, 631, 635, 636, 637
- Disinvestment Commission 32
- Dissemination of information 139
- DPDO 391
- Economic Liberalisation 126
- Economic Reforms 27, 28, 30
- Capital Market reform 31
 - Financial sector 31
 - Industry reform 33
 - Public Sector reform 32
 - Sectoral reform 33, 34
- Economy Committee 8
- Efficiency-cum-performance audit 14, 104, 515, 524
- Eleventh Finance Commission 587–590, 593, 596, 600, 604, 828
- Environmental Audit 644
- Excess Fraudulent Drawals in the Animal Husbandry Department 886
- Executive responsiveness 410
- Expansion of the Department 13
- Expert Committee 10
- FAO 805
- Finance Accounts 7, 108, 110, 111, 136, 157, 159, 176, 180, 196, 199, 200, 201, 202, 470, 483, 519, 699, 704, 709, 717, 718, 722, 723
- Financial accountability system 826
- Financial Management System 3
- Fiscal Responsibility and Budget Management Act 31, 37

- Ganga Action Plan 163, 164, 167, 208, 502, 505, 506, 647
 Gender Committee 72
 Global Working Group 805
 Golden Quadrilateral Project 118, 126
 Government Companies 340
 GASAB 1, 4, 7, 30, 69, 76, 713, 714, 715, 716, 717, 831, 844, 845
- High Level Committee 707, 732, 747
 Human Resource Issues 737
 Human Resources Committee 49
- IDEA 673, 682, 683
 IDI 799
 Incentive scheme for higher qualifications 56
 International Center for Information Systems and Audit 2, 5, 40, 44, 50, 73, 230, 731, 737, 738, 739, 745, 755, 757
 Information Systems and Audit 5, 40
 Information Technology Audit 678
 Information Technology Plan 675
 Infrastructure facility 72
 Integrated Audit of Department 202, 203
 Internal Test Audit 65, 110
 International Monetary Fund 28
 International Training 44, 73, 679, 731, 742, 745, 755
 International Organisation of Supreme Audit Institutions 2, 3, 24, 102, 108, 128, 169, 278, 279, 281, 528, 534, 624, 634, 636, 638, 644, 645, 646, 648, 671, 737, 738, 740, 742, 749, 754, 796, 797, 798, 799
 ISO certificate 755, 757, 758
 IT Audit Resource Material 682
- JCM Scheme 60, 61
 JPC Reports 335, 336
- Kuppuswamy Committee Report 336
- Light Combat Air craft 407, 421
 Local Audit 113, 120, 131, 135
- Management Letters 332, 334, 560
 Manual of Standing Orders 62, 65, 73, 75, 104, 108, 110, 123, 195, 211, 497, 515, 521, 529, 813, 817, 819
- Measuring Audit Effectiveness 136
 Media Advisor 778
 Media Coverage 771, 782, 783
 Media Policy 771, 772, 773, 774, 778, 779
 Military Accounts 15, 16
 Military Appropriation Accounts 16
 Mission Statement 2
 MPLADS 894
- National Academy of Audit and Accounts 44, 49, 73, 140, 734, 737, 746, 747, 748
 National Family Welfare Programme 117
 National Institute of Public Finance and Policy 119
 National Municipal Accounts Manual 598
 National Scheme of Liberation and Rehabilitation of Scavengers and their Dependents 897
 Navaratna 327, 328, 351
 Navodaya Vidyalaya Samiti 573
 Non-Tax Revenue 297
- Ordnance factories 387, 402, 405, 411
 Overhaul of Infantry Combat Vehicles and Engine 403
- PAC 16, 17, 18, 105, 115, 117, 158, 161, 166, 174, 183, 185, 186, 187, 188, 189, 190, 191, 214, 216, 217, 222, 227, 230, 277, 279, 282, 286, 302, 304, 305, 313, 314, 320, 321, 349, 362, 363, 404, 405, 406, 411, 418, 419, 420, 421, 423, 425, 446, 471, 506, 507, 518, 522, 563, 590, 600, 601, 606, 623, 641, 772, 773, 774, 776, 780, 781, 822, 838, 839, 847
- Package of Concessions to Existing Cellulose and Basic Telephone Service Operators 884
 Panchayati Raj Institutions (PRI) 2, 26, 27, 29, 38, 68, 78, 81, 109, 115, 231, 591, 605, 606, 817
 Parameswar Committee Report 701
 Parliamentary Committee 224, 230
 Peer Review 62, 63, 64, 65, 102, 132, 135, 327, 349, 533, 740, 743, 744, 844,
 Pension Authorisation 670, 673, 675, 720, 721
 Performance Appraisal 168
 Performance Audit 514-550
 —Audit Mandate 524

- Definitional Issues 528
- Programme Evaluation 527
- Guidelines 526
- Performance Audit of the Directorate General of Quality Assurance 867
- Performance Audit of National Highways Development Project 871
- Performance Audit Report 516, 519, 520, 521, 526, 528, 536
- Perspective Plan 2, 49, 50, 55, 72, 77, 81, 82, 83, 124, 125, 126, 127, 128, 169, 208, 282, 293, 294, 358, 394, 397, 471, 530, 597, 677, 711, 712, 757
- Polymetallic Nodules Programme 503
- Post Independence Developments 8
- Pradhan Mantri Gram Sadak Yojna 119, 171, 210
- Prasar Bharti 574
- Pre-Independence Development 5
- Press Briefs 386, 773
- Press Conference 774, 775, 776, 777, 778, 779, 780
- Printing of Audit Report 215, 218, 219
- Privatisation
 - Audit 630
 - Guidelines 637
 - Judicial decisions 639
- Procurement for Operation Vijay (Army) 862
- Promoting New Institutions
 - Institute of Public Auditors of India (IPAI) 70
 - Audit Advisory Board 69
 - Government Accounting Standards Advisory Board 69
- Railway Audit Reports 474
 - IT Audit Report 479
 - Performance Audit Report 476
- Recruitment Rules 48, 51, 53
- Regional and National Workshops 114
- Regional Training Institute (RTI) 44, 50, 72, 73, 127, 359, 398, 534, 599, 629, 645, 646, 671, 672, 684, 708, 730, 731, 732, 733, 734, 735, 736, 737, 739, 740, 741, 742, 743, 744, 758
- Regulations
 - Compliance Audit 816, 817, 818, 819
 - Financial Audit 816, 817, 818
 - Management Letters 820, 821
 - Performance Audit 814, 816, 817, 818, 819
- Regulations on Audit 2, 831
- Regulatory Bodies 2, 3, 29, 35, 36, 108, 171, 231, 621, 622, 624, 625, 626, 627, 628, 629
- Reorganisation of States and Union Territories 39
- Report on Non-Tax Revenue 901
- Re-structuring Committee 54
- Reviews on Employment Generation Programmes 899
- Reviews on Food Security and Nutritional Support 887
- Review of Inventory Management in Ordnance Services 865
- Review of Treasuries 67
- Risk Based Audit 122, 520, 522, 526, 531
- Safety Performance of Indian Railways 892
- Sarvasiksha Abhiyan 117
- Science Advisory Committee 497
- SCOPE 570
- Separation of Accounts 17, 22
- Shell Budgets 30
- Socio-Economic Development of Bastar Region 896
- Special Audit 455, 862, 884
- Special Economic Zones 566
- Standing Committee 701, 702
- State Commercial Audit 355
- State Receipts 298
- Status and Adequacy of 'Follow Up' Action in Selected Post-VDIS Assessments 881
- Strategic Plan 2, 124, 125, 126, 132, 133, 138, 169, 282, 390, 526, 533, 535, 706, 738, 799
- Summary Assessment Scheme 304
- System Appraisals in Audit of Direct Taxes 281
- System Appraisal on Service Tax 882
- Taluka Panchayat audit 600
- Tax reforms committee 37
- Tax reforms 29, 37
- Technical Guidance and Supervision 589, 592
 - DLFA 591, 592, 594, 595, 599, 601
- Training 730
- Training Plan 756, 757
- Training Review Committee 748

910 THE COMPTROLLER & AUDITOR GENERAL OF INDIA

Treasury Inspection 718	Voluntary Disclosure of Income Scheme 880
Twelfth Finance Commission 713	Voucher Level Computerisation (VLC) 80,113,127,135,668, 673,674,675, 701,704,705,830,834
UN BOA 795, 801, 802, 803, 804	Windmill Demonstration Project 502
Urban Local Bodies 2, 27, 29, 38, 54, 69, 231, 587, 589, 591, 596, 598, 599, 600, 601, 603, 605, 606, 607	Zilla Panchayats 603, 608
Valuation Committee 641	Zilla Parishads 110, 592, 600
Vertically Integrated Audit 165	
Vision Statement 2, 826	