INTRODUCTION

TO

INDIAN GOVERNMENT ACCOUNTS AND AUDIT

(FIFTH EDITION)

Issued under the Authority of the Comptroller and Auditor General of India

PREFACE TO THE FIFTH EDITION

It is rarely that one comes across a government publication which is widely informative and at the same time so lucidly written as to receive acceptance from the public. The present work is a rarity of this kind and among my cherished possession is a copy of an earlier edition which I purchased during my probation days. I found it then as I do now to be a well delineated outline of government systems of accounts and audit, useful not only to government servants but to all those interested in these fields of activity.

With the separation of the finances of the Central Government from those of the Provincial Governments, which resulted from the Montague Chelmsford Reforms, the Provincial Government had certain assets and liabilities definitely assigned to them and from 1921-22 it was found necessary to maintain for each Provincial Governments a separate account identical in form with that maintained till then for the Government of India. The next set of important reforms followed in the wake of the Government of India Act 1935, when a complete separation was effected from 1st April 1937 of the accounts of the Provincial Governments from the accounts of the Central Government and the constitution of the accounts of each autonomous province as an independent unit with separate case balances. The structure of classification in government accounts was enlarged to meet the greater devolution of authority of the Provinces, but was not otherwise changed radically.

By and large, initially, the same form of accounts continued after independence and after the Constitution came into force. Reviews of the classification structure carried out in the early sixties only touched on the fringe making some changes at the Major Head level and did nothing to deal with the problems which were coming to the forefront alongwith the rapid planned economic development of the country and the launching of social welfare programmes by the Central and the State Governments. The gap between the budget and the accounts was widening. It was becoming obvious that the faith placed in the traditional accounting system and the standard methods of communicating information on plan programmes was misplaced. Built around departments rather than functions and programmes, the accounting system had gradually ceased to be of use in monitoring plan programmes. In any case, information was not available in time to make any mid-course corrections during the period of implementation. The need in the late sixties and the early seventies was for a radical switch in the basic principles of classification of Government receipts and expenditure and for an accounting system capable of giving information about functions, programmes and schemes rather than departments and offices and to some extent about costs rather than direct expenditure. Simultaneously, there was an urgent need for a performance budgeting system and a management information system. The first of these much needed reforms, namely, the functional system of classification, came into effect from 1st April 1974. While performance budget concepts were also introduced early enough, well designed management information systems in the Ministries of the Government of India were developed, somewhat haltingly, much later and have even now not taken full root.

The next reform was the departmentalisation of accounts in the Central Government in 1976. The integration of the responsibility for keeping accounts as part of the executive functions of the Central Ministries and departments must be regarded as a step, still incomplete, in enabling the Comptroller and Auditor General to devote more resources to audit function.

Audit has evolved over the years into a wide spectrum of activities. At the infra-red end, chronologically the earliest end, is what may be crudely described as vigilance audit, concerned essentially with prevention of frauds connected with state revenue and expenditure reference to which can be found in Kautilya’s Arthashastra. At the ultra-violet end, which is also the ultra-modern end, there is audit of economy, efficiency and effectiveness. While the first two concepts are more or less self-evident, audit of effectiveness may be summed up as a process which verifies the extent to which the declared objectives of a programme or a project have been achieved. In between the two ends of the spectrum stand regularity audit and propriety audit. To conduct all these audits, a variety of methodologies and techniques had to be developed and this is a field in which the Indian Audit Department has done pioneering work.

The present book has been out of print for long, but because of the quick changes and reforms that were being made in the systems over the last two decades or so, every attempt to update it and issue a new edition ran into the problem of rapid obsolescence. At the moment of writing this Preface the waves of reform are somewhat quiescent and the present has been considered an opportune occasion to bring out a new edition.

Since the issue of the fourth edition, the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act 1971 has been passed by Parliament and a number of changes have been introduced in audit and accounting systems besides departmentalisation of accounts at the Centre and restructuring of the offices of the Accountants General making for an internal separation of audit and accounting functions in the States. The book has been completely revised and restructured merging certain chapters, introducing new chapters, covering not only financial arrangements and administration of the country but also the executive's accountability to Parliament and legislatures, and eliminating details as are no longer necessary in the present context.

This 'Introduction' is intended to serve as a guide to those interested in finance, accounts and audit in India. It may not be appropriate to quote this as carrying any authority in itself. The effect of the relevant provisions of the Constitution, Acts, Statutory Rules, Codes etc. is only briefly indicated in this volume. Readers have necessarily to study the originals for a fuller understanding of the subject.

Our aim is to keep the present volume updated from time to time keeping in view the fresh developments in government accounts and audit that are bound to occur in a vibrant economy.

T.N.CHATURVEDI
Comptroller and Auditor General of India

New Delhi-110 002
the 24th September, 1987

PREFACE TO THE FOURTH EDITION

Since the issue of the third edition of “An Introduction to the Indian Government Accounts and Audit”, a number of changes have been introduced in audit and accounting procedures. It was, therefore, felt that it would be useful if the present revised edition incorporating these changes is issued.

2. The arrangement of chapters, as in the third edition, has been retained in the new edition and the paragraphs now carry uniform running numbers.

3. Legislation, under Article 149 of the Constitution, prescribing the duties and powers of the Comptroller and Auditor General is still to be passed by Parliament. In view, however, of the demand for up-to-date copies of this compilation, it has not been considered expedient to wait for this enactment.

4. This “Introduction” carries no authority beyond that of the statutory rules, codes, etc. which it attempts to summarise. It may not, therefore, be quoted as carrying any authority in itself. It must be remembered that a summary of detailed rules can only give a general conspectus of their effect; and it is incumbent upon readers to study the originals to which this volume is intended to serve as a guide. The compilation indicates, in appropriate places, the original rules, codes, manuals etc. which should be referred to for detailed guidance.

S. RANGANATHAN
Comptroller & Auditor General of India

New Delhi
23rd July, 1970

PREFACE TO THE THIRD EDITION

More than a decade has passed since the issue of the Second Edition (Reprint) of "An Introduction to Indian Government Accounts and Audit". Meanwhile the country has witnessed a number of changes which have had their impact on Audit and Accounts also. It has, therefore, been considered desirable to issue a revised edition of this Compilation incorporating the various changes that have been introduced in the accounting and audit of the financial transactions of the Governments, statutory corporations, government companies etc.

2. The arrangement of the chapters and paragraphs has generally been retained as in the previous editions. Wherever the new matter inserted could not be fitted in appropriately in the existing paragraphs, separate paragraphs have been added on in relevant places with distinguishing letters suffixed to their numbers.

3. An Act prescribing the duties and powers of the Comptroller and Auditor General is still to be passed by Parliament under the provisions of Article 149 of the Constitution. In view of the pressing demand for copies of this Compilation it has not been considered expedient to wait indefinitely for the enactment of the above legislation and postpone the revision of the compilation which has become overdue.

4. The prefaces to the previous editions have been reproduced and the instructions contained in the concluding paragraph of the prefaces continue to apply.

A.K.ROY
Comptroller & Auditor General of India

NEW DELHI
22nd December, 1962

PREFACE TO THE SECOND EDITION (REPRINT)

This edition is essentially a reprint of the second edition of “An Introduction to Indian Government Accounts and Audit”, with such adaptations, modifications and additions as have been rendered necessary by the Constitutional changes introduced by the Constitution of India or by other factors. It takes into account all corrections issued to the second edition. Various gaps in the series of numbers of paragraphs are due to the deletion of the original paragraphs containing such matter as has become obsolete or is for obvious reasons no longer necessary, the remaining numbers of paragraphs having been retained intact. All the new matter which could not be inserted appropriately in the existing paragraphs has been incorporated in separate ones, which have been inserted in appropriate places between the existing paragraphs with distinguishing letters suffixed to their numbers.

2. Part VI of the second edition, dealing with “Arrangements in respect of the transactions of the Crown Representative”, has been omitted from the reprint, as the Crown Representative has ceased to exist. Consequential amendments have been made in other parts of the Compilation.

3. The arrangement of the chapters and paragraphs existing in Parts I to V of the second edition has generally been retained intact in the reprint Paragraph 50 dealing with “Relations between the Auditor General of India and the Auditor of Indian Home Accounts” has been omitted from the reprint edition as the Auditor of Indian Home Accounts, since designated as the Auditor of Indian Accounts in the United kingdom, who was a statutory authority before the achievement of independence, is now under the administrative control of the Comptroller and Auditor General and acts like any other Audit Officer under his administrative control. For the same reason, paragraph 48, describing the arrangements in regard to the Accounts and Audit of Government transactions in the United Kingdom has been omitted from the revised chapter 3 are suitable paragraphs describing the existing arrangements in this regard have been incorporated in Chapter 5 of the reprint.

One notable feature of the changes in the reprint is the omission of references to “Concordats” which formerly governed the relations of Audit with the Executive Governments, but are no longer in force. In terms of the Concordats the Comptroller and Auditor General could not formally or openly question the action of the Finance

Ministry/Department except in specified circumstances. He has now complete liberty in reporting, of relating relevant facts and of expressing opinions upon the conduct of Departments and Ministries in regard to their financial transactions and accounts and upon decision of the Finance Ministry/ Department affecting them.

4. This reprint edition is being issued at a time when decisions on various important issues connecting with the constitutional changes are still to be reached and an Act prescribing the duties and powers of the Comptroller and Auditor General is still to be passed by Parliament under the provisions of Article 149 of the Constitution of India. To postpone its issue until the outstanding points are settled and the Act prescribing the duties and powers of the Comptroller and Auditor General is passed by Parliament and the various Codes on which this Compilation is largely based are revised would have involved much delay, which the pressing demand for copies of this Compilation for use of Probationers and members of the staff of the Indian Audit and Accounts Department could not brook.

5. This "Introduction" carries no authority beyond that of the Statutory Rules, Codes, etc., which it attempts to summarise. It may not, therefore, be quoted as carrying any authority in itself. If must be remembered that a summary of detailed Rules can only give a general conspectus of their effect; and it is incumbent upon readers to study the originals to which this volume is intended to serve as a guide. The Compilation indicates in appropriate places, the original Rules, Codes, Manuals etc., which should be referred to for detailed guidance.

V. NARAHARI RAO
Comptroller and Auditor General of India

DELHI
The 14th July, 1950

PREFACE TO THE SECOND EDITION

The issue of this revised edition of " An Introduction to Indian Government Accounts and Audit" has been rendered necessary by the constitutional changes introduced by the Government of India, Act 1935, and the consequent changes in the sphere of Finance, Accounts and Audit. The revision is contemporaneous with, and is also made necessary by, the issue of new Account and Audit Codes by the Auditor General of India in pursuance of the provisions of the Act and the Government of India (Audit and Accounts) Order, 1936.

2. No substantial change in plan has been made in this edition. A slight re-arrangement has been made in Parts III, IV and V in order that the subjects of study may be developed more logically. The contents of three separate chapters in the previous edition have with necessary or suitable modifications been incorporated in the relevant chapters in the present edition, while one of the chapters in the previous edition has been split up into two separate chapters. Two new chapters have been included in the present edition- one, on the subject of audit of Debt and Remittance transactions, in Part III, and the other, on the financial, accounting and audit arrangements in respect of the transactions of the Crown Representative as a separate Part at the end.

3. The opportunity has been taken to eliminate all purely historical matter relating to the development of accounts, audit and financial administration, only so much of the development of an idea or system being retained as is necessary for an explanation of the present position.

4. The Preface to the first edition has been reproduced in original and is appended. The instruction in the last paragraph of that Preface continues to apply.

E. BURDON,
Auditor General of India

New Delhi
The 9th April, 1940

PREFACE TO THE FIRST EDITION

The present Manual combines, for the first time, the "Introduction to Indian Government Audit" with the "Introduction to Indian Government Accounts". It is based in the main on the two earlier volumes which bore these titles, the former of which was prepared by Sir Frederic Gauntlett, K.C.I.E., K.B.E., I.C.S. (late Auditor General in India) while the latter was originally drafted by Mr. L.E. Pritchard (late Accountant General), and subsequently revised by Sir Frederic Gauntlett.

Much of the material in the present Manual is taken direct from the second editions of the earlier volumes, with such modifications and omissions as are necessitated by the changes which have taken place since they were published.

At the same time the opportunity has been taken thoroughly to re-arrange the matter in such a way as to facilitate a consecutive study of the subject. Moreover, a considerable amount of new matter has been incorporated, the more important portions of which deal with the constitutional position of Audit, and incidentally of Accounts, under the reformed constitution given to India in 1919.

This Manual has been compiled at a time when further changes of far-reaching importance are expected. To postpone its issue until the changes are effected would probably have involved a delay of several years; while there is a certain advantage in making available at the present stage a summary of the position as it now stands in order to make it easier for Probationers- and it is hoped for others also to grasp the significance of the impending changes as they take place.

This "introduction" carries no authority beyond that of the Statutory Rules, Codes, etc., which it attempts to summarise. It may not, therefore, be quoted as carrying any authority in itself. It must be remembered that a summary of detailed Rules can only give a general conspectus of their effect; and it is incumbent upon readers to study the originals, to which this volume is intended to serve as a guide.

E. BURDON
Auditor General in India

NEW DELHI
July 1st 1930

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CHAPTER 1

INTRODUCTORY

1.1 The object of the book* is to give a broad outline of the system of accounts of Government transactions and their audit. Before going into details, it is desirable to understand the purpose of accounts and audit.

Accounts and Transactions

1.2 Accounts are ‘Statements of facts relating to money or things having money value”. The ‘facts’ that are incorporated in accounting records are described as transactions.

Accounting

1.3 A mere chronological listing of monetary pecuniary transactions in the form of Cash Accounts does not bring out the significance of the transactions and their aggregate effects. Form such a cash accounts a man cannot tell, without going through every item, how he stands in relation to his various customers and whether his business is profitable or not. It becomes necessary that his transactions should also be classified under various heads, as for example the names of various customers dealt with or of various articles dealt in; and that the results of the transactions under these heads should be arranged in such a form as to show clearly not merely the significance of each separate transaction but also the combined effect of any desired series of transactions. The process through which these ends are effected is called accounting.

Compilation of Accounts

1.4 The initial accounts of Government transactions in India are prepared by the authorities through whom the transactions occur, such as treasuries, the various departmental offices, pay and accounts organizations, etc. From these initial accounts the Indian Audit & Accounts Department as

* Earlier edition of 1971

well as the Central Accounting organizations of the Union Government compile, under different heads prescribed for Government accounts, and bring out, monthly and annually, the combined result of all the transactions which occur during that period. From the accounts so compiled by the Indian Audit and Accounts Department and other agencies, the Union and the States Governments are prepared by the Comptroller and Audit General. These accounts incorporate the results of the total Government transactions arising both in and outside India.

Audit

1.5 In the early stages of civilization, the methods of accounting were so crude and the number or transactions to be recorded so small that each individual was able to check for himself all his transactions; but as soon as the ancient States and Empires acquired any coherent organization, records are found of systems of check being applied to their public accounts. The person whose duty it was to check such accounts became known as the auditor, the word being derived from the Latin word ‘Audire’ meaning to hear, as originally the accounting parties were required to come before the auditor who heard their accounts. The enormous increase in trade in the 19^{th} Century led to the formation of numerous Joint Stock Companies involving the use of large sums of capital under the management of a few individuals. Under these conditions the advantages to be obtained from utilizing the services of auditors became apparent to the Commercial world generally.

1.6 Audit was originally confined to ascertaining whether the accounting party had properly accounted for all receipts and payments on behalf of his principal, and was in fact merely a cash audit; but the object of modern audit, although it includes the examination of cash transactions, has as its ultimate aim, the verification of the financial position of the undertaking.

1.7 Audit is, therefore, an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate. The difference between accounting and auditing is not clearly understood by many, it being thought that if accounts are prepared by a professional accountant he necessarily guarantees their accuracy. This however, is far from the case. If an accountant is instructed merely to prepare accounts from a set of books, he would be acting simply as an expert accountant and not in any way as an auditor. He would not check the books himself.

1.8 An audit is quite distinct and apart from accountancy, an audit does not entail the preparation of the accounts at all but deals with something much wider, namely the examination of a Balance Sheet and Profit and Loss Accounts prepared by others, together with the books, accounts and vouchers relating thereto in such a manner that the auditor may be able to satisfy himself and honestly report that, in his opinion, such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the State of affairs of the particular concern according to the information and explanation given to him and as shown by the books.

Audit as an Agency of Financial Control

1.9 Audit is, therefore an instrument of financial control. In its relation to commercial transactions, it acts as a safeguard on behalf of the proprietor (whether an individual or a group of persons) against extravagance, carelessness or fraud on the part of the proprietors' agents or servants in the realization and utilization of his money or other assets and it ensures on the proprietor's behalf that the accounts maintained truly represent facts, and that expenditure has been incurred with due regularity and propriety. The agency employed for this purpose is called an auditor.

1.10 It is essential that a similar watch should be maintained over the financial transactions of a Government, and that the agency employed for the purpose should be independent of the agents or servants of Government who are entrusted with the realization and utilization of public money or other assets. This task is entrusted in India to the Department. So far, as its audit duties are concerned, the position of the Indian Audit and Accounts Department in relation to Government transactions is to a large extent similar to that of an auditor. In this context, Parliament/Legislatures may be regard this context, Parliament/Legislatures may be regarded as the Shareholders of the Government concern and the Executive Government as its directors. The object of this concern is however not profit making. In India the Indian Audit and Accounts Department audits the transactions of the executive on behalf of Parliament/ Legislatures and submits its audit report to the President/ Governor/ Administrator for being laid before them. The Department must ensure that the accounts maintained truly represent facts; that the rules and orders framed by competent authority in regard to financial matters have been obeyed; that the expenditure has been incurred with due regularity and propriety, and that there is no wasteful expenditure on any scheme.

Fundamental Principles

1.11 Before leaving this introduction to the subject. attention may be drawn how some of the audit tenets followed centuries ago still apply, as will be shown in this compilation. Prompt payment of money into the treasury, the strict following up of arrears, the necessity for accounts accurately portraying the facts, the value of checking the accounts and of conducting local inspections, periodical stock verification and the check of stock with the accounts, where fundamental principles then as they are today and principles which have held good for so long must contain the essence of importance.

CHAPTER 2

COMPTROLLER & AUDITOR GENERAL OF INDIA

2.1 The office of the Auditor General, as he was designated before the inauguration of the Republic of India, was for the first time recognized statutorily with the introduction of the Constitutional Reforms of 1919, and in audit matters he was made independent of the Government of India by Statute. Under the provisions of the Government of India Act, 1935, and the Orders there under, as well as under the adaptations of the Act and orders made as a result of the Indian Independence Act, 1947 the independence of the Auditor General was fully secured and he continued to be recognized as the head of the Indian Audit and Accounts Department.

2.2 The Constitution has installed the Comptroller and Auditor General as a high independent statutory authority. He is the one dignitary who sees on behalf of the Legislature that the expenses voted by them are not exceeded or varied and that the money expended was legally available for and applicable to the purpose or purposes to which it has been applied. Nothing can fetter his discretion or judgment in any manner as to the matters which he may bring to the notice of the Legislatures in the discharge of his duties. His oath of office under the Constitution requires him to uphold the Constitution and the Laws and to discharge his duties without fear or favour, affection or ill will. For the purpose of securing the highest standards of financial integrity of the administration and watching the interest of the taxpayer and also for purposes of Legislative control over the entire executive Government and its officers, the Constitution safeguards the independence and freedom of the Comptroller and Auditor General in a variety of ways. Article 148 of the Constitution provides that the Comptroller and Auditor General shall be appointed by the President by warranty under his hand and seal and shall only be removed from office in like manner and on the like ground as a Judge of the Supreme

Court. On his retirement, resignation or removal, the Comptroller and Auditor General would not be eligible for any other office under the Government. The pay and allowances of the Comptroller and Auditor General, the pension etc. payable to a retired Comptroller and Auditor General and the administrative expenses of his personal office shall be charged upon the Consolidated Fund of India.

2.3 The administrative powers of the Comptroller and Auditor General will be governed by rules made by the President after consultation with the former as provided in clause (5) of Article 148 of the Constitution. He derives his financial powers by delegation from the Union Government.

2.4 The duties and powers of the Comptroller and Auditor General in relation to accounts and audit are contained in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 passed by Parliament under Article 149 of the Constitution.

Duties and Powers Regarding Government Accounts

2.5 Under Section 10 of the Act the Comptroller and Auditor General is responsible for:-

(a) compiling the accounts of the Union and of each State from the initial and subsidiary accounts rendered to the audit and accounts offices under his control by treasuries, offices or departments responsible for the keeping of such accounts; and

(b) keeping such accounts in relation to any of the matter specified in clause (a) as may be necessary;

However the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility:

(i) for compiling the accounts of the Union (either at once or gradually by the issue of several orders);

(ii) for compiling the accounts of any particular services or departments of the Union; or

(iii) for keeping the accounts of any particular class or character.

Similarly the Governor of a State may, with the previous approval of the President and after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility in relation to a State.

2.6 Where, under any arrangement, a person other than the Comptroller and Auditor General has before the commencement of the Act, been responsible:

(i) for compiling the accounts of any particular service or department of the Union or of a State, or

(ii) for keeping the accounts of any particular class or character,

Such arrangement shall, notwithstanding anything contained in para 2.5 continue to be in force unless, after consultation with the Comptroller and Auditor General, it is revoked in the case referred to in clause (i) by and order of the President or the Governor of the State, as the case may be and in the case referred to in clause (ii) by an order of the President. Prior to 15th December, 1971, the date on which the Act came into force, the Comptroller and Auditor General was not compiling the accounts of:

(a) Defence. Railway and certain other Departments of the Central Government;

(b) Lok Sabha and Rajya Sabha Secretariats;

(c) The Union Territories of Goa, Daman and Diu and Pondicherry,

and this arrangement was not revoked by the President. From 1st April 1976 and 1st July 1976, 1st October 1976, 1st April 1977 and 1st June 1980 the President by specific orders, relieved the Comptroller and Auditor General from the responsibility of compiling the accounts of the Central Ministries/ Departments and the accounts of the Union Territory of Delhi/ Andaman and Nicobar Islands except the transactions relating to Central Civil Pensions and Indian Audit and Accounts Department. Thus, the Comptroller and Auditor General is now responsible for compiling the accounts of:

(a) Central Civil Pensions & Indian Audit and Accounts Department;

(b) All States; and

(c) The Union Territories of Chandigarh, Dadra and Nagar Haveli and Lakshadweep.

2.7 Under Section 11 of the Act the Comptroller and Auditor General shall, from the accounts compiled by him or the Government or by any other person responsible in that behalf. Prepare each year Accounts (including the case of accounts compiled by him. Appropriation Accounts) showing under the respective heads the annual receipts and disbursements for the purpose of the Union, of each State, and of each Union Territory having a Legislative Assembly, and shall submit those accounts to the President or the Governor of a State or an Administrator of the Union Territory having a Legislative Assembly, as the case may be, on or before such dates as he may, with the concurrence of the Government concerned, determine.

2.8 However, the President may, after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursements for the purpose of the Union or of a Union Territory having a Legislative Assembly; similarly the Governor of a State may, with the previous approval of the President and after consultation with the Comptroller and Auditor General, by order, relieve him from the responsibility for the preparation and submission of the accounts relating to annual receipts and disbursement for the purpose of the State.

2.9 The Comptroller and Auditor General shall, in so far as the accounts, for the compilation or keeping of which he is responsible, enable him so to do, give to the Union Government, to the State Governments or to the Governments of Union Territories having Legislative Assemblies, as the case may be, such information as they may, from time to time, require, and render such assistance in the preparation of their “Annual Financial Statements” as they may reasonably ask for.

2.10 In June 1978, the Comptroller and Auditor General was relieved of the responsibility for the preparation of the Accounts showing under the respective heads the annual receipts and disbursements of the Union Government for the year 1977-78 and onwards and the responsibility was entrusted to the Controller General of Accounts (Ministry of Finance).

2.11 Under Article 150 of the Constitution the accounts of the Union and the States shall be kept in such a form as the President may after consultation with the Comptroller and Auditor General prescribe. The word form has a comprehensive meaning so as to include the prescription not only of the broad form in which the accounts are to be kept but also the appropriate heads under which certain transactions or classes of transactions have to be entered.

2.12 Section 22 of the Act authorizes the Central Government to make rules regarding the maintenance of accounts providing in particular, the following:-

(a) The manner in which initial and subsidiary accounts shall be kept by the treasuries, offices and departments rendering accounts to audit and accounts offices;

(b) The manner in which the accounts of any particular service or department or of any particular class or character, in respect of which the Comptroller and Auditor General has been relieved from the responsibility of compiling or keeping the accounts, shall be compiled or kept; and

(c) The manner in which the accounts of stores and stock shall be kept in any office or department of the Union or of a State as the case may be.

Duties and Powers Regarding Audit

2.13 The Comptroller and Auditor General is responsible in terms of Section 13, 16 and 17 of the Act: -

(a) to audit all receipts which are payable into the Consolidated Fund of India and of each State and each Union Territory having a Legislative Assembly and to satisfy him self that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit;

(b) to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the money shown in the Accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;

(c) to audit all transactions of the Union and of the States relating to Contingency Funds and Public Accounts;

(d) to audit all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept in any department of the Union or of a State; and

(e) to audit the accounts of stores and stock kept in any office or department of the Union or of a State and in each case to report on the expenditure, transactions or accounts so audited by him.

2.14 He is also authorized by the Act to audit the following as well:-

(a) The receipts and expenditure of bodies or authorities substantially financed by grants or loans from Union or State or union territory revenue, subject to the provisions of any law for the time being in force applicable to the body or authority as the case may be.

(b) The procedures by which the sanctioning authorities satisfy themselves regarding fulfilment of conditions for the grants and loans to any authority or body not being a foreign State or International organization unless he has been relieved by special orders of the President, Governor of a State or the Administrator of a Union Territory (For exercising these checks the Comptroller and Auditor General will generally have the right of access to the books and accounts of such bodies).

(c) The accounts of the Government Companies and deemed Government companies in accordance with the provisions of the Companies Act, 1956;

(d) The accounts of Corporations (not being companies) established by or under law made by Parliament in accordance with the respective legislations.

(e) The accounts of Corporations established by law made by the Legislature of the State or the Union Territory on express request made after consultation with him by the Governor of a State or an Administrator of a Union Territory and on grounds of Public interest (Request of this nature shall be made only after giving reasonable opportunity to the Corporation to make representation in regard to the proposal for audit by the Comptroller and Auditor General).

2.15 The Comptroller and Auditor General can also be requested by the President or a Governor of a State or an Administrator of a Union Territory having a Legislative Assembly to undertake the audit of the accounts of any authority or body the audit of accounts of which has not been entrusted to him by law, or under any Law made by the Parliament, on such terms and conditions agreed to between him and the concerned Government. The Comptroller and Auditor General may also on his own motion propose to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly that he may be authorized to undertake the audit of accounts of any such body or authority on the ground that a substantial amount is invested or advanced to such body or authority by the Central or State Government or by the Government of a Union Territory having a Legislative Assembly and the President or the Governor or the Administrator may permit the Comptroller and Auditor General to do so if this is considered expedient in public interest. I n the former case the Comptroller and Auditor General should be consulted before hand and in both the cases a reasonable opportunity is to be given to the concerned body or authority to make representation with regard to the proposal for such audit.

2.16 The Comptroller and Auditor General shall have authority in so far as his audit functions are concerned:

(a) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts, as submit accounts to him;

(b) to require that any accounts books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend shall be sent to such place as he may appoint for his inspection;

(c) to put such questions or make such observations as he may consider necessary, to the person in charge of the office and call for such information as he may require for the preparation of any accounts or report which it is his duty to prepare.

2.17 Under Article 279 of the Constitution, the Comptroller and Auditor General it to certify the net proceeds of taxes levied and collected by the Union but assigned to the States, taxes levied and collected by the Union by distributed between the Union and the States and taxes which are levied and collected by the Union but authorized by Parliament to be distributed between the Union and the States. Net Proceeds in relation to any tax or duty means the proceeds thereof reduced by the cost of collection.

Audit Reports

2.18 As required under Article 151 of the Constitution and Section 49 of the Government of Union Territories Act, 1963, the Comptroller and Auditor General is to submit his reports containing the results of audit on the Accounts of the Union or of a State or a Union Territory having a Legislative Assembly to the President or the Governor or the Administrator, as the case may be, who shall cause them to be laid before the Parliament/Legislatures. The accounts submitted to the Parliament/Legislatures with the reports embrace, besides the Appropriation Accounts, the whole of the accounts of the Union or the State/ Union Territory including the accounts showing under the respective heads the annual receipts and disbursements.

2.19 Duties to be performed by the Comptroller and Auditor General or powers to be exercised by him under the provisions of the Act or any other law any other law may be performed or exercised by any officer of the Indian Audit and Accounts Department as may be authorized by the Comptroller and Auditor General in this behalf by general or special order, provided that except during his absence on leave or otherwise, no officer shall be authorized to submit on his behalf any report which the Comptroller and Auditor General is required by the Constitution or the Government of Union Territories Act, 1963 to submit to the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be.

CHAPTER 3

FINANCIAL ADMINISTRATION IN INDIA

3.1 In a Parliamentary set up, the overall process of control over the financial administration in a State is threefold one viz. (a) Legislative control, (b) Administrative control; and (c) Audit control

Legislative Control

3.2 Legislative Control over the finances is exercised mainly in two stages. The first is at the time of policy making and the second in controlling the implementation of the policy. The Legislature has the control of the purse and determines the manner of raising the resources and the quantum and how the money so raised shall be spent. The Legislature specifies object on which the money so raised shall be spent and determines each year the amount to be spent on each of the various objects. This initial control is exercised at the time of the presentation of the annual budget or the Annual Financial Statement showing the estimated receipts and proposed expenditure of the State Administration, for the financial year. The second stage of control viz. the control over the implementation of the policies is to ensure that moneys voted by the Legislature have been utilized for the purpose for which and in the manner in which the Legislature wanted them to be utilized. This control is exercised through a purposive use of Parliamentary procedures and a system of Committees.

Administrative Control

3.3 The Administration is engaged in carrying out the policies acceptable to the Legislature. It is accountable to the Legislature regarding the manner in which it has collected moneys as authorized by the Legislature, and utilized them for implementation of the policies laid down by the Legislature and on the specified objects. The outstanding feature of a democracy is this accountability of the Administration to the Legislature. The Administration has also to ensure the formulation of similar accountability on the part of each authority subordinate to the one immediately above in the hierarchy of delegation.

Audit Control

3.4 The scope of State Audit encompasses the following elements:

(a) Fiscal accountability- which includes fiscal integrity, full disclosure and compliance with applicable laws and regulations;

(b) Managerial accountability- which is concerned with efficiency and economy in the use of public funds, property, personnel and other resources; and

(c) Programme accountability- which is concerned with whether Government programmes and activities are achieving the objective established for them with due regard to both costs and results.

3.5 State Audit is the main instrument to secure accountability of the lower formation in the set up to the Administration and of the Administration to the Legislature in the area of financial administration. E.L.Normanton states "without audit, no accountability, without accountability, no control"[*].

Structure of Administration

3.6 From January 26, 1950, (the date of commencement of the Constitution) India has been constituted into a Union of States. The Union of India is made up of 25 States and 7 Union Territories as shown below:

States		Union Territories
Andhra Pradesh	Meghalaya	Andaman & Nicobar Islands
Arunachal Pradesh	Mizoram	Chandigarh
Assam	Nagaland	Dadra & Nagar Haveli
Bihar	Orissa	Delhi

[*] "The Accountability and Audit of Governments"

Goa	Punjab	Daman & Diu
Gujarat	Rajasthan	Lakshadweep
Haryana	Sikkim	Pondicherry
Himachal Pradesh	Tamil Nadu	
Jammu & Kashmir	Tripura	
Karnataka	Uttar Pradesh	
Kerala	West Bengal	
Madhya Pradesh		
Maharashtra		
Manipur		

3.7 The executive power of the Union vests in the President, who is elected by an electoral college consisting of the elected members of both Houses of Parliament and of the Legislative Assemblies of the various States, and the power is exercised by him either directly or through officers subordinate to him. The President has a Council of Ministers, with the Prime Minister at the head, to aid and advise him in the exercise of his functions. The executive power of the Union extends to matters, with respect to which Parliament has power to make laws, to the exercise of such rights, authority and jurisdiction as are exercisable by the Government of India by virtue of any treaty or agreement and to the giving of directions to the States in specified matters.

3.8 The executive power of a State vests in the Governor who is appointed by the President by warrant under his hand and seal. This authority is exercised by the Governor directly or through officers subordinate to him. The Governor has a Council of Ministers with the Chief Minister at the head, to aid and advise him in the exercise of his functions except in so far as he is, by or under the Constitution, required to exercise his functions or any of them at his discretion. The executive Power of a State extends generally to matters in respect of which the Legislature of the State has power to make laws.

3.9 Every Union Territory is administered by the President acting to such extent as he thinks fit, through an administrator, appointed by him with such designation as he may specify. The Union Territories of Daman and Diu, and Pondicherry. Under the Government of Union Territories Act 1963, have separate Legislature. The Administration of each of these Union Territories has a Council of Ministers with the Chief Minister at the head to aid and advise him in the exercise of his functions.

3.10 The distribution of the Legislative Powers between the Union and the States is governed by Article 246 of the Constitution, Parliament has exclusive powers to make laws in respect of matters enumerated in List 1 (Union List) in the Seventh Schedule to the constitution; every State Legislature has exclusive powers to make laws in respect of matters enumerated in List II (State List); List III is a concurrent list containing matters in respect of which both Parliament and State Legislatures are competent to make laws. As regards matters in concurrent List , the Central law prevails over the State law, if any, on the subject, except in cases where the State Law has been specially assented by the President, Parliament is competent at any time to enact any law with respect to the same matter including a law adding to, amending, varying or repealing the law made by the State Legislature. Powers in respect of any other matter not enumerated in List II and III including any tax not mentioned in either of these lists vests in Parliament.

3.11 The control over finances of Government was traditionally confined to Ministry of Finance in the Centre and the Finance Department in the States. With the phenomenal growth and complexity of Government activities powers were delegated to Administrative Ministries though the Ministry of Finance/Finance Department continues to have the overall responsibility of co-ordination and control. For speedy and effective discharge of their functions in financial matters which include planning programming, budgeting, monitoring and evaluation, and Integrated Financial Adviser is attached to each Ministry/Department. The Integrated Financial Adviser in each Ministry/ Department acts as both internal and external financial adviser. He would be consulted as internal financial adviser in the exercise of powers delegated to the Ministries/ Departments under the Delegation of Financial Power Rules, 1978. He would act as an external financial adviser on behalf of the Ministry of Finance in respect of matters outside the competence of the Administrative Ministry/ Department.

3.12 The initial responsibility for the administration of each department of Government activities in the Union, Union Territory or in a State is laid upon the Head of the department concerned, who is controlled and guided in this respect by the Administrative Ministry/ Department of the Government to which it is subject. In financial matters each head of a department is thus responsible for the collection of revenue and for the control of expenditure pertaining to his department, the receipt and disbursement of which are effected at various places and through various persons.

Finance of Governments

3.13 As per article 266 of the Constitution of India, each State has a separate Consolidated Fund entitled the ‘ Consolidated Fund of the State’ into which the revenues received by the Government by the issue of Treasury Bills, loans or ways and means advances and moneys received by that Government in repayment of loans are credited and from which the expenditure of the State, when authorized by the appropriate Legislature, is met. Each such State has also a separate Public Account of the State, in to which all other public moneys received by or on behalf of the State are credited and from which disbursements are made in accordance with the prescribed rules. The revenues received by the Government of India including those received by Union Territories without separate Legislature, loans raised by that Government by the issue of Treasury Bills, loans or ways and means advances and moneys received by that Government in repayment of loans are credited into a separate Consolidated Fund, entitled the ‘ Consolidated Fund of India’ and expenditure of the Government of India including Union Territories without separate Legislature when so authorized by the Parliament, is met from that Fund. All revenues received in a Union Territory by the Government of India or the Administrator of the Union Territory in relation to any matter with respect to which the Legislature of the Union Territory has power to make laws and all grants made and all loans advanced to the Union Territory from the Consolidated Fund of India and all moneys received by the Union Territory in repayment of loans form one consolidated Fund entitled the ‘ Consolidated Fund of the Union Territory’. All other public moneys received by or on behalf of the Government of India including those received by the Union Territories are credited to the Public Account of India and disbursements there from are made in accordance with the prescribed rules. No moneys out of the Consolidated Fund of India or the Consolidated Fund of a State or of a Union Territory are appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution or in the Government of Union Territories Act, 1963.

3.14 Article 267 of the Constitution and Section 48 of the Government of Union Territories Act, 1963 provide that the Parliament and the Legislature of a State/Union Territory may by law establish Contingency Funds in the nature of imprests to be entitled the ‘Contingency Funds of India’, the ‘Contingency Fund of the ‘State’ and ‘Contingency Fund of the Union Territory’ respectively into which shall be paid, from time to time such sums as may be determined by law. This Fund remains at the disposal of the President, or the Governor of the State or the Administrator of the Union Territory having separate Legislature to enable advances to be made by him out of such Fund for the purpose of meeting unforeseen expenditure pending authorization of such expenditure by Parliament or the State or Union Territory Legislature as the case may be.

3.15 The sources of revenue and taxation of States or Union Territory having separate Legislature are to a large extent distinct from those of the Government of the Union. The financial arrangements embodied in the Constitution provide, however, for:

(1) assignment to the States of certain duties levied by the Government of India but collected by the States within which such duties are respectively leviable. Where such duties are leviable within any Union Territory these are collected by the Union Government.

(2) assignment to the States of the net proceeds of certain duties and taxes levied and collected by the Government of India (excepting the proceeds attributable to Union Territories) and their distribution among the States within which such duties and taxes are leviable in accordance with the prescribed principles.

(3) assignment to the States of a share of the net proceeds of Taxes on Income other than agricultural income except those attributable to Union Territories and its distribution among them in the prescribed manner.

Though the net proceeds or a share of the net proceeds of certain taxes levied and collected by the Government of India are distributed to the States, Parliament has the right to levy a surcharge for purposes of the Government of India. In the same way, the whole or a share of the net proceeds of the Union duties of Excise, other than Duties of Excise on Medical and toilet preparations, may be paid to the States by an Act by Parliament. Provision also exists for grants-in-aid to the States for different purposes such as raising the level of administration of tribal areas, promoting the welfare of Scheduled Castes and Scheduled Tribes.

Borrowing

3.16 Under Article 292 of the Constitution, the Union can raise money by borrowing upon the Security of the Consolidated Fund of India within such limits, as may, from time to time be fixed by Parliament by law. Subject to such limits, the Union can also give guarantees in respect of loans raised by a State. Under Article 293 of the Constitution a State may borrow within the territory of India upon the Security of the Consolidated Fund of the State within such limits, as may form time to time be fixed by law, by the Legislature of the State subject to the condition that the State may not without the consent of the Government of India raise any loan if there is still outstanding any part of loan made to the State by the Government of India or in respect of which a guarantee has been given by the Government of India or by its predecessor Government. A State may also obtain loans from the Government of India subject to such conditions as may be laid down by or under any law made by Parliament.

Annual Financial Statement

3.17 A statement of its estimated annual receipts and expenditure is prepared by each Government and presented to its Legislature. The Union Territory Governments present the Statement to its Legislature with the previous approval of the President. This “Annual Financial Statement” is commonly known as the Budget. In this statement the sums required to meet expenditure charged upon the Consolidated Fund of India of the Consolidated Fund of the State or the Consolidated Fund of the Union Territory and the sum required to meet other expenditure proposed to be met from the Fund are shown separately, the expenditure on revenue accounts being distinguished from other expenditure (see Articles 112 & 202 of the Constitution and Sec. 27 of the Govt. of Union Territories Act, 1963). The Budget shows receipts and payments of the Government under three heads:

(1) Consolidated Fund; (2) Contingency Fund; (3) Public Account. The Budget comprises (i) Revenue Budget; and (ii) Capital Budget. In order to have meaningful reflection of the national development effort and also as a means for evaluating the progress of projects against set targets as well as to serve as a tool for securing the efficient management of operations entrusted to the Administration, a system of performance budgeting has been introduced both at the Centre and in the States. The individual items which make up the budget are shown not only in financial terms but as far as possible in physical terms as well, thereby establishing a proper relationship between inputs and outputs and enabling a proper assessment of the performance in relation to costs.

3.18 So much of the estimate as relates to expenditure charged upon the Consolidated Fund is not submitted to the vote of the Legislature, though it is open to discussion in the Legislature. So much of the estimate as relates to other expenditure is submitted to the Legislature concerned in the form of Demands for Grants on the recommendation of the President or the Governor of the State or the Administrator of the Union Territories with Legislature, as the case may be.

3.19 It is for each Government to settle the form in which the demand should be presented but ordinarily a separate demand is proposed for each Ministry/Department. Each demand contains, first, a statement of the total required, then a statement of the detailed estimate under each demand divided into items.

3.20 The Finance Bill containing the annual taxation proposals is considered and passed by the Legislatures only after the Demands for Grants have been Voted and the total expenditure is known. Then it enters the Statute as the Finance Act.

Appropriation Act

3.21 After the Demands have been passed by the Legislature, a bill is introduced to provide for the appropriation out of the Consolidated Fund of

India or of the State or of the Union Territory with Legislature for all moneys required to meet:

(a) The Grants made by the Legislature;

(b) The expenditure charged on the Consolidated Fund, but not exceeding in any case the amount shown in the statement previously laid before the Legislature. (This charged expenditure is referred to as Appropriation in the following paragraphs).

No money can be withdrawn from the Consolidated Fund, until this bill is passed by the Legislature. The bill when passed by the Legislature. The bill when passed by the Legislature becomes the Appropriation Act.

3.22 The sums authorized in the Appropriation Act are intended to cover all the charges including the liability of past years, to be paid during a financial year or to be adjusted in the accounts of that year. Any unspent balance lapses and is not available for utilization in the following year.

Sub-heads of Grants and Appropriations

3.23 For purposes of financial control each Grant or Appropriation is divided into a number of units called Sub-heads, each of which may be sub-divided into smaller units of appropriation corresponding to sub-heads or detailed heads of account.

Allotments and Re-appropriations

3.24 Within the amount of each Grant or Appropriation as shown in the schedule to the Appropriation Act all allotments and re-appropriations with in sub-heads and sub-divisions of sub-heads may be sanctioned by Government or by such subordinate authorities as are duly authorized to do so. This is, however, subject to the limitation that any expenditure not falling within the scope or intention of a Grant may not be authorized from funds provided under that Grant. Any allotment or re-appropriation within a Grant or Appropriation may be authorized at any time before, but not after the expiry of the financial year to which such Grant or Appropriation relates. Re-appropriations from on grant or Appropriation to another Grant or Appropriation are not permissible.

Ways and Means

3.25 The terms ‘Ways and Means’ refers to methods of maintaining the Government’s daily cash balance at a level sufficient to meet its days-to day requirements. All moneys received by or on behalf of Government either as dues of Government or by way of deposits, remittance or other wise enter into the cash balance. The Reserve Bank acts as the Banker to the Central and State Governments (except Jammu and Kashmir and Sikkim). Under the agreements with the Reserve Bank, the Governments are required to maintain a minimum balance with the Bank. A constant watch is kept on Government’s cash balance so that it does not fall below the prescribed minimum at any stage. For this purpose a watch over the progress of receipts and expenditure and also an effective control over expenditure are essential.

3.26 Generally the current receipts of Governments fall short of the current expenditure during the earlier part of the financial year and sometimes exceptionally heavy payments in excess of cash balance have also to be made. In such cases, the Central Government borrows from the Reserve Bank against issue to Treasury Bills, whenever necessary, for replenishing its cash balance. Similarly, the State Governments, in terms of their agreements with the Reserve Bank, obtain Ways and Means advances from the Bank which are repayable within a period not exceeding three months for special ‘Ways and Means’ advances. The Central Government also assists them by phased releases of statutory grants, shares of divisible taxes and duties and Plan assistance to them. In case these arrangements prove insufficient, the State Governments approach the Central Government for temporary accommodation.

Resource Operations

3.27 The cash balance of a Government comprises the balance in its account with the Reserve Bank and the balances at treasuries and sub-treasuries, the cash business of which is not conducted by the Bank. Some treasuries collect more receipts that they require for their payments, others less; and arrangements have to be made so that all the treasuries have at all times sufficient funds to meet the demands on them. The process of distribution of funds for this purpose is referred to as Resource Operations. This is carried out by the Currency Officer of the Reserve Bank either by actual remittance of notes and coins between non-banking treasuries and the Bank or by transfer through currency chests[*].

Treasury Rules

3.28 The power to regulate the payments of money into the Consolidated Fund, the Contingency Fund and the Public Account, the withdrawal of moneys there from and the custody of moneys therein is vested in Parliament or the Legislature of the State or the Legislature of the Union Territory, as the case may be; pending legislation by the appropriate Legislature, these matters are regulated by rules made in this behalf by the President or the Governor of the State, or the Administrator of the Union Territory. These rules are Central Government Account (Receipts and Payments) Rules 1983 or State Treasury Rules as may be appropriate.

Treasuries

3.29 All the States mentioned in Para 3.6 are divided into a number of 'districts' and at the headquarters of each district there is a Government treasury called the 'District-treasury' with one or more sub-treasuries. The treasuries situated in a State as are controlled by the State Government, are called State Treasuries. The treasuries are the units of the fiscal system and the points at which the public accounts start. Into these

[*] The details of Currency and Resource Arrangements are contained in Chapter 4.

treasuries are paid the receipts of Government and from them are disbursed the payments on behalf of Government. Generally, when any one has a payment to make to Government, he presents the money with a challan at a treasury and receives a receipt for it. When one has a payment to receive from Government, he presents at a treasury a receipts bill, or a cheque issued in his favour by a competent officer and obtains payment of it. Under the agreements made by the Central Government and each State Government (except Jammu and Kashmir and Sikkim) with the Reserve Bank of India, the general banking business of these Governments (in which business is included the receipt, collection, payment and remittance of moneys on behalf of the Treasury at every Station at which the Reserve Bank of India has its office or branch, at which there is a branch of the State Bank of India or its subsidiary, serving as its agent) is conducted in accordance with and subject to the provisions of the agreement and of the Reserve Bank of India Act, 1934 and such orders as may from time to time be given to the Bank by the Government concerned. The Union Government, as a general rule, operates on all offices and branches of the Reserve Bank of India, and on all branches of the State Bank of India, on the branches of the Subsidiary Banks of the State Bank of India authorized to transact Government business as agents of the State Bank of India and all other agencies throughout India acting as the agent of the Reserve Bank of India. The operations of each state are confined to the offices, branches and agencies of the two Banks which fall within the area of that particular State. This decentralization of treasury work is a feature of the Indian Financial System which should be clearly grasped at the outset as it conditions the whole of the subsequent arrangements. It is this feature of the Indian System which marks the essential difference from the financial system in England where the Public Receipts and Payments are all centralized at the Bank of England in London and there are no outlying State Treasuries.

Note: - The Governments of Jammu and Kashmir and Sikkim have not so far entered into agreement with the Reserve Bank for the conduct of their treasury business by the Bank.

Pay and Accounts Offices

3.30 Under the Scheme of departmentalisation of accounts of the Union Government brought about in a phased manner from April 1976 separate Pay and Accounts Offices have been set up for the Central Ministries/Departments of the Government of India, besides the Union Territories of Delhi and Andaman and Nicobar Islands. The Union Territories of Daman and Diu and Pondicherry have also their own Pay and Accounts offices functioning since their merge with the Indian Union Irrigation Projects etc. have arrangements similar to the Pay and Accounts system. Even in some State Capitals like Madras, Bombay, Hyderabad, Ahmedabad and Calcutta, there are Pay and Accounts Offices of the concerned States, which function in lieu of the District Treasuries.

3.31 Ministries and Departments of the Central Government shall, as a rule, operate on such offices and branches of the Reserve Bank and or of their banks as have been, or may be nominated for handling the receipts and payment transactions of the particular Ministry or Department. The Heads of Departments/Administrations function as the Chief Accounting Authorities and are responsible for all payment and accounting work in their respective spheres, which are centralized in the Pay and Accounts Offices. All payments are make by ‘cheques’ or ‘Bank drafts’ and all receipts are also finally accounted for in the books of Pay and Accounts Offices. In respect of the transactions relating to the Pay and Accounts Offices, taking place at offices and agencies of the Reserve Bank, separate daily accounts are rendered direct to the concerned Pay and Accounts office.

Transactions with other Governments

3.32 The Treasury Rules of each State Government provide that moneys may be received and payments made on behalf of the State Government, as well as Union Government including Union Territory Governments and other State Governments. After the departmentalisation of accounts of the Union Government, however, only certain limited category of transactions relating to the Union Government are permitted to be routed through the State Treasuries and such transactions are initially taken under 'Suspense' pending settlement by cheque/Demand draft with the Pay and Accounts Officer of the Ministry/Department concerned, by the State Accountant General. In respect of transactions occurring in one state treasury on account of other states, they are carried in the first instance against the balance of the State in which the treasury is and the requisite money settlement between the Governments concerned is subsequently initiated by the Accountant General through the Central Accounts Section of the Reserve Bank, Nagpur. Transactions of State Governments taking place in the Pay and Accounts Offices (PAO) of Central Ministries/ Departments are initially carried against the balances of the Union Government, pending adjustment between the balances of the Governments concerned, by settlement through cheque/demand draft between the PAOs and Accountant General or through the medium of the Central Accounts Section of the Reserve Bank of India depending upon the nature of the transactions.

Note: - At present only the Loans/Grants from the Central Government to the States and the repayments of the loans and the interest by the State Governments to the Centre are settled through the medium of the Central Accounts Section of the Reserve Bank and in other cases, the system is of settlement by cheque/draft.

Initial Accounts

3.33 The initial accounts of receipts and payments on behalf of the State Governments are maintained at the State treasuries in the respective States who compile and render them monthly to Accountant General concerned. In the case of the certain large departments of the Governments like the Public Works and Forest, where the Divisions working under them have been vested with cheque drawing powers, the accounts of the moneys drawn are maintained by the Divisions themselves, who remit their receipts and surpluses periodically in lump sum into the treasuries. The Divisions render monthly to the respective Accountants General compiled accounts of the transactions including in them inter-alia, the total amount of cheques drawn/ money remitted into the Treasuries during the month under the relevant Remittance heads prescribed for the purpose. The contra debits/credits on account of the cheque paid/moneys received by the treasuries are included by the Treasuries in their initial accounts for the month rendered to the Accountants General. The pairing off of the credits/debits relating to cheques drawn and enchased and moneys remitted and brought to account by the treasuries are watched by the Accountant General concerned through appropriate subsidiary registers. In the case of Central Government and Union Territory Government following Pay and Accounts System, each office or branch of the Reserve Bank or other bank handling their transactions maintains separate accounts in respect of each Ministry and Department and render an account of the transactions to the Pay and Accounts Officer concerned at such intervals as may be prescribed by the Governments, together with all the supporting challans. Paid cheques. The transactions of Railways, Postal, Telecommunications and Defence Departments arising at offices and branches of the Reserve Bank and State Bank of India, acting as agent of the Reserve Bank, are distinguished from other Central transactions in the initial accounts and classified separately for each Railway, each Circle of Posts, each

Accounts Officer of Telecommunication, and each Controller of Defence Accounts respectively so as to enable these transactions being taken against the Railway Fund, Postal Accounts, Telecommunication Account and Defence Account respectively, in the books of the Reserve Bank. Daily scrolls together with the requisite challans and paid cheques relating to the transactions pertaining to each one are furnished to the Accounts Officer concerned of the Railways, Posts, Telecommunications and Defence Departments, as the case may be.

A statement of the closing balance of the Central Government is sent each month by the Central Accounts Section of the Reserve Bank to the Controller General of Accounts indicating: -

(i) Central Government Account : Balance (in respect of Central transactions and Union Territory Administrations dealt with by Accountants General and of all Union Territory Governments with Legislature)

(ii) Railway Fund Balance

(iii) Postal Account Balance

(iv) Telecommunication Account Balance

(v) Defence Account Balance

(vi) Departmentalised Ministries Accounts Balance (Which also includes transactions of Union Territories of Delhi and Andaman and Nicobar Islands whose accounts have been separated)

(vii) Total

Classification, compilation and consolidation of Accounts

3.34 The compilation of Accounts from the point at which the initial receipts and payments occur at the Pay and Accounts Offices, Treasuries and other departmental offices so that at which they issue in the form of a classified and consolidated account of the year’s transactions for all the Governments in India are discussed in detail in other chapters.

Audit

3.35 The audit of the Comptroller and Auditor General is comprehensive and includes (a) Regularity Audit, (b) Propriety Audit and (c) Efficiency cum-Performance Audit. As stated in Chapter 2 he is to uphold the Constitution and the laws made thereunder. He is, therefore, competent to challenge any sanction which in his opinion violates the provisions of the Constitution or the laws. He ascertains whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged, and whether the expenditure conforms to the authority which govern it. He examines the propriety of executive actions and looks beyond the formality of the expenditure to its wisdom, faithfulness and economy and brings to the notice of the Legislature cases of waste, loss, extravagant or nugatory expenditure and he is thus empowered to challenge any improper exercise of discretion and comment on the propriety of expenditure. In recent years, the technique of efficiency cum-performance audit has been attempted in the audit of development schemes. Audit examines how far the agency is adequately discharging its financial responsibility in regard to the various schemes undertaken by it and ascertains whether the schemes are being executed and their operations conducted economically and whether they are producing the results expected of them.

Audit of Public Debt

3.36 An important duty of Audit in relation to borrowings is to see that the proceeds of loans are properly brought to account and that they are expended only on objects for which the loans were originally raised or to which borrowed moneys may properly be applied in accordance with the sound principles of public finance.

3.37 Audit has also to see whether adequate arrangements are made by Government for amortization of debt, particularly in cases where borrowed moneys are utilized on objects or works which cannot be regarded as productive, and should bring to notice instances in which amortization is ignored or appears to be prima facie inadequate.

3.38 The results of all these audits are incorporated in the Audit Reports of the Comptroller and Auditor General which are submitted to the President or the Governor of the State or the Administrator of the Union Territory as the case may be, for presentation to the concerned Legislature. These Audit Reports bring out cases of significant variations from the funds voted by the Legislature, excess over voted grants and charged appropriations, expenditure on 'New Service' (not contemplated in the Budget), irregular expenditure, losses, wasteful, infructuous or uneconomical expenditure and comprehensive reviews about the performance of the development programmes and schemes. They form the instruments through which the second stage of Parliamentary control, viz. control over implementation of policies, is exercised.

3.39 After the Audit Reports, Finance Accounts and Appropriation Accounts have been placed before Parliament they are examined by the Public Accounts Committee of Parliament set up under the Rules of Procedure and Conduct of Business in the Lok Sabha. Another Financial Committee called the Committee on Public Undertakings set up at Centre under the Rules of Procedure and Conduct of Business in the Lok Sabha examines the reports and accounts of the Public Sector Undertakings and also the Reports of the Comptroller and Auditor General on Public undertakings. Similarly in the State, the Audit Reports, Finance and Appropriation Accounts are examined by the State Public Accounts Committees consisting of members of the State Legislature, Quite a few State Legislatures have set up separate Committees on Public Undertakings of the States. The role and functions of the Financial Committees are discussed in detail in chapter 34.

CHAPTER 4

CURRENCY AND RESOURCE ARRANGEMENTS

4.1 In Paragraph 3.28 a brief reference has been made to the Currency and Resource arrangements in India. This chapter is intended to deal in some detail with the broad principles and general arrangements.

Currency

4.2 The currency of India consists of coins issued under the Indian Coinage Act, 1906 as amended from time to time, one rupee notes issued by the Ministry of Finance and bank notes issued by Reserve Bank of India. Under the provisions of the Reserve Bank of India Act, 1934 the sole right to issue bank notes in India has been vested in the Reserve Bank with effect from April, 1935.

4.3 Under Section 14 of the Indian Coinage Act, 1906 the following coins have been issued since April 1957:

Silver Alloy- Rupees ten.

Pure Nickel- One Rupee, 50 pause and 25 paise

Aluminium Bronze- 20 paise, and 10 paise

Cupro Nickel- 10 paise, 5 paise, and 2 paise

Bronze- 1 paise

Aluminium Magnesium- 5 paise, 3 paise, 2 paise and 1 paisa.

4.4 The rupee is legal tender up to any amount, the 50 paise coins for any sum not exceeding ten rupees and other coins not exceeding one rupee.

4.5 Bank notes issued by the Reserve Bank are of denominational values of two rupees, five rupees, ten rupees and one hundred rupees in Ashoka Pillar and Mahatma Gandhi designs and are legal tender, throughout India.

4.6 One rupee notes issue by the Central Government are unlimited legal tender, and these notes are treated as rupee coin for all purposes of the Reserve Bank of India Act.

4.7 Under Section 39 of the Reserve Bank of India Act, the Bank is required to issue rupee coin on demand in exchange for Bank notes and currency notes of the Government of India and issue currency notes or Bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906. The bank supplies in exchange for currency notes or Bank notes of two rupees or upwards, currency notes or bank notes of lower value or other coins which are legal tender under the Indian Coinage Act, 1906 in such quantities as may, in the opinion of the bank be required for circulation. Although no person has a legal claim to obtain coins for notes presented at a treasury or a sub treasury this accommodation is given whenever possible and all applications for exchange are granted provide that the coins or notes applied for are available subject to limitation imposed by the Reserve Bank or the Central Government.

Resource

4.8 The control of the Resource operations of the Government of India and of States, vests in the Reserve Bank. This work is conducted under the Reserve Bank. This work is conducted under the control of the Bank by a number of currency officers each of whom is in charge of an Issue Department of the Bank and is responsible for the work of one or more States within his jurisdiction.

4.9 The cash balance of each Government is made up of the balance in its account with the Reserve Bank and the balances at its treasuries and sub-treasuries situated at places where the cash business is not conducted by the Reserve Bank of India and its branches and agencies. At places where the cash business is conducted by the bank, Government receipts are paid into and all Government disbursements are made from the Bank and the Bank is responsible for the distribution and maintenance of funds according to requirements at these places. This is arranged by that Currency Offices. Each Government is responsible for keeping in its accounts at the Reserve Bank a sum sufficient to enable the Bank to meet the disbursements which the bank has to make on its account at its various branches and agencies. At treasuries and sub-treasuries situated at places where there is no branch or agency of the Bank, Government holds the Treasury Officer responsible for keeping sufficient funds to meet all Government disbursements and for maintaining the balances as low as possible in order that money may not be locked up unnecessarily.

Funds in India

4.10 The Currency Officers are responsible for the distribution of funds within their jurisdiction. It is the duty of the currency officers to keep all the treasuries in their jurisdiction adequately supplied with all kinds of coins and notes and to arrange for the transfer of funds between treasuries and the Bank and for the remittance of notes and coins between treasuries and currency offices.

4.11 The transfer of funds between treasuries and sub-treasuries and branches and agencies of the Reserve Bank is effected for the most part through the medium of currency chests belonging to the Reserve Bank of India. These chests are maintained at Non-Banking treasuries and sub treasuries to prevent the unnecessary locking up of funds in treasury balances and to facilitate the transfer of funds from and to such balances. Under the provisions of the Reserve Bank of India Act, the amount of currency and bank notes in circulation which constitute the liabilities of the Issue Department of the Bank should not exceed the assets of that Department held in gold, sterling securities, rupee coin (including rupee notes) and rupees securities. A portion of these assets is held in the various currency chests in the form of rupee coins and rupee notes. The currency and bank notes held in these chests are not notes in circulation but pass into circulation only when they are transferred to the treasury balances. Assuming that there are no transactions elsewhere, the deposit of currency and bank notes in a currency chest decreases the amount of such notes in circulation and the deposit of rupees and rupee notes in the chest increase the assets of the issue Department of the Bank. A deposit of notes or coin in a currency chest thus enables the bank to issue notes elsewhere up to the amount deposited without increasing the total amount of notes in circulation. If, therefore, a transfer of funds from the treasury balance at ‘A’ to the treasury balance at ‘B’ is required, this can be effected at short notice and without the actual remittance of coins and notes by transferring money from the treasury balance to the currency chest at “A’ and transfer of the same amount from the currency chest to the treasury balance at ‘B’. A currency chest thus enables the treasury balance at a treasury or a sub-treasury to be kept at a low figure as it is always possible to replenish the balance quickly by a transfer of money from the currency chest wherever funds are required in Treasury. It also obviates the necessity for frequent remittances of coins and notes as surplus funds can always be deposited into the currency chests and made available for use elsewhere, pending a convenient occasion for remittance.

4.12 The Reserve Bank of India provides facilities to the Public for remittance of moneys from one place to another. These remittances are arranged for by the issue of Telegraphic transfers or Reserve Bank drafts to and from places where the Reserve Bank has its own offices or is represented by its agencies. In order to provide similar facilities for the remittance of moneys form and to places where there is no office of the Reserve Bank or branch of the State Bank and to discourage the remittance of notes through the posts by the Public, Telegraphic Transfers and Reserve Bank drafts are also issued by Government treasuries acting as Treasury Agencies of the Reserve Bank for the purpose.

CHAPTER 5

FEDERAL FINANCE AND FIANCE COMMISSION

Federal Finance

5.1 Our Constitution lays down that India shall be a Union of States. A large number of economic, social and developmental functions and responsibilities have been assigned to the States by the Constitution keeping in view that they require local supervision and nearness of the governing authority. However, in regard to resources the Constitution has assigned the power of taxation either to Union or to the States whichever is in the best position to levy and collect it thereby attempting to avoid overlapping of tax jurisdiction.

Provisions in the Constitution

5.2 Provisions exist in the Constitution for assignment/distribution of resources to the States.

Art.268: Stamp duties and duties of excise on medical and toilet preparations mentioned in the Union list, though levied by the Government of India, are collected and retained by the States.

Art. 269: The net proceeds of the following duties and taxes though levied and collected by the Government of India, are entirely assigned to the States and distributed among them in accordance with the principles of distribution formulated by Parliament.

(a) duties in respect of succession to property other than agricultural land;

(b) estate duty in respect of property other than agricultural land;

(c) terminal taxes on goods or passengers carried by railway, sea or air;

(d) taxes on railway fares and freights;

(e) taxes other than stamp duties on transactions in stock-exchanges and futures markets;

(f) taxes on the sale or purchase of news papers and on advertisements published therein;

(g) taxes on the sale or purchase of goods other than newspapers, where such sale or purchase take place in the course of inter-State trade or Commerce;

(h) taxes on the consignment of goods where such consignments take place in the course of inter-State or commerce.

Art. 270: A percentage of the net proceeds of income tax is assigned to the States. The proceeds thus assigned to the States do not form part of the Consolidated Fund of India.

Art. 272: Union excise duties can be shared with the States if Parliament so decides. Almost from the commencement of the Constitution, excise duties have been so shared.

Art.275: Grants-in-aid of revenues shall be paid out of the Consolidated Fund of India to the States which may be in need of assistance. Different sums can be fixed for different States.

None of these Articles mention what amounts are to be so given to the States or lays down the principles according to which they are to be distributed among the States. This task has been left to the finance Commission to be constituted by the President under Article 280 at the expiration of every fifth year or such earlier time as he considers necessary.

Duty of the Commission

5.3 It is the duty of the Finance Commission to make recommendations regarding the distribution of Income tax and Union excise duties between the Union and the States and the allocation of the States share among them, and also regarding the principles which should govern grants under

Article 275. The President may also refer any other matter to the Commission in the interests of sound finance. Under this last provision, questions like the distribution of additional excise duties, taxes under Article 269 and grant in lieu of the tax on railway passenger fares have been referred to the Finance Commissions in the past. Grants under Article 282 are outside the purview of the Finance Commission. It is under this Article that the government of India gives Plan grants to the States.

Guidelines for the Commission

5.4 In making its recommendations, the Commission will have regards, among other considerations to:

(i) the resources of the Central Government and the demands thereon on account of the expenditure on civil administration, defence and border security, debt servicing and other committed expenditure or liabilities;

(ii) the existing practice in regard to determination and distribution of Central assistance for financing State Plans;

(iii) the revenue resources of the State on the basis of the present levels of taxation and the targets set for the future;

(iv) the requirements on revenue account of the States to meet the expenditure on administration and other non-plan commitments or liabilities:

(v) adequate maintenance and upkeep of capital assets and maintenance of Plans schemes already completed;

(vi) the requirements of States for up gradation of standards in non-developmental sectors and services, particularly of States which are backward in general administration, with a view to bringing them to the levels obtaining or likely to obtain in the more advanced States, and the manner in which such expenditure could be monitored;

(vii) the scope for better fiscal management and economy in expenditure consistent with efficiency; and

(viii) the need for ensuring reasonable returns on investments in irrigation and power projects, transport undertakings, industrial and commercial enterprises and the like.

CHAPTER 6

GOVERNMENT AND COMMERCIAL SYSTEMS OF ACCOUNTS & AUDIT

(A) ACCOUNTS

6. The principles of Commercial and Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a commercial concern is to take part in the production, manufacture or inter-change of goods or commodities between different groups or individuals and thereby to make profit, Government is to govern a country and, in connection therewith, to administer the several departments of its activities in the best way possible.

Principles and Methods of Commercial Accounting

6.1 A non-Government commercial concern deals primarily with the utilization of Capital for the purpose of making a profit; and it is interested to see at intervals how it stands in relation to its debtors and creditors, whether it is gaining or losing, what are the sources of its gain or loss, and whether it is solvent or insolvent.

6.2 In order to obtain ready answers to these questions the concern has to keep a system of detailed accounts. In respect of each person dealt with, each class of asset held, each article dealt in, and each department of its activities, it maintains a separate account so that the result of the transactions in each case may be ascertained. It then becomes necessary for it to collect the result of all these accounts in one place in order to record the assets and liabilities under different heads and finally to prepare the manufacturing. Trading and Profit and Loss Accounts and a Balance Sheet, which shall show what is the gain or loss of the concern as a whole and whether it is solvent or insolvent.

6.3 It is the generally accepted practice in the commercial world to maintain account books on the Double Entry System, which is based on the fact that in every transaction or financial change two parties or accounts are involved, one giving and other receiving. Under that system, every transaction, therefore, requires two entries in the books, one against the party or account receiving. Further, if the concern is a manufacturing one, it has also to maintain sets of books for (a) costing and (b) stores accounting in order to ascertain, as regards (a) the cost of production of each article so as to control Costs or increase price suitably provided of course the market permits, and as regards (b) that there is an efficient system of stores control.

6.4 The main concepts applicable to commercial accounts are:

(1) Financial conditions- This is represented by the assets, liabilities and shareholders equity and refers to the impressions or conclusions one might draw from a balanced array of the Company's assets and claims against those assets i.e. a balance sheet and other associated accounts indicating long range and current positions and solvency and liquidity.

(2) Results of operations- The economic results of operations aimed to show what the enterprise has accomplished and at what cost, are generally reflected by the Profit and Loss accounts. In arriving at the net income, financial conservatism dictates that all foreseeable losses should be provided for, no credit should be taken for unearned profits.

(3) True and fair view- As accounting statements contain subjective evaluation the results presented to the shareholders should be a fair view of the affairs for the company. Such fairness is assured by:

- Generally accepted accounting principles which include a number of conventions and practices which have over a period of time been found to be most useful.

- Consistency in treatment accorded to various items which are material to the statements to make comparisons with the earlier years possible and meaningful.
- Full disclosure to enable informed readers to come to appropriate conclusions.

Principles of Government Accounting

6.5 The activities of a good Government in any country are determined by the needs of the country. The main branches of its activities being known, it is a matter for decision what expenditure will be necessary during any year in carrying out these activities. After a decision has been reached on this point, it becomes necessary to determine how to raise sufficient money to meet that expenditure.

6.6 With a Five-tier classification of Government Expenditure under Sectors, major heads, minor heads, sub-heads and detailed heads of account, the accounting is more elaborate than that followed in commercial accounts. But the immediate objective of Government accounting is not to ascertain the gain or loss on the transactions of the Government as a whole in carrying out its activities. The method of budgeting and accounting under the service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates. The accounting methods adopted for commercial concerns, and the preparation of Manufacturing Trading and Profit and Loss Accounts and a Balance Sheet, in the commercial sense, are, therefore, unsuitable and unnecessary. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the latter. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts, Government determines (a) whether it will be justified in curtailing or expanding its activities (b) whether it can and should increase or decrease taxation accordingly.

6.7 In the field of government accounting, the end products are the monthly accounts and the annual accounts. The monthly accounts serve the needs of the day-to-day administration, while the annual accounts present a fair and correct view of the financial stewardship of the government during the year.

Purpose of Government and of Commercial Accounts

6.8 Government Accounts are designed to enable Government to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency. Non Government Commercial accounts on the other hand are meant to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern.

Commercial Undertakings of Governments

6.9 The operations of some departments of Government, however, sometimes include undertakings of a commercial or a quasi-commercial character, e.g. an industrial factory or a store. Even though these may be maintained almost entirely for the benefit of the department, it is still necessary that the financial results of the undertakings should be expressed in the normal commercial form so that the cost of the service or undertaking may be accurately known. This implies the maintenance of suitable capital, Manufacturing, Trading and Profit and Loss Accounts, and as the Government system of accounts, being on a purely cash basis, is unsuitable for such commercial accounts, these are usually kept on a Performa basis outside the general accounts of Government. The actual transactions adjusted on a liability basis find a place primarily in the regular accounts and the commercial accounts are additional as well as separate.

Methods of Government Accounting

6.10 The mass of the Government accounts being on cash basis is kept on Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry System, the main purpose of which is to bring out by a more scientific method the balance of accounts in regard to which Government acts as banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of single entry compilations as well but their accuracy can be guaranteed only by a periodical verification with the balance brought out in the double entry accounts.

(B) AUDIT

Principles of Audit

6.11 As stated in paragraph 1.12, audit should be conducted by an agency independent of the authority charged with the duty of carrying on the business and of keeping accounts of the transactions which pass through his hands. This principle is strictly observed in commercial audit.

6.12 In Commercial Audit at the present day the main object is to present before the proprietor or proprietors of the business an accurate statement of the position of affairs together with a Profit and Loss Account showing how this position has been reached. In the case of Companies the duty of an auditor is mainly in the interest of the shareholders, who are practically sleeping partners in the business. The directors are the active partners. And the auditor on behalf of the sleeping partners- the shareholders- has to examine the accounts and the balance sheet prepared by the directors and to report to the shareholders whether in his opinion those accounts give a true and fair view of the state of affairs of the company and of its profit or loss or in what respect they fail to do so.

6.13 On pages 32-33 of Dicksee's "Auditing" (Seventeenth Edition) will be found a set of instructions to commercial auditors. The procedure of commercial audit as detailed there may be summarized thus:

The first step is to ascertain the authorities competent to sanction expenditure, to receive or pay money, or to incur liabilities, on behalf of the business.

The second is to understand the system of account followed/

The third is to check as far as possible the accuracy of the original record, namely, the cash book.

The fourth is to see that all transactions are in accordance with the minutes of the meetings of the Board of Directors or the orders of competent authorities.

The fifth is to investigate unusual items.

The sixth is to check the compilation of the accounts from the original record and to suggest corrections in the classification of transactions.

The seventh is to review the procedure of stock taking and of pricing the goods in hand.

The eight is to check the financial results, that is the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet, which will indicate accurately the progressive position of affairs. This necessitates also the investigation of depreciation of property (building, machinery, furniture etc.) the soundless of investments, debts due to the firm and the correct allocation of expenditure to Capital Account.

Difference between a Government and a Commercial Firm necessitating differences in Audit Procedure

6.14 Unlike commercial audit, the audit of Government transactions in and outside India is entrusted to the Indian Audit and Accounts Department which is, as has already been stated, also responsible for the compilation of the major portion of the accounts which it audits. As explained in paragraph 6.17 below, part of the work incidental to audit is, however, also performed by the spending departments.

6.15 India is so vast a country and Government activities are so varied that it is impossible for independent Audit Officers, working (as they do) almost entirely at headquarters to be as closely in touch with the facts to which the accounts refer as the officer of the department in which the revenue is realized and the expenditure is incurred. Thus, the Audit has no personal knowledge of the quantity or quality of goods supplied by a supplier, of the number of labourers employed each day on a work, or of the agreement between the stores accounts and the stock of stores. The payments are in many cases made at treasuries the officers in charge of which are not members of Indian Audit and Accounts Department; while in others the bills are either presented to, or are prepared by disbursing officers of other departments. Thus the preliminary examination of bills which are paid at treasuries or by disbursing Officers is primarily left to them.

6.16 Another point of difference between commercial and Government audit is that, whereas the former is more often than not periodical, the latter is almost entirely continuous.

Government Audit as compared with Commercial Audit

6.17 It is obvious that these differences in conditions must alter in detail the system of audit; and it is interesting to compare with the main factors of commercial audit, set out in paragraph 6.13 above with the main objects of Government audit which are to ensure that:

(a) there is provision of funds for the expenditure dully authorized by a competent authority;

(b) the expenditure is in accordance with a sanction properly accorded and is incurred by an officer competent to incur it;

(c) payment has, as a fact, been made and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim against Government on the same account is impossible;

(d) the charge is correctly classified, and that (as in the case of Public Works and Forest accounts) if a charge is debitable to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account;

(e) In the case of audit of receipts (i) sums due are regularly recovered and checked against demand and (ii) sums received are duly brought to credit in the accounts;

(f) In the case of audit of stores and stock, where a priced account is maintained, stores are priced with reasonable accuracy, and that the rates initially fixed are reviewed from time to time, correlated with market rates and revised when necessary;

(g) the articles are counted periodically and otherwise examined for verification of the accuracy of the quantity balances in the books and that the total of the valued account tallies with the outstanding amounts in the general accounts and that the numerical balance of stock materials is reconcilable with the total of value balances in the account at the rate applicable to the various classes of stores; and

(h) expenditure conforms to the following general principles which have, for long, been recognized as standards of financial propriety, namely-

    (1) the expenditure is not prima face more than the occasion demands and that every Government servant exercises the same vigilance in respect of expenditure incurred from public

moneys as a person of ordinary prudence would exercise is respect of expenditure of his own money.

(2) No authority exercises its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

(3) Public moneys are not utilized for the benefit of a particular person or section of the community unless-

(i) the amount of expenditure involved is insignificant, or

(ii) a claim for the amount could be enforced in a court of law, or

(iii) the expenditure is in pursuance of a recognized policy or custom, and

(4) The amount of allowances such as travelling allowances granted to meet expenditure of a particular type is so regulated that the allowances are not on the whole, sources of profit to the recipients.

6.18 This comparison is made as detailed below:

(a) The first and fourth steps in commercial audit to ascertain the authorities competent to sanction expenditure or to receive or pay money, etc. and to see that the transactions are in accordance with the minutes or orders.

They correspond with clauses (a) and (b) of paragraph 6.20 in Government accounts the minutes and orders are represented by the Constitution of India, (hereafter referred to as “the Constitution”), the laws made by Parliament or the Legislature of a State/Union Territory and the rules, directions and orders of a financial character issued by the President/Governor of a State/ Administrator of Union Territory and other competent authorities.

(b) Second step of Commercial audit- Understanding the system of account followed.

It is unnecessary to put this forward as a main object of Government audit, because in India the form in which the initial accounts should be kept and that in which the accounts should be rendered to the Indian Audit and Accounts Department are largely determined after consultation with the agency which audits them. The system of accounts followed is described in the Account Code and in the relevant Departmental Codes and Manuals

(c) Third step of Commercial audit- check of the accuracy of the original record.

Clause (C) of paragraph 6.20 may be held to correspond to this. But, as stated in paragraphs 6.18 and 6.19, the check of the accuracy of the original records is left to a great extent to the executive officers of the spending departments, and this check is supplemented by a test audit at regular intervals by officers of the Indian Audit and Accounts Department.

(d) Fifth step of Commercial audit- investigation of unusual items.

This corresponds with clause (b) of Paragraph 6.20

(e) Sixth step of Commercial audit – check of the compilation of accounts and of the classification of transactions.

Checking of the compilation of accounts is not specifically mentioned in the list of objects of Government audit. As stated in clause (b) of this paragraph, the greater number of the accounts are, after a certain point, built up by the auditing agency itself and the preliminary accounts are checked by the Audit Office as explained in clause (c). The compilation made in the Audit Office is test-checked within the department; and in the cases where accounting is separate from audit and the compilation of accounts is left to the administrative departments, every process of compilation leading up to the final account is test-checked by the Indian Audit and Accounts Department.

In Government audit the classification is thoroughly checked by the Indian Audit and Accounts Department where that department is responsible for the keeping of accounts and is test-checked where the keeping of accounts is left to the administrative department.

(f) Seventh step of Commercial audit- check of the accuracy of the accounts of stores or goods.

This corresponds with clauses (f) and (g) of paragraph 6.20.

(g) Eight step of Commercial audit- the preparation of the manufacturing, Trading and Profit and Loss Accounts and the Balance Sheet, necessitating the investigation of depreciation of property, the soundness of investment, debt due to the firm, and the correct allocation of expenditure of Capital Accounts.

In the ordinary accounts of Government there is nothing to compare with these accounts which form the summary of the financial transactions of a commercial firm during a certain period. Their place may be said to be taken by the annual Budget Statements and by the Annual Finance Accounts of the Union and the States. However, in the case of Government undertakings of a quasi commercial character, the financial results are ascertained and reviewed outside the regular accounts through Performa accounts which are prepared separately for the purpose, and these Performa accounts are prepared on a commercial basis.

In the regular Government accounts, the correct allocation of expenditure to revenue or capital heads of accounts is checked by Indian Audit and Accounts Department.

6.19 The main objective of Commercial audit is to conduct an independent review of the financial statements and offer an opinion about their reliability in representing the organizations financial condition and working results. The incidental objects of commercial audit, flowing automatically, may be said to be threefold:

(1) Detection/prevention of fraud

(2) Detection/prevention of technical errors.

(3) Detection of errors of principles.

Here again due allowance has to be made for the difference in conditions between Government and Commercial firms, and the differences between the agencies which prepare and audit the accounts in the two cases. Thus in Government audit there is little scope for detection of errors of principles (that is in the system of accounts adopted) as the responsibility for advising as to the form in which accounts should be kept devolves upon the Comptroller and Auditor General of India. The other two objects are, however, sufficiently provided for under the Government system as explained below.

6.20 As regards the detection and prevention of fraud, it must be remembered that, as explained in paragraph 6.18 part of the work in connection with the scrutiny of expenditure is entrusted to the officers of the spending departments, for the sake of convenience and economy. A fraud in respect of expenditure would in some cases indicate a payment to which the payee is not legally entitled or in others a payment made in respect of a claim which is not a accordance with facts. Under the existing arrangements the certification as to the initial facts is left to the executive officers and the Indian Audit and Accounts Department verifies a certain percentage of them at local inspections. Most of the frauds are thus checked or detected in the course of the scrutiny by the executive officers. The Audit officers also render valuable assistance in indicating directly or indirectly to the executive officers defects or irregularities which require their attention.

Thus the checks prescribed for the executive officers, supplemented by occasional local audit and continuous central audit sufficiently provide for the detection and prevention of fraud in the Government system of audit. As to the detection to technical errors, a good number of the objections raised in Audit fall under this category. The prevention of frauds and errors is also effected by reasons of deterrent and moral check imposed by audit.

CHAPTER 7

STRUCTURE OF GOVERNMENT ACCOUNTS

7.1 One of the most distinctive features of the system of Government Accounts in India is the minute elaboration with which the Financial transactions of Government under both receipts and payments, are differentiated and classified.

Principles of Classification

7.2 The conventional pattern of classification ran along organizational lines and consisted mainly in the listing of receipts by various types of taxes and the statement of expenditures by reference to the department in which it occurred than to its objects or grounds. With the phenomenal growth and diversity in the functions of Government involving huge outlays, accounts acquired a new dimensions and the necessity for a more meaningful classification of transactions for presentation of Government operations in terms of functions, programmes and activities was acutely felt. A team (Mukherjee Committee) set up by the Government of India went into this question and made recommendations for reforming the structure of budget and accounts. The important objectives sought to be achieved by these reforms were:

(a) to have a uniform classification for the budget, accounts and plan;

(b) present the objectives and purposes of Government expenditure clearly in terms of functions, programmes and activities;

(c) amplification of the accounting classification to provide for new functions and programmes in a more meaningful manner;

(d) to bring together under the appropriate functional (major), programme (minor) and activity (sub-head) heads, all expenditures on that function, programme scheme or activity as the case may be, irrespective of the organization administering the function, programme, scheme or activity;

(e) to help the management with timely accounts data for monitoring and analysis of expenditure on programmes and activities and also to secure itemized control over expenditure; and

(f) to facilitate introduction of performance budgeting.

7.3 The recommendations of this team were accepted by the Government of India and the Comptroller and Auditor General of India, with the approval of the President, prescribed revised classification of Government transactions which were given effect to from 1974-75, by the Union, State and Union Territory Governments.

Form of Accounts- Main Division of Accounts

7.4 Government accounts are kept in the following three parts:

Part I Consolidated Fund Part II Contingency Fund	Of India (including Union Territory Administration) or of the State or Union Territory having a Legislature
Part III Public Accounts	Of India (including Union Territory Administration/Government) or of the State.

Note: There being no separate Public Account in the cast of Union Territory Governments, the transactions pertaining to this account are booked in the Public Account of the Central Government.

In Part-I, namely the Consolidated Fund of accounts, there are two main divisions, namely:

(i) Revenue consisting of sections for ‘Receipt heads (Revenue Account)’ and ‘Expenditure Heads (Revenue Account)’.

(ii) Capital, Public Debt, Loans consisting of sections for ‘Receipt heads (Capital Account)’, Expenditure Heads (Capital Account)’ and ‘Public Debt’, ‘Loans’, and ‘Advances’.

The first division comprises the section Receipt heads (Revenue Account) dealing with the proceeds of taxation and other receipts classed as revenue and the section ‘Expenditure heads (Revenue Account)’ dealing with expenditure met there from.

The second division comprises the following sections:

(a) The Section ‘Receipt heads (Capital Account)’ which deals with receipts of a Capital nature which cannot be applied as a set off to Capital Expenditure.

(b) The Section ‘Expenditure heads (Capital Account)’ which deals with expenditure met usually from borrowed funds with the object either of increasing concrete assets of a material and permanent character or of reducing recurring liabilities. It also includes receipts of a Capital nature intended to be applied as set off to Capital expenditure.

(c) The Sections ‘Public Debt’ and ‘Loans and Advances’, which comprise of loans raised and their re-payments by Government such as, Internal Debt, External Debt of the Central Government, and Loans and Advances made by Governments and their recoveries, transactions relating to ‘Appropriation to Contingency Fund’ and ‘Inter-State Settlement’.

In Part II, namely Contingency Fund, of the Accounts are recorded the transactions connected with the Contingency Fund set up by the Government of India or of a State or Union Territory Government under Article 267 of the Constitution/ Section 48 of the Union Territories Act, 1963.

In Part III, namely Public Account, of the Accounts, the transactions relating to Debt (other than those included in Part I), ‘Deposits’, ‘Advances’, ‘Remittances’ and ‘Suspense’ are recorded. The transactions under Debt, Deposit and Advances in this part are such in respect of which Government incurs a liability to repay the moneys received or has a claim to recover the amounts paid, together with the repayments of the former (Debt and Deposits) and the recoveries of the latter (Advances), The transactions relating to 'Remittances' and 'Suspense' in this Part embrace all merely adjusting heads under which shall appear such transactions as remittances of cash between treasuries and currency chests and transfers between different accounting circles. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments either within the same circle of account or in another account circle.

Sectors and Sub-sectors of Accounts

7.5 (a) Within each of the Divisions and sections of the Consolidated Fund referred to in Para 6.4, the transactions are grouped into sectors such as, "General Services", "Social and Community Services", "Economic Services", under which specific functions or services shall be grouped. The Sectors are sub-divided into Major Heads of Accounts; in some cases the Sectors are, in addition, sub-divided into sub-sectors before their division into Major Heads of Accounts, Each Sector in a section will be distinguished by a letter of the Alphabet.

(b) In Part II-Contingency Fund, there is a single Major Head and all the transactions met out of the Contingency Fund will be recorded under it.

(c) In the case of Part-III- Public Account, the transactions are grouped into sectors and sub-sectors which will be further sub-divided into Major Heads of Account. The Sectors /Sub-sectors will be distinguished by letters of the alphabet.

Major, Minor and Detailed Heads

7.6 (a) The main unit of classification in accounts is the major head which is divided into minor heads, each of which has a number of subordinate heads, generally known as sub-heads. The sub-heads are further divided into detailed heads. Sometimes major heads may be divided into sub-major heads before their further division, into Minor heads.

(b) Major Heads of account falling within the Consolidated Fund generally correspond to 'Functions' of Government such as different services like 'Agriculture' 'Defence' provided by Government , while minor heads subordinate to them identify the programme undertaken to achieve the objectives of the function represented by the major head. A programme may consist of a number of schemes or activities and these generally, correspond to sub-heads below the minor head represented by the programme. In certain cases, especially in regard to non-developmental expenditure or expenditure of an administrative nature, the sub-heads may denote the components of a programme, such as Organizations or the different Wings of Administration.

(c) A 'detailed head', is termed as an object classification. On the expenditure side of the accounts particularly in respect of heads of accounts within the Consolidated Fund, detailed heads are primarily meant for itemized control over expenditure and indicate the object or nature of expenditure on a scheme or activity or organization in terms of inputs such as 'Salaries', Office Expenses', 'Grants-in-aid', 'Loans', 'Investments'.

(d) The detailed classification of account heads in Government Accounts and the order in which the Major and Minor heads shall appear in all account records shall be such as are prescribed by the Central Government from time to time on the advice of the Comptroller and Auditor General of India. The 'List of major and minor Heads of Account of Central and States- Receipts and disbursements' contain the classification prescribed in this regard. The classification prescribed (including the code no. assigned up to the major heads and minor heads there under) are strictly followed.

Note 1- With effect from 1st January 1982 and in the case of Jammu and Kashmir, Maharashtra, Manipur and Sikkim from 15th January 1982, State Governments have been entrusted with their consent, in the terms of clause (1) of Article 258 of the Constitution, the functions of the Central Government under Article 150 of the Constitution in so far as such functions relate to the opening of sub-heads of accounts under the various Major and Minor Heads of Accounts in the State concerned, subject to the following conditions:

(i) Orders issued by a State Government for opening sub-heads and detailed heads are consistent with the directions issued by the Central Government from time to time.

(ii) No sums shall be paid by the Central Government to the State Government concerned in respect of any extra costs of Administration incurred by the State in connection with the exercise of the functions so entrusted.

Note 2- With effect form 1st April 1987 the President in terms of clause (1) of Article 239 of the Constitution, has directed the Administrators of the Union Territories of Arunachal Pradesh, Daman and Diu, and Pondicherry, subject to his control, also to discharge the functions of the Central Government under Article 150 of the Constitution in so far as such functions relate to the opening of sub-heads and detailed heads of account under the various Major and Minor heads of account within their respective territories subject to the following conditions:

(i) the said discharge of functions shall be subject to the forms prescribed by the President under Article 150; and

(ii) No sums shall be paid by the Central Government to the Union Territory concerned in respect of any extra cost of administration incurred in connection with the said discharge of functions.

Codification of heads of Accounts

7.7 From April1, 1987, a revised coding pattern has been introduced keeping in view the emerging requirements and providing for computer based Financial Information Systems. In the revised pattern, a four digit Arabic numerical code has been assigned to the Major Heads in this list, followed by a 2-digit code for the relevant sub-major heads, and further followed by a 3-digit code for the minor heads. The codification pattern for the major heads has been designed in such a way that the last three digits out of the four digits represent the same function in the four sections, viz. Receipt Heads (Revenue Section), Expenditure Heads (Revenue Section), Expenditure Heads (Capital Section) and 'Loans and Advances' except in a few cases where more than one function has been grouped together (as sub major heads) under a single Major head. This is illustrated by the following examples: -

	Function	Major head code in the section for			
		Receipt Heads Revenue Account	Expenditure Heads Revenue Account	Expenditure Heads Capital Account	Loans & Advances
1.	Medical & Public Health	0210	2210	4210	6210
2.	Shipping	1052	3052	5052	7052

It may also be observed that in the coding pattern, the 1st digit in the major heads under 'Receipt Heads' (Revenue Account) is either 0 or 1, and the first digit for corresponding major heads for the same function in the Sections Expenditure Heads (Revenue Account) 'Expenditure Heads' (Capital Account), and 'Loans and Advances' are derived by adding the number 2 to the first digit in the Major Heads in the 'Receipt Head' (Revenue Section).

The sub-major heads have a two digit code 01, 02…..etc., while the minor heads have a three digit code 001, 002….etc. The coding pattern for minor heads has been designed in such a way that in respect of certain minor heads having a common nomenclature under various major-sub-heads, as far as possible, the same standard three digit code is adopted, a few illustrative cases are given below. While opening any new minor head, these principles should be kept in view. In order that the rectory of Account heads maintained in the budget Division and Controller General of Accounts organization in the Ministry of Finance, Govt. of India, may not get disturbed, the computer cells of these two organizations should be consulted before any new code is allotted or an existing code (at whatever level) is altered.

Standard 3 digit code	Common nomenclature
001	Direction and Administration
003	Training
004	Research
005	Investigation
010	Minimum needs Programme
050	Land
051	Construction
052	Machinery and Equipment
150	Assistance to I.C.A.R.
190	Assistance to Public Sector and Other undertakings,
798	International Cooperation
799	Suspense
800	Other Receipts, Other Deposits, Other Loans, Other Grants. Other Expenditure etc.

Classification of expenditure as 'Charged' or as 'Voted'

7.8 Expenditure which under the provisions of the Constitution is subject to the vote of the Legislature shall be shown in the accounts separately from expenditure which is ‘Charged’ on the Consolidated Fund of India or of a State or Union Territory Government. The expression ‘Charged’ or ‘Voted’ shall be appended to the heads concerned to distinguish the two categories of expenditure.

Classification of transactions in accounts

7.9 (1) Under Article 150 of the Constitution, the accounts of the Union and of the States shall be kept in such form as the President may on the advice of the Comptroller and Auditor General, prescribe. The word Form used in Article 150 has a comprehensive meaning so as to include the prescription not only of the broad form in which the accounts are to be kept but also the basis for selecting appropriate heads under which the transactions are to be classified.

(2) The estimates of receipts and expenditure framed by Government or in any order of Appropriation shall indicate provisions, ordinarily against heads opened in conformity with these rules. Where there is divergence, the corresponding receipt or expenditure shall be brought to account under the appropriate major head or minor head or other unit of classification as determined by the President on the advice of the Comptroller and Auditor General.

Basis of classification

7.10 As a general rule, the classification of transactions in Government accounts, shall have closer reference to the function, programme and activity of the government and the object of the revenue or expenditure, rather than the department in which the revenue or expenditure occurs. This principle is, however, subject to such exceptions as may be authorized specially in any individual case or class of cases e.g. receipts representing ‘Interest’ are shown under “0049- Interest Receipts” and expenditure on the maintenance and repairs of the non-Residential buildings under the administrative control of the Public Works Department are shown under the major head "2059- Public Works" irrespective of the functions to which they relate.

Criteria for determining whether expenditure should be classified under heads of Capital Section or Revenue Section of the Consolidated Fund

7.11 (1) Expenditure of a capital nature to be classified in the Capital Section shall broadly be defined as expenditure incurred with the object either of increasing concrete assets of a material and permanent character or of reducing recurring liabilities.

Note- Expenditure on a temporary asset or expenditure on Grants-in-aid to local bodies or institutions (for purpose of creating assets which will belong to these local bodies r institutions) cannot ordinarily be classified as capital expenditure, and shall not except in cases specifically authorized by the President on the advice of Comptroller and Auditor General be debited to a capital head of account.

(2) Expenditure of a Capital nature shall be distinguished from Revenue expenditure both in the Budget Estimates and in Government Accounts.

Note-Capital expenditure is generally met from receipts of a capital, debt, deposit or banking character as distinguished from ordinary revenues derived from taxes, duties, fees fines and similar items of current income including extra-ordinary receipts. It is open to the Government to meet capital expenditure from ordinary revenues provided there are sufficient revenue resources to cover this liability.

(3) Expenditure of a Capital nature as defined above shall not be classed as Capital expenditure in the Government accounts unless the classification has been expressly authorized by general or special orders of Government.

Allocation between capital and revenue expenditure on a capital scheme

7.12 (1) The allocation between capital and revenue expenditure on a Capital Scheme for which separate capital and revenue accounts are to be kept shall be determined in accordance with such general or special orders as may be prescribed by the Government on the advice of the Comptroller and Auditor General.

(2) The following are the main principles governing the allocation of expenditure on a Capital Scheme between Capital and Revenue accounts:

(a) Capital account should bear all charges for the first construction and equipment of a project as well as charges for intermediate maintenance of the work while not yet opened for service. It would also bear charges for such further additions and improvements as may be sanctioned under rules are by competent authority.

(b) Subject to (c) below, revenue account should bear all subsequent charges for maintenance and all working expenses. These embrace all expenditure on the working and upkeep of the project and also on such renewals and replacements and such additions, improvements or extensions as prescribed by Government.

(c) In the case of works of renewal and replacement which partake both of a capital and revenue nature, the allocation of expenditure should be regulated by the broad principle that revenue should pay or provide a fund for the adequate replacement of all wastage or depreciation of property originally provided out of capital grants and that only the cost of genuine improvements, whether determined by prescribed rules or formulae or under special orders of Government, should be debited to Capital account. Where under special orders of Government, a depreciation or Renewals Reserve Fund is established for renewing assets of any commercial department or undertaking, the distribution of expenditure on renewals, and replacements between Capital account and the Fund should be so regulated as to guard against over capitalization on the one hand and excessive withdrawals from the Fund on the other.

(d) Expenditure on account of reparation of damage caused by extraordinary calamities such as flood, fire, earthquake, enemy action, should be charged to Capital account or to Revenue account or divided between them in such a way as may be determined by Government according to the circumstance of each case.

(e) Capital receipts in so far as they relate to expenditure previously debited to Capital heads, accruing during the process of construction of a project, should be utilized in reduction of capital expenditure. Thereafter, their treatment in the accounts will depend on circumstances, but except under a special rule or order of Government, they should not be credited to the revenue account of the department or undertaking.

CHAPTER 8

SEPARATION OF AUDIT AND ACCOUNTS

8.1 We have already seen in Paragraph 1.10 why it is desirable in the interests of honest and sound finance that business transactions should be subjected to scrutiny of an agency independent to that charged with the duty of keeping the accounts of those transactions, Theoretically, the same principle should apply equally to Government transactions.

8.2 In the pre-independence era, the question of separation of accounts and audit was raised time and again but could not be given serious consideration. Apart from the practical difficulties, there were problems of cost and manpower. Thus, except for the fact that Defence Accounts remained always separate from Defence Audit, the combined set up of accounts and audit continued until separation was introduced in the Railways on an experimental basis from December 1, 1925 and was adopted as permanent measure in 1929.

Position after independence

8.3 After independence the process of separation proceeded on a gradual basis. From April 1951, Postal Life Insurance work was transferred from the Deputy Accountant General (Posts and Telegraphs) to the Director, Postal Life Insurance, Calcutta, an officer under the administrative control of the Director General, P&T. A Pay and Accounts Office was set up in Pondicherry with effect from the November 1, 1954 on the *defacto* transfer of French Establishments in India to the Government of India. The responsibility for making payments and maintaining accounts of the Food, Rehabilitation and Supply Departments was transferred to the respective Ministries with effect from the April 1, 1955. Similar transfer regarding payments and accounting of the Rajya Sabha and Lok Sabha Secretariats was made with effect from the October 1, 1955, and of the Printing and Stationery Department with effect from the December 1, 1955. Thereafter the accounts relating to Goa, Daman, and Diu were departmentalised. The accounts work relating to Savings Bank transactions was transferred to the P&T Department in 1962. Subsequently in 1968 the accounting functions in respect of the Telecommunications Branch were transferred.

Departmentalisation of accounts in 1976

8.4 It was in 1976 that a major exercise of departmentalisation of accounts covering all the Ministries and Departments of the Union Government and all the Union Territories except Andaman and Nicobar was undertaken and completed in a phased manner with the main objective of integrating accounts with the Administrative Ministries and Departments. Under this scheme, accounts and Finance will form an integral part of overall management. Administrative Ministries have been entrusted with the responsibility of arranging payments and timely compilation and rendering of accounts.

8.5 The salient features of the scheme are briefly indicated below:

(a) The Secretary to the Department/Ministry shall act as the chief accounting authority and discharge this responsibility through and with the assistance of the Integrated Financial Adviser of the Ministry/ Department.

(b) The Integrated Financial Adviser shall be responsible for:

(1) preparation of budget of the Department/Ministry, distribution of budget allocations to the various wings, departments/formations;

(2) arranging payments directly to the bodies, corporations and authorities of grant-in-aid, loans, etc., as may be sanctioned by the Department;

(3) arranging payments through Pay and Accounts Offices under him in various regions of the country, all pay and allowances, office contingencies, miscellaneous payments, all admissible loans and advances to government servants

including provident funds claims in accordance with prescribe financial and treasury procedures;

(4) compilation and consolidation of the accounts of the Department/ Ministry in accordance with the instructions issued by Central Government and/or the Comptroller and Auditor General and rendering the appropriation accounts;

(5) introduction of a system of management accounting suited to the functions and requirements of the Department/Ministry;

(6) installation of a sound system of internal inspection within the department to ensure both accuracy in accounts and efficiency in operation as a part of the management.

(c) Payment and accounting functions of the Ministry/Department will be discharged through departmental Pay and Accounts Offices functioning at the headquarters of the Department/Ministry and regional Pay and Accounts Offices functioning in the various regions of the country. The formation of regional Pay and Accounts Offices will be determined with reference to the number and spread of field organizations in the various regions of the country.

(d) The payments as well as receipt transactions relating to the Ministry/ Department and its attached and subordinate offices will be transacted at the branches of the Reserve Bank of India and State Bank of India or its subsidiaries or at specified branches of the public sector bank accredited to the department without intervention of the treasury.

(e) The Regional Pay and Accounts Offices will compile the accounts of the region and render them to the central accounts office at the headquarters, which will be responsible for compiling the accounts of transactions directly paid for by him, or received by him and consolidating the accounts of the Department as a whole on the basis of the compiled accounts received from the regional Pay and Accounts Offices and his own office.

CHAPTER 9

INDIAN AUDIT AND ACCOUNTS DEPARTMENT

9.1 At the apex of the Indian Audit and Accounts Department is the office of the Comptroller and Auditor General which directs and controls all activities connected with audit accounts and entitlement functions of the Department. It is thus responsible for development of organizational objectives and policies, audit standards and system and final processing and approval of the audit reports. For carrying out these responsibilities it has been organized on a functional basis and there are separate divisions dealing with Accounts and Entitlements, Civil Audit, Railway Audit, Commercial Audit, Revenue Audit, Audit Reports, Administration of Cadres, Training, Organization and Methods, Inspection of field offices, etc. These divisions are headed by the Deputy/ Additional Deputy Comptroller and Auditors General and Directors.

Field Offices

9.2 To begin with, the field offices of the Indian Audit and Accounts Department were all headed by Accountants General who were responsible for the maintenance of accounts as well as audit of the accounts. Over the years, the accounting functions relating to the Union Government were separated from the audit functions. In the States, although the accounting functions still continue with the Accountants General, yet with a view to increase functional specialization and efficiency the cadres of the Accountants General offices were bifurcated from March 1, 1984 into two, one for Audit and the other for the Accounts and Entitlement functions.

9.3 Offices of the Accountants General (Accounts & Entitlement) are responsible for the following:-

- Payment and Accounting functions under the departmentalised accounting set-up in respect of officers and staff of Indian Audit and Accounts Department.
- Monthly compilation of accounts of expenditure and receipts on the basis of vouchers and schedules received from various Treasuries and Public Works and Forest Divisions of the State Government.
- Preparation of monthly civil accounts and yearly Appropriation Accounts and finance Accounts.
- Maintenance of provident fund accounts of specified categories of employees wherever required.
- Maintenance of accounts of various long term advances of specified categories of employees wherever required
- Authorization of pension and other retirement benefits to employees wherever required.
- Authorization of salaries to gazetted employees in some States.

The basic work is done by clerks and Accountants supervised by Section Officer/ Supervisors who, in turn, report to Accounts Officers. The work in each office is divided into convenient groups and each group is headed by a Deputy Accountant General/ Senior Deputy Accountant General who reports to the Accountant General.

9.4 Offices of the Accountants General (Audit) are responsible for the following:

- Audit of expenditure and receipts as well as the accounts of the State Governments, and audit of Government Companies, corporations and autonomous bodies.
- Audit of expenditure and receipts of departments and offices of the Union Government and audit of central autonomous bodies located in their jurisdiction as allotted to them.

- Preparation of annual Audit Reports on the Civil, Commercial and Revenue transactions of the States.
- Sending material for inclusion on the annual Audit Reports relating to the Union Government.
- Assisting the State Public Accounts Committees and Public Undertakings Committees in their examination of the Audit Reports.

The audit work is primarily carried out by Auditors, Senior Auditors. Sections Officers and Assistant Audit Officers, Audit parties supervised by Audit Officers inspect the departmental offices and other organizations periodically and present inspection reports on their findings. Some of these parties are used to conduct efficiency cum performance appraisals of selected projects/ programmes of the State Governments / Union Government. The audit activities are divided into convenient groups headed by Deputy Accountants General/ Senior Deputy Accountants General who report to the Accountant General.

9.5 Offices of the Directors of Audit (other than Railways) are responsible for audit of the activities of the Union Government (except Railways). There are nine Directorates for this purpose:

1. Directorate of Audit, Central Revenues, New Delhi.
2. Directorate of Audit, Commerce, Works and Miscellaneous, New Delhi.
3. Directorate of Audit, Central, Bombay.
4. Directorate of Audit, Central, Calcutta
5. Directorate of Audit, Indian Accounts, London.
6. Directorate of Audit, Indian Accounts, Washington.
7. Directorate of Audit, Defence Services, New Delhi.
8. Directorate of Audit, Ordnance Factories, Calcutta.

9. Directorate of Audit, Posts & Telegraphs, New Delhi.

The organizational structure and system of working are the same as in the case of Accountants General (Audit), the only difference being that the officers in charge of the various groups are designated as Deputy Directors and Joint Directors and they report to the Directors of Audit.

9.6 As far as Offices of the Directors of Audit (Railways) are concerned, there is a Director of Audit, Railways. For each Zonal Railway (the Director of Audit, Northern Railway also looks after the audit of Railway Board); in addition there is a Director of Audit for audit of the Railway Production Units and the Metro Railway Project, Calcullta. The organizational structure of these Directorates is the same as of the other Directorates dealing with audit of the Union government. The Directors of Railway audit provide material for a single annual Audit Report on the Indian Railways which is processed by the Additional Deputy Comptroller and Auditor General (Railways) in the office of the Comptroller and Auditor General.

Commercial Audit Organization

9.7 There is a separate organizational set up for the audit of Union Public undertakings. At the apex of this organization is the Chairman, Audit Board and ex-officio Additional Deputy Comptroller and Auditor General (Commercial). There are a number of offices of Members Audit Board and ex-officio Directors of Commercial Audit at various places. For the purpose of audit by these offices, the public undertakings are grouped on territorial basis. The organization is responsible for:

- Audit of transactions of Government Companies/corporations which finds final expression in an annual Audit Report bringing out selected topics of interest relating to them;
- In-depth performance appraisals of selected companies/corporations; each such appraisal takes the form of a separate Audit Report;

- Certification of the annual accounts of companies and corporations including comments of the reports of Chartered Accountants wherever appointed;
- Preparation of a report on systems deficiencies reported by Chartered Accountants on the basis of directions by the Comptroller and Auditor General.

CHAPTER 10

OTHER ACCOUNTING ORGANISATION AND INTERNAL CHECK

10.1 As explained in chapter 2, the Comptroller and Auditor General of India has been relieved of the responsibility for compiling the accounts of the entire Union Government including Union Territory Administrations except in a few cases. Thus, separate organizations now exist to deal with the accounts relating to Central Civil Ministries/ Departments and Union Territory Administrations Railways, Defence and Posts and Telecommunications.

Central Civil Ministries/ Departments

10.2 An organization headed by the Controller General of Accounts has been created in the Department of Expenditure of the Ministry of Finance and that is entrusted with the responsibility of

(a) establishing and maintaining a technically sound departmentalised accounting system;

(b) laying down of the form accounts relating to the Union and State Governments;

(c) administration of the rules relating to the custody of the Consolidated Fund, the Contingency Fund and the Public Accounts of India, and for the payment of moneys into and withdrawals of money from such funds the rules are contained in the Central Treasury Rules/Central Government Accounts (Receipts and Payments) Rules, 1983;

(d) consolidating the monthly accounts of the Union Government from the monthly accounts prepared by the various Central Pay and Accounts Offices and the State Accountants General/Directors of Audit

(e) preparing the annual accounts, commonly known as Union Government Finance Accounts showing under the respective heads, the annual receipts and disbursements for the purposes of the Union Government and also summarised Civil Appropriation Accounts, comparing the actual expenditure under various grants/appropriations with the amounts of voted grants/charged appropriations as specified in the schedules appended to the Appropriation Act passed by Parliament.

10.3 Under the departmentalised accounting system, the Secretary of the Ministry/Department concerned acts as its chief accounting authority and discharges his functions through and with the assistance of the Financial Adviser of the Ministry/Department.

10.4 The Financial Adviser, for and on behalf of the Chief accounting authority, is responsible for:

(a) preparation of the budget of the Ministry/Department, allocation of the budget to various wings/formations of the Ministry/Department;

(b) arranging of payments through the Pay and Accounts Offices/Principal Accounts Office of the Ministry/Department, payment of salary and allowances retirement benefits, etc. to Government employees; loans and grants to State/ Union Territory Governments, statutory bodies, companies etc; cost of stores supplied against contracts entered into by the Ministry/ Department;

(c) compilation of the monthly/annual accounts of the Ministry/department in the prescribed form and its rendition to the Controller General of Accounts for consolidation of the accounts of the Central Government; preparation of the annual appropriation account in respect of grants/appropriations of the Ministry /Department concerned, and their rendition to the Controller General of Account after audit by the accredited Audit offices and signatures by the Chief Accounting Authority;

(d) introduction of a Management Information System (MIS) suited to the functions and requirements of the Ministry/Department;

(e) internal audit of payments and accounts from the records maintained by the various secretariat and field formations, and Pay and Accounts Offices of the Department; etc.

10.5 The Financial Adviser discharges his functions through the departmental Pay and Accounts Offices functioning at various stations of the country and headed by a Principal Accounts Officer- the Chief Controller of Accounts (CCA), Controller of Accounts (CA) and the Dy. Controller of Accounts (Dy.C.A.) as the case may be.

Railways

10.6 The Accounts Department of a Railway Administration is mainly responsible for:-

(a) keeping the accounts of railway in accordance with the prescribed rules;

(b) the check with reference t rules or orders (Known as Internal Check) of transactions affecting the receipts and expenditure of railways;

(c) prompt settlement of proper claims against the railways;

(d) tendering, as part of its important functions advice to the administration when ever required or necessary in all matter involving railway finance;

(e) compilation of budgets in consultation with other departments and monitoring the budgetary Control procedures as may be laid down in the relevant orders and Code rules from time to time;

(f) generally discharging other management accounting functions such as providing financial data for management reporting, assisting inventory management, participation in purchases/contracting decisions and surveys for major schemes in accordance with the relevant rules and orders.

10.7 At the Apex is the Financial Commissioner (Railways) who controls and coordinates the various financial and accounting responsibilities entrusted to the Railway Accounts Department. The Executive Director Accounts who works under the Financial Commissioner is the professional agent of the Railway Board in Accounts Matters. In this capacity, he organizes, trains and controls, from the professional point of view, the railway accounts establishment as a whole, and is responsible for its professional efficiency as also for the correctness of accounts and accounts procedure. In the discharge of these responsibilities he will issue instructions to the Financial advisers and Chief Accounts Officers relating to the preparation and submission of the accounts and the returns required by the Railway Board and on all other accounting matters including those which might have an administrative aspect and besides carry out inspections of their offices.

10.8 The head of the Accounts Department of a Railway Administration is known as the Financial Adviser and Chief Accounts Officer who renders advice to the General Manager on financial matters and also manages the payment and accounting functions. In the discharge of these functions he it assisted by the Additional Financial Adviser and Chief Accounts Officer, the Deputy Chief Accounts Officers, senior Accounts Officers, Junior Accounts Officer, Assistant Accounts Officers etc., located in the Headquarters office or attached to the Divisions, Workshops, Stores Depots and Construction Project of the railway. The size of the organization may vary depending on the nature and volume of work in the Accounts Department of each Railway Administration. The Financial Adviser and Chief Accounts Officer exercise such powers as may be delegated to him by the General Manager*.

* More details about the Railway Accounting system are in Chapter 27.

Defence

10.9 All defence matters having financial and accounting implications are dealt with by the Finance Division of the Ministry of Defence which is headed by the financial Adviser (Defence Services). The role of Financial Adviser is to render financial advice to Defence Services on all matters of Defence and to ensure adequate financial control over Defence expenditure. Following the scheme of integrated Financial Advisers in the Government of India in 1975, such Advisers have been appointed in the Departments of Defence Production, Defence Supplies, Research and Development and Department of Defence. The Integrated Financial Advisers and their officers function under the administrative control of Financial Adviser, (Defence Services).

10.10 The Financial Adviser (Defence Services) is the Chief Accounting officer of the Defence Services. Consequent on the departmentalisation of accounts in the Government of India, the Defence Secretary has been designated as the Chief Accounting Authority of the Ministry of Defence. The Financial Adviser assists him in discharging this responsibility.

10.11 The Controller General of Defence Accounts maintains the accounts of the Defence services and undertakes internal audit of Defence expenditure and receipts. The organization of the Defence Accounts Department corresponds broadly to the organization of the three services. The Controller General of Defence Accounts also functions as the Principal Accounts Officer of the Ministry of Defence responsible for payment and accounting functions relating to the Ministry of Defence form October 1, 1976 consequent on the departmentalisation of the accounts in the Ministry.

Budget Estimates

10.12 The Budget Estimates of Defence are prepared by the Financial Adviser (Defence Services). The estimates are presented in five parts (in the form of demands)- one each for Army, Navy, Air force and Pension and one on

Capital Account. Budgetary control is exercised by the Principal Staff Officers at Service Headquarters; Budget allotments are made by the service Headquarters to lower formations and the expenditure monitored against the allotment*.

Posts and Telecommunications

10.13 Accounts relating to Postal Services and Telecommunication Wings were under a Combined Posts and Telegraphs Board until December 1984. From January 1, 1985 these two wings were bifurcated and two independent Departments of Posts and Telecommunications were formed under the Ministry of Communications. These two Departments are responsible inter-alia for compiling and consolidating the accounts of the respective Departments, preparing the monthly accounts and rendering them to the Controller General of Accounts and for preparing the annual Appropriation Accounts and Finance accounts. For the purpose of accounts administration, the Department of Posts has been divided into circles and each postal circle is under the charge of a Director/ Deputy Director of Accounts. Similarly the Department of Telecommunications has constituted Telecommunication Circle, Telecommunication maintenance circle and stores and Factory Organizations each of which is under the charge of a Chief Accounts Officer. In each circle there is also an Integrated Financial Adviser who renders financial advice to the Head of the Circle. The Director/ Deputy Director of Accounts and the Chief Accounts Officer complies the accounts and renders them to the Director General, Post and the Director General, Telecommunications respectively.*

* More details about the organisation and working of the Defence Accounts Department are in Chapter 28.
* More details about posts and telecommunications accounts are in chapter 26.

CHAPTER 11

TREASURY OPERATIONS

11.1 The treasury system under which the District Treasury is the basic unit and the focal point for the primary record of financial transactions of Government in the District with sub-treasuries under it at the Taluks/Tehsils in the District, was evolved more than a century ago.

11.2 The treasuries are of two kinds- Banking and Non-Banking. A Bank treasury means a Treasury, the cash business of which is conducted by the Reserve Bank of India or its branches or agencies authorized to conduct Government business and non-bank treasury is a treasury other than a Bank Treasury, i.e. a Treasury the cash business of which is conducted by it.

11.3 The functions entrusted to the treasury broadly fall under:

(a) receipt of money from the public and departmental officers for credit to Government.

(b) Payment of claims against Government on bills or cheques or other instruments presented by the departmental drawing and disbursing officers or pensioners or others authorized to do so.

(c) Keeping initial and subsidiary accounts of the receipts and payments occurring at them and rendering statements of such transactions to the Accountants General for detailed compilation and consolidation.

(d) Acting as a banker in respect of funds of local bodies, Zilla Parishads, Panchayat Institutions, etc, who keep their funds with the treasuries.

(e) Custody of opium and other valuable because of the strong room facility provided at the treasury, which cannot be considered as exactly germane to the function of the treasury.

(f) Custody of cash balances of the State Government and conducting cash business of Government at non-banking treasuries.

Personnel

11.4 The personnel of a non Bank Treasury consists of (1) the Collector of Deputy Commissioner of the District; (2) the Treasury Officer, generally a Deputy Collector; (3) the Treasurer; and (4) the Accountant. As cash business of a Bank Treasury is conducted by the Reserve Bank, there is no Treasurer in Bank Treasuries.

11.5 The Collector or Deputy Commissioner of the District is in general charge of the treasury and is personally responsible for its general administration, for the correctness of its returns and the punctuality of their submission, and for the safe custody of the cash and other valuables it contains; but he takes no part in the daily routine of treasury business. The Treasury Officer is in immediate executive control of the treasury.

Opening of the Treasury

11.6 The procedure of opening the treasury for the day is usually as follows:

Both the Treasury Officer and the Treasurer being present, the locks and seals of the gates of the strong room are made over intact by the guard and the room is opened, each official using his own key, and sufficient cash and notes to meet the probable demands of the day are taken but, made over to the Treasurer, and entered in his accounts. The strong room is then again double locked. Issues from the strong room to meet further demands during the day are similarly made. Opium is issued to the Treasurer from the double lock as required, subject to the general rule that the value of cash, notes and opium in the hands of the Treasurer at any time shall not exceed his security.

Receipts

11.7 In the case receipts, the treasury checks the correctness of classification and completeness of the challan. In cases where challan are counter signed by the departmental officers and the treasury does not handle cash business of the Government, the departmental officer countersigning the challans ensures the correctness of classification and completeness of the challan and the depositor makes the remittances direct at the Bank. In other cases where challan are not countersigned by the departmental officer, the depositor gets the challan checked by the treasury and remits the amount at the Bank or the treasury as the case may be. In certain cases like those of payments on account of Sales Tax, etc. challans are not required to be checked by the Treasury and the amounts are directory received by the Banks from the depositors.

Payments

11.8 In the case of payments, claims are presented in the prescribed form at the treasury by the departmental drawing offices or by the public or pensioners. The bills presented by the public are countersigned by departmental officers. These claims are subject to treasury checks such as arithmetical accuracy, correctness of the classification, comparison of signature of the departmental drawing officer with the specimen signatures on record with the treasury, identification of the payee, conformity with authority, if any, issued by the Accountant General or the sanction of the competent authority, completeness of the bill with supporting schedules in respect of recoveries etc. The Bills are then passed for payment and sent to the bank which makes the payment for the amounts as passed by the treasury after identification of the payee. In places where the system of cheque payments by the treasury has been introduced, the treasury makes the payment of bills passed for payment through cheques which are enchased by the payees at the bank. In the case of non-banking treasuries, the treasury also perform the function of making the cash payments.

11.9 In the case of banking treasury/sub-treasury, the bank which receives the money and makes the payments, send a scroll daily of the receipt and payments transactions occurring there to the corresponding treasury/sub-treasury. These bank scrolls merely list out the individual receipts and payments giving the particulars of the depositor/payee and amounts and are required to reach the treasury the same evening or the next morning.

11.10 The sub-treasuries are not required to compile the transactions occurring with them. They send the account of transactions, both receipts and payments, along with the supporting documents (challans and vouchers) daily to the district treasury. In some States, the sub-treasury compiles the receipt transactions under certain tax revenue heads such as sales tax. The accounts of the sub-treasury are incorporated in the accounts of the district treasury on the same day or at the latest on the day following the day of their receipt in the same way, as if they had taken place with it.

Daily closing

11.11 The process of closing a State treasury for the day is as follows:

(i) The Accountant transfers the totals of his subsidiary registers into the cash book and prepares a balance sheet in a prescribed form.

(ii) The Treasury Officer, checks both registers and cash books, comparing each payment entry with its voucher and the register totals with those entered in the cash books, and verifies a certain number of the totals, the rest being checked by a Clerk; other than the Accountant. The cashbook totals are also checked by a senior subordinate other than the Accountant.

(iii) Meanwhile, the Treasurer sums both sides of his cash book and draws up a balance memorandum which gives details in kind of the notes, coins; etc.. Comparing the balances in his hands.

If the results in the balance sheet agree, the Treasury Officer signs the cash book and the balance sheet and the accounts for the day are closed.

Note1: -The Accountant's balance includes the balances of the sub-treasuries and also the remittances in transit between the treasuries in the district, which have to be deducted before agreement can be effected with the Treasurer's balance.

(iv) The Treasury Officer then verifies the cash, etc. in the hands of the Treasurer as shown in his balance and together with the Treasurer, locks it up under double lock in the strong room, which is then left for the night in charge of the guard.

Monthly Balance

11.12 The working of the treasury proceeds in this way from day t day, and the monthly process is completed by the cash (coin and notes) present in the district treasury on the last day of the month being verified by the Collector himself or, if he is absent from headquarters or is otherwise unable to perform the duty, by a responsible assistant, the cash in each sub-treasury being similarly verified by the local officer in charge. An actual cash balance report for the whole district it then drawn up with which the account balance is compared.

Monthly Accounts

11.13 The point has now been reached for the despatch of the monthly returns to the Accountant General. These monthly returns which in the case of treasuries are separate for transactions of the State and for those of the Union, consist of (i) schedules of payments in two parts, the first relating to the payment made form the first to the 10^{th} of the month and the second part to those made during the rest of the month (ii) schedule of receipts; (iii) a list of payments; and (iv) a cash account. These are written up daily in the treasury from the Accountant's cash Book and the registers subsidiary thereto, and the vouchers are day by day numbered, arranged and put away under lock and key.

11.14 There are separate schedules of receipts and expenditure for each department and for each major head of account not relating to any particular department and in them the transactions are entered in sufficient detail to enable the preliminary compilation by the Accountant General to be made there from and the vouchers to be identified according to the classification given in them. The list of payments and the cash account show respectively the total payments made and the total receipts collected, during the month, detailed according to each schedule, or, in respect of the Debt, Deposit and Remittance transaction, according to broad account classification. The cash Account also works up to the actual cash balance in the treasury on the last day of the month, as personally counted by the Collector, after bringing into it the total payments as shown in the list of Payments.

11.15 The first batch of payments schedules, supported by necessary vouchers is sent to the Accountant General on the 10th and 11th of the month; and the remaining schedules supported by necessary vouchers, the list of payments and the cash account, which is accompanied by a certificate of agreement of the account balance with the balance reported in the cash balance report of the treasury for the last day of the month, are sent on the first day of the succeeding month.

Note- In Tamil Nadu and Andhra Pradesh, the treasuries follow a different procedure. They compile the payment transactions also in detail and render a compiled account to the Accountant General both for receipts and payments. They account for all recoveries made in the bills under the appropriate receipts heads of account and the payments on such bills on a gross basis under the appropriate major, minor sub and detailed heads of account. In other works, they render to the Accountant General a completely classified abstract of payments for each major head along with supporting fly leaves showing the particulars of individual vouchers and the amounts thereof, comprised in the total shown under each head of account and schedules of payments listing out the individual vouchers supported by the vouchers themselves.

11.16 The schedules, List of Payments and Cash Account described above, as sent from each treasury monthly to the Accountant General, represent the first stage of compilation of the Government accounts. They cover jointly the whole of the public transaction including departmental accounts and debt, deposit and remittance transactions. They may be said to constitute the primary fabric of the State Government accounts in India.

Daily and Monthly Agreement

11.17 It will be noticed generally that the correctness of the daily accounts of a self-contained treasury is secured by making two independent officials (the Accountant and the Treasurer) separately deal with the record of each item of receipt and payment and it occurs, and by effecting and agreement at the end of the day between the two sets of accounts thus prepared, and at the same time verifying the actual cash balance is the hands of the Treasurer. This daily check is reinforced by the actual count of the whole of the cash balance in the treasury on the last day of each month by the Collector himself.

11.18 Similarly the same custody of the treasury is secured by placing it jointly in the hands of two independent officials, the Treasury Officer and the Treasurer (one whom, the Treasurer, gives substantial security) under the system of double locks.

Classification in the Treasury Accounts

11.19 As already explained, the bills and vouchers, before presentation at the treasury, are required to be enfaced by the department concerned with the proper account classification; and from these enfacements the transactions are broadly classified in the schedules (in the case of revenue receipts and service payments), and in the list of payments and the cash accounts (in the case of Debt, Deposit and Remittance transactions). For this purpose, these documents have the broad account classification printed on them, and in the majority of cases the totals of the monthly receipts and payments are entered against these printed heads from the subsidiary registers maintained at the treasury. But a few items occur every month which does not clearly fall under any of the printed heads or in respect of which the full account classification is wanting and thus the treasury describes in detail in the body of the schedule or the cash account or the list of payments and leaves to the Accountant General to classify. The Accountant General does this and also cheeks the classification already made by the departmental officers in the bills and vouchers and by the Treasury Officer in the account submitted by him.

Treasury Inspection

11.20 Each treasury is inspected periodically by a Gazetted Officer deputed by the Accountant General. The Inspection Report is sent to the Collector in two parts, one relating to currency (Resource and Public Debt matters which are administered by the Reserve Bank) and the other dealing with all other points. The Accountant General also sends a copy of the first part of the Report to the Currency Officer in whose jurisdiction the treasury is situated. The Collector reports the action taken by him on the Report to the Accountant General and sends a copy of the orders on the first part to the Currency Officer who informs the Accountant General whether the action taken is adequate or any further action is required. The Accountant General brings to the notice of the Commissioner of the Division all matters in which he thinks that the action taken by the Collector is inadequate or which he considers should receive the attention of the Commissioner. The Accountant General reports to the State Government all-important points or irregularities not settled by reference to the Commissioner. Any point of importance affecting the Central Government is also normally brought to the notice of that Government by the Accountant General but in special cases they are reported through the Comptroller and Auditor General.

In matters of accounts and check at the treasury, the Collector with Treasury Officer under him, is responsible to the Accountant General whose instructions he is bound to carry out. The accountant General dose not, however, ordinarily interfere with the Collector's responsibility for the practical working of the Treasury further than by constant correspondence with him for the removal of irregularities detected in the accounts and return submitted. The Currency Officer concerned controls the Resource of the treasury, that is to say, he keeps it supplied with sufficient coins and notes and when necessary removes surplus funds elsewhere. In all matters relating to Resource, the Collector is bound to carry out the instructions of the Currency Officer.

CHAPTER 12

DEPARTMENTAL COMPILATION OF ACCOUNTS

12.1 As mentioned earlier in Chapter 8, the Accounts of the Union Government (Civil) were departmentalised in stages from 1st April, 1976 to 1st April, 1977, relieving the Comptroller and Auditor General from the responsibility for compiling the accounts and entrusting it to the controller General of Accounts.

12.2 Under the departmentalised accounting setup all payments are made only by the Pay and Accounts Office of the Ministry/Department after proper pre-check. As exceptions, the Controller General of Accounts may vest cheque-drawing powers on certain Drawing and Disbursing Officers (DDOs) located at stations other than those of the accredited Pay and Accounts Offices. All Payments including settlement of inter-departmental and inter-governmental transactions are made by means of cheques.

12.3 Receipts and payments of each Ministry/Department are handled by the Reserve Bank or a Public Sector Bank (including State Bank of India and its subsidiaries) nominated for the purpose by the Reserve Bank. The Central Accounts Section of the Reserve Bank, Nagpur, maintains separate proforma accounts styled Departmentalised Ministries Accounts in respect of each Ministry / Department in the General Ledger.

12.4 Receipts relating to the Ministries/Departments are remitted into bank with which the Pay and Accounts Office or the cheque-drawing DDO is in account, either in cash or by cheque or demand drafts drawn in favour of the Accounts Officer, with challans showing the particulars of the receipts and their classification. The receiving bank renders scrolls of such receipts to the Pay and Accounts Office along with challans (with a copy of the departmental office concerned) daily, in the case of the receipt transactions taking place in the bank with which the pay and Accounts Office is in account. In the case of receipt transactions taking place in the bank with which the cheque drawing DDO is in account, the scrolls are transmitted at weekly intervals. The departmental officers also send weekly accounts of the receipts realized and remitted by them to the PAO, with duplicate copies of challans. The DDOs are responsible for ensuring that the entries in the bank scroll are correct and that all remittances have been duly included. The entries in bank scrolls are reconciled in the Accounts Office with the weekly accounts and challans received from the departmental officers and compiled.

12.5 Bills presented to the Pay and Accounts offices are passed for payment after pre-check, which covers check against provision of funds, against Limitations of New Service/New Instrument of Service, of sanctions for expenditure, of classification including allocation of expenditure between capital and revenue, etc. Pre-check also includes the general treasury and procedural checks enumerated in the Central Government Account (Receipts and Payments) Rules, 1983/General Financial Rules. After payment, vouchers are again subjected to post-check. No payment should be made in excess of a budget allotment. It is an important function of the Pay and Accounts Officer to examine contracts or agreements for works/supply of stores, entered into by the departmental authorities on behalf of Government. Bills relating to the classes of payments, for which DDOs have been authorized to issue cheques, are checked by them with reference to the Central Government Account (Receipts and Payments) Rules, 1983/General Financial Rules.

12.6 On the basis of the budget allocation made by the Financial Adviser of the Ministry, the Pay and Accounts Officers issue letters of Credit, as signing the amounts allocated to cheque-drawing DDOs, quarterly, sending intimation direct to the branch concerned of the accredited public sector bank. Payments on behalf of each such DDO during the specified period should not exceed the amount of the assignment of the Letter of Credit.

12.7 Cheque-drawing DDOs may withdraw money for payment of pay and allowances including travelling allowance and medical claims, Office contingencies, advances from the provident Fund, withdrawals/ final withdrawals from the provident Fund, for Group 'D' Government servants, and all short term loans and advances to Government servants. Cheque drawing DDOs functioning under the Public Works and Forest Systems of accounting may with draw money not only for the above purposes but for also those provided in the respective systems.

12.8 In respect of cheques issued by the Cheque Drawing DDOs, the paying branch of the bank prepares daily scrolls of payment, DDO-wise, and transmits them weekly to the Pay and Accounts Officer along with paid cheques with a copy to the DDO concerned. The DDOs prepare a list of payments at the end of every week, which is then forwarded to the Pay and Accounts Officer, accompanied by paid vouchers, by the dates prescribed. These vouchers are subjected to post-check by the Pay and Accounts officer and all the checks prescribed in para 12.5 above are applied. The cheque-drawing DDO also prepares bank reconciliation statements every month in respect of both receipts and payments, showing the amount of receipts credited into the bank/cheques issued, and the amounts reported by the bank in their respective scrolls.

12.9 In case of bills paid by the Pay and Accounts Officer, the paying branch of the bank prepares payment scrolls daily and forwards them, along with paid cheques, to the Pay and Accounts Officer, the following day. Likewise, daily receipt scrolls are also sent to him. After sending daily scrolls to the Pay and Accounts Officer/DDO, advices are sent by the Paying branch to debit/credit the cash balance of the Ministry/Department in the books of the Central Accounts Section of the Reserve Bank Nagpur. A reconciliation of the adjustments made in the books of Central Accounts Section during a month is carried out at the end of the month, on the basis of consolidated monthly statements of receipts and disbursements draw up by the paying branch of the bank and verified up by the paying branch of the bank and verified by the Pay and Accounts Officer.

Compilation and Consolidation of Accounts

12.10 Each Pay and Accounts Office compiles a monthly account of the transactions (receipts and payments) appearing in its own account and those reported by its drawing and disbursing officers and the banks, duly classified under major, sub-major, minor, sub-head and detailed heads. The PAO then sends the compiled account in a computer format to the Controller General of Accounts by the 20th of the following month.

12.11 Similarly, in respect of Central transactions taking place, at State treasuries as well as at Central treasury in Union Territories whose accounts continue to be maintained by State Accountants General, each State Accountant General sends to the Controller General of Accounts, a monthly account in a computer format.

12.12 From the compiled accounts received from (a) Pay and Accounts Offices of Central Ministries/ Departments, (b) Accountants General and (c) separated accounts organizations of Union Territory Governments/Administrations, the Controller General of Accounts prepares a Consolidated account of the Central (Civil) transactions as a whole. A copy of the monthly account (Civil) is forwarded by him to the Central Government in the Budget Division of the Ministry of Finance.

12.13 The cash balances of the Central Government (Civil) in the books of the Controller General of Accounts at the close of each month, is reconciled with the statements of closing cash balance received from the Central Accounts Section of the Reserve Bank Nagpur.

12.14 Each Principal Accounts Officer maintain a ledger for Debt, Deposit, Suspense and Remittance Heads of account i.e. heads, balances in respect of which are carried forward from year to year. It is an important function of the Principal Accounts Office to review these balances periodically, to see how far they represent moneys due to or by Government, and whether they are supported by details in the subsidiary register known as broad sheets.

CHAPTER 13

ACCOUNTING IN THE INDIAN AUDIT AND ACCOUNTS DEPARTMENT

13.1 The sources from which accounts along with the supporting documents flow to the Accountant General are: -

(1) District treasuries.

(2) Pay and Accounts offices of the State Government.

(3) Public Works Divisions, Forest divisions and other departmental accounts offices which are authorized to make payment through cheques and receive moneys and which render compiled accounts.

(4) Inter-State Suspense accounts from other Accountants General.

(5) Clearance memos advising inter-governmental Adjustments in the books of the Reserve Bank and the statements of monthly balances from the Reserve Bank.

(6) Adjustments carried out in the offices of the Accountants General, which include inter-Government adjustments, books-transfers for inter-departmental supplies and services, periodical adjustments and rectification of misclassification.

13.2 Public Works divisions, Forest Divisions and departmental accounts offices render to the Accountants General monthly fully compiled accounts classifying the receipt and payment transactions of the month under appropriate heads of account duly supported by vouchers and other documents. In Tamil Nadu and Andhra Pradesh, the treasuries render fully compiled accounts to the Accountants General. In other States, the treasuries render accounts to the Accountants General twice a month covering the period from 1st to 10th and from 11th to the last day.

Main Process of Compilation in the State Accountant General's Office

13.3 The first stage of compilation is the posting in the Details Books of the particulars relating to debt, deposit and remittance transaction appearing in the cash accounts and lists of Payments submitted by treasuries. The transactions relating to Revenue Receipts and Service Expenditure on Revenue and Capital Accounts under the various functional major heads appearing in Cash Accounts and List of Payments are adjusted in the Detail Book Part-I (Treasury Transactions) as pertaining to the Suspense minor heads " Departmental Adjusting Account" below the major head "Suspense Accounts". The adjusting minus entries under this Suspense head are posted in the Detail Book- Part-II (Departmental Accounts) from the several classified Abstracts of the various Departments/Major Heads compiled through Schedules of Receipts /Schedules of payments and vouchers in the Departmental accounting sections (vide para 13.4 and 13.5 below). The mechanism of the operation of "Departmental Adjusting Account" in the Detail Books/Departmental classified Abstracts is provided to ensure a control by the Treasury/Book section in the Accountant General's office over the accountal of all the schedules of Receipts/Schedules of Payments and vouchers sent by those sections for their proper accountal in the appropriate Departmental classified abstracts, without any omission.

13.4 On receipt of the monthly accounts from the treasuries, the cash Accounts and List of payments are checked with reference to the supporting Schedules of receipts/payments and after ensuring their agreement, the Cash Account and List of Payments are posted in Detail Books Part-I (Treasury Transactions) as indicated in Para 13.3 above. The Schedules are then made over to the various departmental accounting sections (or the Compilation Sections) with supporting vouchers etc. for purposes of detailed compilation and preparation of classified Abstracts of the Major heads concerned, dealt with by them for the month. In the compilation sheets the gross amounts of the Vouchers are compiled to the appropriate detailed head/ minor head etc. relating to the major heads, and the recoveries made there from recorded in the 'deduction sheet or Register-Part V of the Abstract. When all the vouchers are posted in the

'COMPILATION Sheet' the totals of each sub head/minor head/ of each major heads of account are struck and agreed with the total of the appropriate Schedule of payment.

13.5 From the compilation sheets, the totals against each detailed head are posted in the Departmental classified Abstract of Payments against the respective treasuries. Similarly the receipts or expenditure items appearing in the accounts of an other government which are received through settlement Account are also dealt with the manner indicated above. The Departmental Classified Abstracts thus bring together the monthly receipts and payments pertaining to each department for the whole account circle classified under the relevant major, minor and detailed heads of account. The transactions adjustable against a department or against a major head not relating to any particular department, which are intimated to the Accountant General by another Accounts Officer as well as all book adjustment against a departmental or other major head which are initiated in the Accountant General's office itself are also incorporated in the relevant Departmental Classified Abstract so that it may include monthly all transactions of whatever nature connected with the receipts and payments pertaining to each department or major head of accounts. After the Departmental classified Abstract have been completed, the Debt, Deposit and Remittance transactions appearing in them are posted in the Detail Book-Part II (Departmental Accounts) where the totals of Part I (Treasury transactions) are carried over under the appropriate heads first. In this process, the amounts originally incorporated under the suspense head "Departmental Adjusting Account" in Part-I of the Detail Books, and the responding minus entries under the same suspense head, with reference to the several classified Abstracts incorporated in Part-III of the Detail Books gets squared up as indicated in para 13.4 above. This theoretically which striking the grand total of Parts I and II of the Details Book for each month, to work out the total of Debt, Deposit and Remittance transactions of the State as a whole the figures against the suspense head Departmental Adjusting Account is required to be brought to ‘nil’.

13.6 The next stage of compilation is the posting of figures or revenue receipts and service payments from the Departmental Classified Abstracts into the Departmental Consolidated Abstracts and of the Debt, Deposit and Remittance figures from the detail Book in to the Consolidated Abstract of Debt, Deposit and Remittance transactions. The Departmental Consolidated Abstracts show the progressive total of revenue receipts and service payments month by month under each major, minor and detailed head of account. Separate Consolidated Abstracts are maintained for each department or major head of account or for a group of departments or major heads of account as may be found convenient.

13.7 The Consolidated Abstract of transactions under Debt, Deposit and Remittance heads show the progressive totals month by month under each heads as well as under such minor and detailed heads as may be found necessary.

13.8 The final stage of compilation is the preparation of the Abstract of major head totals from the Departmental Consolidated Abstracts and the Consolidated Abstract of Debt, Deposit and Remittance transactions. The Abstract of Major head Totals shows by major heads of account the total receipts and disbursements of the account circle during and to the end of the month. The total figures in the Abstract of Major Head totals which shows the amounts received and paid on all accounts (Major head wise) should agree with the statement of Disbursements’ Accounts which in corporate the amounts received and paid by all persons, who render accounts, including books adjustments etc.

13.9 Transactions in one account circle which are adjustable in the accounts of another circle were being passed on month by month to the latter for adjustment through the mechanisms of exchange Accounts or settlement accounts. With the departmentalisation of the accounts of the Central

Government in a phased manner from 1.4.`976, the operation of exchange and settlement accounts has been dispensed with on the Central side and all inter-Governmental and inter departmental adjustments originating on the part of Central Government are required to be settled by exchange of cheques or demand draft with the Accounts Officers of the Governments or Departments concerned.

13.10 The transactions of other State Governments which originate in the State are initially accounted for in its own accounts and then passed on to the states concerned for final adjustment in their accounts. Such transactions are booked under Inter Suspense Accounts in the Remittance sections of accounts. The monetary settlement between the States is effected monthly through the Central Accounts Sections of the Reserve Bank at Nagpur and on receipt of intimation of adjustment from the Bank, the Inter State Suspense Accounts is cleared. Simultaneously, the monthly accounts of Inter State Suspense are prepared and dispatched to the Accountants General of the State concerned. These accounts are called the settlement accounts. While the accounts despatched by the Accountants General is known as ‘outward settlement accounts’ the same on its receipts in the office of the Accountant General of the State to which it pertain is termed as ‘Inward Settlement Accounts’. The transactions are first entered in Adjustment Register and then posted in the Settlement Account Abstract. From these Abstracts, figures for each head of account affected are posted in the relevant Departmental classified Abstract or the Detail Books, as the case may be.

Transfer Entries

13.11 Transfer entries are prepared to transfer an item from one head of account to another in order to:

(i) correct an error of classification in the original accounts;

(ii) adjust by debit or credit of its proper head, an item outstanding under debt, deposit or remittance head;

(iii) adjust inter-departmental or other transactions which do not involve the receipt or payments of cash;

(iv) classify and adjust item pertaining to more than one head, when the transactions, due to administrative convenience were initially accounted for under a single head of account.

13.12 The idea is in itself simple but the procedure by which such transfers are carried out in the accounts is somewhat elaborate. The final outcome of all the transfer entries relating to a month is worked out in an Abstract known as the Combined Transfer Ledger and Abstract, in which are shown the debits and credits to be made under each head, the totals of the debits and the credits necessarily being equal. The net result of the transfer entries as worked out in this Abstract is posted monthly under appropriate heads in the relevant Departmental Classified Abstracts or the Detail Book immediately under the total of each transaction and the totals under the detailed heads and minor heads affected are thus corrected.

Monthly Accounts of State Government

13.13 Each State Accountant General, as soon as the accounts of a month are closed, sends to the State Government a monthly account of its transactions. The figures for this accounts are taken from the Consolidated Abstract and Abstract of major Head Totals gives the totals of (a) revenue receipts, (b) expenditure on revenue account, (c) capital expenditure outside the revenue account during and progressive to end of the month., net effect of receipt and payments under debt, deposits, etc. head (both in Consolidated Fund and Public Account) during the month and progressive to end to the month, totals of the transactions during the month and progressive to end of the month, opening and closing cash balance followed by a major head wise summary of transactions during and progressive to end of the month. The form provides columns to indicate the budget/revised estimates and corresponding progressive figures in the previous year.

CHAPTER 14

ENTITLEMENT FUNCTIONS

(A) PAY

14.1 Entitlement functions embrace regulation and authorization of pay and allowances of Gazetted Officers, reporting and issue of payment authorities of pension and gratuity to retired Government servants, reporting and issue of payment authorities of family pension and maintenance of provident fund accounts of officers and employees as per the respective laws, regulations and orders. These functions are exercised by the Comptroller and Auditor General for certain historical reasons and they do not strictly fall within the sphere of his prescribed duties. In the Centre , these functions stand fully transferred to the respective Ministries/Departments after departmentalisation of accounts in 1976-77 except in relation to the Indian Audit and Accounts Department. Similar is the position in the capital stations of the States e.g. Andhra Pradesh, West Bengal, Gujarat, Tamil Nadu and Maharashtra, where Pay and Accounts Officers are working under the Governments concerned. Some of the State Governments concerned. Some of the State Governments have taken over fully or partly these functions. Thus the procedure described in the subsequent paragraphs apply only where the entitlement functions continue to be with the Comptroller and Auditor General.

Pay and Allowances of Gazetted Officers

14.2 All payments are recorded in a salary register in which one or two folios are allotted to each Government servant. The main features of this register are two sets of cages in one of which are entered the emoluments to which the Government servant is entitled, as varied from time to time by each order published in the Government Gazette or otherwise communicated, and in the other are recorded the amounts drawn by him month by month as a check on any second claim. There are subsidiary cages for the record of:-

(a) orders authorizing each alteration of emoluments;

(b) particulars of the various posts held, or of any leave granted;

(c) explanations of (i) peculiar payments which would include any payments not immediately identifiable reference to the entry in the emoluments column and (ii) broken periods for which emoluments are paid at different rates;

(d) particulars of objections raised and their adjustment;

(e) adjustment of long term advances.

14.3 It is apparent that the most important part of the work is the record of each entry in the cages for emoluments permissible. Each alteration must be based on an order published in the Government Gazette or otherwise communicated, and the various service rules have to be applied carefully in determining the emoluments permissible in accordance with the orders passed by Government. Every alteration of emoluments, therefore, has to be passed by the Gazetted-Officer-in Charge of the Section. At the same time an intimation is sent to the Government servant concerned and to the officer in charge of the treasury at which he draws his pay, specifying the amount which he may draw in accordance with the order of Government. This intimation is called a Pay/leave salary slip.

14.4 A fresh slip is issued on the following occasions:-

(i) Whenever any increment is stopped;

(ii) Whenever an efficiency bar, or any other bar against the grant of a particular increment is removed; and

(iii) Whenever there is a change of any kind in emoluments, otherwise than by accrual of an increment, in the ordinary course e.g.

(a) when a gazetted Government servant passes outside or beyond the time scale, or

(b) whenever he passes from one overlapping time scale to another or from one time-scale to another, or

(c) whenever he proceeds on leave of any kind, or

(d) when he returns from leave of any kind except in cases where he returns to the same post, or

(e) whenever he is appointed to a temporary post or reverts there from;

(iv) whenever the stage of the time-scale at which there is a pause is reached; and

(v) whenever an officer is transferred from one post to another involving change of designation, even if, there is no change in his emoluments.

In the case of time-scale of pay with efficiency bars at certain stages, pay at a rate above the stage at which an efficiency bar is fixed cannot be authorized until a declaration is received from the authority empowered to make the promotion that it has satisfied itself that the Government servant in question is fit to cross the efficiency bar.

14.5 In order to avoid delay in the drawl of increments by officer and unnecessary work perpetual or permanent pay slip are issued in respect of officers holding permanent posts indicating there in the scale of pay and the date of annual increment. Similarly, in the case of officers holding regular temporary posts, the dates of increments falling during the currency of such posts are also included in the pay slip issued. Such pay slips will, however, become invalid in the event of the officer proceeding on leave, undergoing a period of suspension, remaining otherwise absent from duty or being transferred, promoted or reverted to another post before the increment accrues. However, in both the cases the increment above the Efficiency Bar stage is not to be included in the pay slips.

Check against Sanctioned Posts

14.6 The orders affecting the cadre of a service passed by Government have first to be checked and it has to be seen that they are free from objection. In some States it is the custom for Government to send the orders in draft to the Accountant General (Accounts and Entitlements) so that they may be checked before issue. Before issuing a pay slip to the incumbent of a post, it is invariably seen that there exists a sanction to the post. It is necessary for the cadre controlling authorities to review periodically and ensure that the total number of men in position does not exceed the sanctioned posts in respect of each grade or class of the service.

Leave Accounts

14.7 For each Gazetted Government servant a leave account is kept in the Accounts and Entitlement Office, showing the period during which the Government servant was on duty, the leave earned by him, the leave actually taken, and the balance at his credit. From the entries in the account it is possible to calculate the leave admissible to Government servant on any given date.

History of Services or Service Card

14.8 Finally, a history of services or service card is maintained for each Gazetted Government servant, in which are recorded his headquarters, stations, substantive appointments/ Officiating appointments involving change of duties, dates of alterations of appointments, grants of leave of all kind, absence without leave or in excess of leave or joining time. Fund Account Number, Home Town, fact of receipt of nomination for family pension and Death-cum-retirement Gratuity. Pension calculations are based on this record. History of services is issued at such intervals as may be prescribed in consultation with State Government.

Action on Gazettes

14.9 On receipt of a gazette with the notifications Registers and History of Services or Service Cards;

(1) note all the necessary details in the Audit Registers and History of Services or Service Cards;

(2) issue Pay-slip for alterations in pay and allowances where necessary, filling in at the same time, the money columns in the Audit Register when necessary;

(3) when leave has been sanctioned, compare the amount of leave sanctioned with that shown in the office copy of the leave report;

(4) in the case of transfer, see that the report is received of making over, as well as of receiving charge, note in the Audit Register, and check joining time;

(5) in the case of a Gazetted Government servant transferred from another audit circle call for a statement of his service.

(b) When Government orders sanctioning alterations of Pay, leave, transfer etc., are issued in advance of the notifications in the Gazette, they should be acted upon in the same manner as the modifications themselves. The entries in the Register in respect of first appointment and final relinquishment of charge of a Gazetted Officer on retirement or quitting service should, however, be compared with Gazetted notification when the latter is received and the Accountant should certify against the notifications concerned that he has made the necessary comparison.

(B) REPORTING AND ISSUE OF PAYMENT AUTHORITIES OF PENSION AND GRATUITY

14.10 Pension Rules supported by executive instructions have been framed by the respected State Governments governing grant of different classes of pension, commuted value of pension, service/retirement family pension etc., granting the procedure for preparation and transmission of pension papers to the Accountant General and circumstances under which provisional or anticipatory pension could be authorized. Keeping these rules and instructions in view pension papers are prepared by the Heads of Offices from where the Government servants retire and sent to the Accountant General concerned. On receipt of these papers the completeness of the documents and correctness of the calculations are examined. After ensuring the accuracy of the figures and determining the actual amount of pension/gratuity a report regarding the admissibility thereof is prepared and forwarded to the Pension Audit Section.

Issue of Pension Payment Order/Gratuity Payment Order

14.11 Pension Payment Order is not issued more than a fortnight in advance of the date on which the officer is due to retire. The Pension Payment Order consists of 2 halves (1) the pensioner's half and (2) disburser's half. The name of the pensioner, the class of pension, date of birth, address, date of commencement of pension, amount of pension, D.A. admissible and place of payment are filled up in both the halves by the Accountant, checked by his superior with reference to the Pension Verification report and then submitted to the Branch Officer for approval. If any condition is imposed by the Pension verification section in the endorsement it is also incorporated in both the halves. The allocation of pension as indicated in the Pension Verification report is also noted in both the halves. This is necessary to ensure correct classification of pension charges in the Treasury account and proper settlement of balances between Governments. After the Branch Officer's approval and assignment of number to the Pension Payment Order, entries are made in the Pension Payment Order register and noting is also made in the Pension Verification case regarding issue of Pension Payment Order. These are attested by the Branch Officer. Both the halves, attested photo, signature of the pensioner etc., are then dispatched to the Account Officer (Pension)/Treasury Officer (as the case may be) with a covering letter. A copy of the covering letter is also sent to the pensioner and to the pension sanctioning authority.

14.12 When both pension and family pension have been reported, joint Pension Payment Order is issued, the pension payable to the pensioner and the family pension payable to the eligible beneficiary (wife/husband) in the event of death of the pensioner are indicated in the joint Pension Payment Order. When the pensioner dies, the family pension is paid by the Treasury Officer, after getting a death certificate, to the eligible pensioner without any reference to Accounts Office.

Payment of Death-cum-Retirement Gratuity

14.13 Death-cum-Retirement Gratuity is also released to the pensioner by the Pension Audit Section with reference to endorsement therefor in the pension case made by the Pension Verification Section. Recoveries to be made as indicated by the reporting section are also noted in the Gratuity Payment Order. Details of recoveries (advances, Interest thereon, overpayment of pay and allowances, house rent etc.) are shown in the Gratuity Payment Order. Net payment is arrived at and this is expressed in words and figures. A protective endorsement (under Rupees…..) which is the nearest higher rupee is also made at the top of the Gratuity Payment Order. Where dues to Cooperative Societies, local bodies etc. are recovered, an endorsement is made to the effect that out of the amount payable, the due amounts might be sent by demand drafts to the concerned authorities. After Gratuity Payment Order is approved, a number is assigned to the authorization and entries are made in the gratuity register. The entries in the register and notings in the case about the issue of authorization are attested by the Branch Officer. When the Death-cum-Retirement gratuity is payable to more than one person in shares, separate authorization is issued in respect of each eligible gratuitant.

Transfer of Place of Payment of Pension

14.14 After a pension has been drawn for some time, if the pensioner desires a change of place of payment within the same audit circle, it can be done by the A.O. (Pension) /T.O. concerned without the intervention of Accounts

Office but the fact of transfer is intimated to the Accountant General. When first payment itself is desired in a State other than the one in which the Government servant retired, authorization is issued to the Accountant General of the State concerned under special seal. In this case, authorization is issued in the form of a letter and this holds good for gratuity payment also.

Anticipatory/Provisional Pension

14.15 When a Government servant is likely to retire before his pension can be finally assessed and settled in accordance with the prescribed rules the Accounts Officer/Head of Office may arrange for authorizing anticipatory/provisional pension and gratuity, if the rules so permit and subject to the conditions prescribed in the rules. Normally such payment of provisional / anticipatory pension is to continue for six months only. The orders for anticipatory/provisional pensions are recorded in a Special Register, which is reviewed by the Accountant General personally to see that no undue delay occurs in the final settlement of the amount of pension in such cases.

Pensions to Freedom Fighters, Old Persons, Artists, Men of Letters etc.

14.16 Various Governments have introduced their own schemes/rules for payment of pension to these categories of persons. While in some States authorities for payment are issued by the Accountants General, in others departmental authorities disburse the pensions.

(C) PROVIDENT FUND

14.17 The procedure prescribed in the ensuing paragraphs is applicable to the Provident Fund, the accounts of which are maintained by the Accountant General

Admission of Subscribers

14.18 Under the rules framed by the Union Government and many state Governments, it is compulsory for all Government servants to subscribe to the General Provident Fund. An application in the prescribed form has to be obtained from the subscriber and sent to the Accounts Office maintaining the Provident Fund Accounts concerned. A distinctive Account Number is assigned to each subscriber and the particulars thereof are communicated to the subscriber either direct or through the Head of his office.

14.19 In assigning distinctive numbers to each subscriber, separate series of numbers are allotted for each department/Accounting Circle to which a subscriber belongs. For example, the subscribers belonging to the Police/Education Department are assigned numbers with alphabetical letters as POL/EDN. The Accounts Circle where the Provident Fund Accounts are maintained is indicated by appropriate suffixes. For example, the accounts maintained by the Accountant General Tamil Nadu/Accountant General, Maharashtra may be having a suffix Tamil Nadu/Maharashtra to denote the Accounting Circle concerned

14.20 The number so assigned and the particulars of names and designation of the subscribers are recorded in the General Index Register at the time numbers are allotted. A separate General Index Register is kept for each Department. Each Register is updated as and when new subscribers are admitted. Each General Index Register will have a corresponding Alphabetical Index Register. In the case of transfer of a subscriber from one Department to another and when new departmental numbers are assigned to old subscribers the new number is shown as the enumerator and the old number shown as denominator in the General Index Register so as to facilitate easy back reference of the past records of the subscriber concerned.

Nominations

14.21 Under the provident Fund Rules, subscribers are to furnish nomination to the Accounts Officer maintaining the Provident Fund accounts for payment of the balances in the event of death of the subscriber. Some State

Governments have issued orders intrusting the work of acceptances and custody of nominations to the Departmental Officers themselves. Accepted nominations are recorded in the prescribed Register under proper attestation besides making an entry of the fact of receipt of nomination in the General Index Register against the concerned subscriber's Account Number. A separate Nomination Register is kept for each distinctive departmental series.

Note- A subscriber should not, if he objects, be pressed to disclose the name of the wife when she is the nominee. Payment should be made simply on the proof of identity being furnished.

14.22 The nominations are kept under lock and key in the personal custody of the Branch Officer in-charge of the Fund Section to be selected by the Accountant General. The verification of all the nominations is carried out in three batches so as to complete it in a cycle of three years.

14.23 An index containing a complete list of all the Nomination Registers in use in all sections in Fund Group is opened centrally and kept by the Fund Miscellaneous Section. This index is used to secure completion of the verification cycle.

14.24 When a revised nomination is received, the superseded one is cancelled and returned to the subscriber. The fact of cancellations is recorded then and there under proper attestation both in relevant Register of Nominations and the General Index Register.

Subscriptions

14.25 When a subscription is paid for the first time or a revised rate is adopted, it is seen that the amount of subscription is within the minimum and maximum rates prescribed by the rules of the Fund. In the case of subscriptions paid subsequently, it is seen that the amount paid agrees with the rate adopted in the first month of the year except when a variation of rate is allowed during the course of the year under the rules of the

Fund. For all months of the year it is also seen that all compulsory subscriptions are paid except when on exemption computation or a lower rate is allowed. Central Government servants due to retire on superannuation shall exempt from making any subscription to General Provident Fund during the last three months of his service. The discontinuance of subscription would be compulsory and not optional.

Note- Any overpayment or short payment of subscription to the Fund in any one month may be adjusted by deduction from or addition to the subscription in the subsequent months, wherever possible. There is, however, no warrant for refusal of cash payment or recovery if a subscriber so desires.

Temporary Withdrawals

14.26 On receipt of the sanction of a temporary withdrawal, its particulars are noted in the relevant column of the ledger card indicating, inter-alia, the amount of the advance sanctioned, the number of instalments in which recovery is to be made, the amount of each instalment and the month of last recovery.

The raising of debits in the accounts and the regularity of the recovery of advances are watched in the course of check of monthly posting of ledger cards. While conducting the check/review, it is seen: -

(a) that there is no delay in the receipt of debits on account of temporary withdrawals.

(b) that recovery of principal (and interest where prescribed) are being made in accordance with the sanction; and

(c) that the recoveries are regular.

Final Withdrawals

14.27 Final withdrawal of the entire accumulation in the subscriber's provident fund in the case of quitting of service, death, etc., is authorized by the Accounts Officer in accordance with the Provident Fund Rules, a note of such authorization, duly attested by the Branch Officer being kept in the respective ledger card. In the case of payments relating to subscribers authorized through their Heads of Office, the receipts of a certificate of disbursement is watched and when received it is noted in the subscriber's account. The progress of finalization of all cases of final withdrawal of entire accumulation is watched through a suitable Register.

Maintenance of Provident Fund Account

14.28 The Provident Fund Account of a Government servant is maintained by the Accounts Officer of the Government of whose cadre the Government servants has a permanent lien or a provisionally permanent lien. If he has no lien of either kind, the account is maintained by the Accounts Officer of the Government on whose cadre he is borne at the time. All credits and debits is respect of the fund transaction of a subscriber are brought to account in the books concerned by the Accounts Officer who maintains the subscriber's account. In the case of a Government servant who proceeds on deputation out of India, the officer who accounted for his pay immediately before he proceeded on deputation will maintain his Provident Fund Account. In the case of a Government servant who is transferred to Foreign Service, the Accounts Officer, who watches the recovery of his foreign service contributions will maintain his Provident Fund Account. Fund transactions arising in one state which are adjustable in accounts of another state are passed on to the Accounts Officer of the latter circle monthly through the Settlement Account. In the case of State Government employees on deputation to Central Government or vice-versa, monthly subscriptions are to be remitted on cash settlement basis to the Accounts Officer of the respective Government which is maintaining the provident fund accounts.

Transfer of Accounts

14.29 On the permanent transfer of a subscriber from one Government to another, the provident Fund balances at his credit is required to be transferred to the other Government and a copy of his ledger account together with Nomination form in original is to be forwarded to the Accounts Officer of that Government.

Ledger Cards

14.30 The accounts of subscribers are maintained in loose ledger cards, one card being opened for each subscriber. The fact of admission to the Fund and the receipt and acceptance of nomination in favour of a nominee or nominees when required is noted at the top of the ledger and the entries attested under the dated initials of the Branch Officer. The entries relating to Name Number etc. and the fact of discontinuance of subscriptions which are noted at the top of the Form are attested by the Section Officer. All the opening entries in the new ledger cards, viz. Compulsory subscriptions, opening balances, protected rate of interest, advances outstanding, details of insurance policies, acceptances of nominations, stoppage of subscriptions, etc. are also attested by the Section Officer. While copying the entries in the new ledger card, the up to date missing credits/debits are also to be noted and the opening balance in the new ledger card should be indicated in words as well as in figures. These accounts are maintained manually or by machine method.

Posting of Accounts

14.31 The following are the sources from which the Fund accounts are posted:

(i) Covering Schedules (one for each district in the prescribed form supported by the Corresponding fund schedules.

(ii) Schedules of cash recoveries by districts either supported by fund schedules or themselves containing all the necessary information in respect of the subscribers concerned.

(iii) Schedules supported by vouchers of withdrawals received from treasuries.

(iv) Separate covering statements in respect of credit and debit item in Settlement Accounts supported by fund schedules and vouchers of withdrawals, respectively.

(v) Statements similar to those in item (iv) in respect of fund transactions appearing in the Transfer Ledger Abstracts maintained by the Accountant other than the departmental Accountant.

14.32 The documents mentioned in item (i) are passed on by the departmental clerks/Accountants to the Fund Section after recording a certificate of agreement on each schedule. An additional certificate Pay for 31st March also checked with the bills, is recorded on the schedules attached to pay bills for March and attested by the Section Officer. The documents mentioned at items (ii) to (v) are passed on by the Accountant concerned to that section with a similar certificate of agreement with the Cash Accounts, List of Payments, etc. as the case may be. The Fund Section sees that all the necessary information required for audit is furnished in the fund schedules.

14.33 On receipt of these documents, the credits and debits are posted in the ledger cards. The total postings made under credits as well as debits in the ledger cards are compared through Broad Sheets with the monthly accounts figures and the difference represents unposted credits and debits. The adjustment of these items is watched through the mechanism of Master cards/Register of Unposted items. Postings in the ledger cards are checked by the Section Officer.

Annual Closing

14.34 The work of calculation of interest due on each account begins slightly before the completion of March postings and is completed within a month, a transfer entry being prepared and incorporated in the March or supplementary accounts crediting the Provident Fund Head and debiting ‘0249 Interest Payments etc’. The interest calculation made by each clerk/Accountant with the help of interest tables is got checked, independently by a separate clerk/Accountant. The calculations are also checked by the Section Officer and the Branch Officer to the extent prescribed. The amount of interest for the year as well as total deposits, refunds and withdrawals are posted in the space provided for the purpose in the remarks column of the ledger card and the closing balance for the year worked out in respect of every ledger card. The ledger card should be reviewed and up-to-date missing credits/debits should be noted in the appropriate columns of the ledger cards.

Special Procedure on Contributory Provident Fund

14.35 The contributory Provident Fund Accounts are maintained in ledger, where ledger amounts are posted in manuscripts. In cases where machine methods are adopted for the purpose, the accounts are maintained with suitable manuscript additions and alternations. When contributions are adjusted at the end of the year, these are posted in the Broadsheet, against the respective account number, in a separate line from that of the subscriptions, a distinguishing line, if considered necessary being used. Interest on contributions is similarly posted separately from that on subscriptions. At the time of annual closing of the Broadsheet, the closing balances of deposits and Government contributions are brought out separately.

Annual Account Statements to Subscribers

14.36 Statements of subscribers’ annual accounts are prepared and dispatched to them not later than 31st August each year. In addition to the opening balance, deposits interest for the year, withdrawal etc. the up-to-date missing credits should also be indicated in the annual account statements. The closing balance in the annual account statements should be recorded in words as well as in figures. The statements pertaining to Gazetted subscribers whose entitlements are regulated by the Accountants General through the issue of pay slip are sent to them direct with a request for sending acknowledgements for their receipt. Those pertaining to other subscribers are sent collectively with a covering memo, to their respective

Head of offices who are called upon to send a certificate to the effect that all the account statements received by them have been delivered to the respective subscribers. A strict watch is kept over the receipt of these acknowledgements and certificate.

CHAPTER 15

FUNCTIONS AND SPIRIT OF AUDIT

15.1 Audit forms an indispensable part of the financial system and is one of the important organs necessary to ensure the sound functioning of a Parliamentary democracy. It is the main instrument to secure accountability of the Executive to the Legislature. Audit assists the Parliament/Legislature in exercising its financial control over the Executive to ensure that funds voted by the Parliament/Legislature have been utilized for the purpose intended, and that the funds authorized to be raised through taxation and other measures have been assessed, collected and credited to Government properly. It checks the compliance, by the various authorities, with the rules and orders issued by the Executive Government and thus secures accountability on the part of each authority subordinate to the one immediately above in the hierarchy of delegation.

15.2 The primary function of Audit is to verify the accuracy and completeness of accounts, to secure that all revenue and receipts collected are brought to account under the proper head, that all expenditure and disbursements are authorized, vouched and correctly classified and that the final account represents a complete and true statement of the financial transactions it purports to exhibit. Its broad aim is to safeguard the financial interest of the tax payer.

15.3 It is the first principle of Government audit to recognize the clear distinction between auditorial and administrative functions. It is the function of the Executive Government to make financial rules and orders and of the subordinates of the Executive Government to apply these rules and orders. It is the function of Audit to verify that financial rules and orders satisfy the provisions of law and are otherwise free from audit objection and that these rules and orders are properly applied. It is not the function of audit to prescribe what such rules and orders shall be or to interfere with their administrative applications.

15.4 The Executive Government is responsible for enforcing economy in the expenditure of public moneys. It is the duty of Audit to bring to notice through its reports wastefulness in public administration and in fructuous expenditure.

Spirit of Audit

15.5 Although it is the duty of Audit to ascertain that the prescribed rules and orders are obeyed, it is not to be understood that the mere application of these rules and orders in their minutest detail by it self serves the purpose of audit. The fundamental object of audit is to secure real value for the tax payer's money.

15.6 For such a purpose it is necessary, of course, that rules of procedure should be laid down; but, if such rules are to be regarded as ends in themselves and not merely as means to an end, the inevitable tendency will be for Audit to insist rigidly on relatively petty matters and thus to frustrate the real object of audit. For it is clear that if much time and trouble is occupied and friction possibly engendered over expenditure of a very trifling character in regard to which there has been only a technical as opposed to a substantial irregularity, the Government and consequently the tax payers will be the losers. That is, it is better often to pass some not fully regularized expenditure of a trifling amount than to embark on a lengthy controversy in respect of it. Undue insistence on trifling errors and technical irregularities should, whenever possible be avoided and more time and attention devoted to the investigation of really important and substantial irregularities with the object not only of securing rectification of the particular irregularity but, also of ensuring regularity and propriety in similar cases for the future. At the same time, it must be borne in mind that failure to appreciate the significance of what appears to be a trifling irregularity may lead to failure to decoder an important fraud or defalcation. An Auditor must develop an instinct for assessing the importance of an individual irregularity. Objectivity and independence are the two essential qualities an auditor should possess, and they should be complementary in manifestation.

15.7 The prescribed checks should, therefore, be observed in the spirit and not in the letter as opposed to the spirit. As a rule, trifling matters which are of no consequence to the finances of the Government should not be given much attention. To save time and trouble over petty sums, Audit Officers have been given powers by the Government of India to waive petty objections and these powers should be exercised freely but with discretion.

Procedure for Audit Scrutiny

15.8 Audit done by the Comptroller and Auditor General is in the nature of sample tests with varying quantum of audit for different types of transactions. It is almost entirely posts audit. It is done (i) centrally at the location of the field offices of the Indian Audit and Accounts Department, through examination of accounts, vouchers, and other papers and documents received by them and (ii) locally which is known as local audit or inspection, at the site of the offices of the departments of Governments or authorities and bodies through examination of their accounts, books, papers and other documents. The latter audit is done through establishing branch offices known as concurrent residential audit offices, or/ and through local audit by sending peripatetic parties at periodical intervals. Central and local audit playa complementary role to each other. In determining the nature and extent of audit, cognisance is taken of the effectiveness of the internal audit system obtaining in the departments or agencies of Government and authorities and bodies.

15.9 In the course of scrutiny of accounts and transactions of Government, Audit is entitled to make such queries and observations and to call for such accounts, books documents, vouchers, returns and explanations in relation to them, as it may consider necessary in the interest of proper discharge of its duties. All queries and observations shall be couched in a courteous and impersonal language. Audit should confine itself to calling upon the Executive to furnish any necessary information and in cases of difficulty, it should confer with the Executive as to the best means of obtaining the evidence which it requires.

15.10 In the scrutiny of accounts and vouchers the following procedure should be observed. The actual person performing the original audit, who will be usually basic level auditor, must apply the rules strictly. It cannot be expected that these basic level auditors who perform the detailed audit will have the judgment or breadth of view necessary to exercise the discretionary powers mentioned in the preceding paragraph. But once the detailed audit has been carried out strictly and every infraction of rule brought to light, it will be for the competent Audit Officer to exercise the discretion vested in him by Government and to determine the cases in which the objections which might be raised under the strict letter of the law can be waived. If the objection is of such a nature that it cannot be waived, it will be the duty of the Audit Officer to press it firmly but in courteous and impersonal language. In carrying out this audit, the audit officer should remember that exceptional cases may arise in which it is desirable to relax formalities which would be followed strictly in ordinary cases; but the circumstances must be really exceptional before rules are relaxed, and even then the relaxation must be of formalities rather than of essentials.

15.11 Audit depends for its effective value on its right and duty to report results to the proper authority so that appropriate action may be taken to rectify the irregularity or impropriety, where possible, or to prevent a recurrence of it. It is in the treatment of result of audit that the auditorial function demands the highest qualities of understanding balanced judgment and sense of proportion.

Audit as an aid to Government

15.12 Audit is one of the instruments of financial control. It is, therefore, the duty of the Audit Officer to provide Government with all possible assistance within the sphere of his functions in financial matters. His normal attitude is the critical one, but the duty of criticism must not be developed to exclude the constructive faculty or constructive help. For example, when the Audit Officer is to inspect an office, he should not only point out mistakes but also indicate how they may be rectified and in future avoided; he should also suggest improvements in the system. He must educate as well as investigate.

15.13 The scrutiny of departmental files, paper and documents enables audit to know the background of the transactions and to have a better appreciation of the situation for considering if any objection has to be raised; thus, making available to audit freely the papers and documents demanded by audit helps both Audit and Administration in the matter of raising and settlement of objections. The roles of Audit and Administration are really complementary to each other. The aim and purpose of both are the same viz. to see that the departments keep to the path of financial rectitude and that the resources of the state are efficiently utilized with due regard to consideration of economy and financial propriety. It thus hardly needs any emphasis that the relationship between Audit and Administration the matter of obtaining information, papers and other documents for the purpose of audit should be cordial. It will greatly improve the relationship between Audit and the Administration and tone up the functional efficiency of Administration if audit objections are taken in the proper spirit and perspective and attended to promptly.

CHAPTER 16

REGULARITY AND PROPRIETY AUDIT

(A) AUDIT AGAINST REGULARITY

16.1 Audit against regularity consists in verifying that the expenditure conforms to the relevant provisions of the Constitution and of the Laws and Rules made there under and is also in accordance with the financial rules, regulations and orders issued by a competent authority either in pursuance of any provisions of the Constitution or of the Laws and Rules made there under or by virtue of powers formally delegated to it by a higher authority. In regard to directions which are of a financial or quasi-financial character issued by the President to a State, the Comptroller and Auditor General has a right to watch in audit their due compliance and bring to notice any cases in which he considers that they have been infringed.

16.2 The financial rules, regulations and orders against which audit is conducted mainly fall under the following categories:

(1) rules and orders regulating the powers to sanction and incur expenditure from the Consolidated Fund of India or of a State or of Union Territory with Legislature and the Contingency Fund of India or of a State or of a Union Territory with Legislature,

(2) rules and orders dealing with the mode of presentation of claims against Government, withdrawal of moneys from the Consolidated Funds, Contingency Funds of Government of India/State or Union Territory with Legislature and Public Accounts of the Government of India and of the States and in General the financial rules prescribing the detailed procedure to be followed by Government servants in dealing with Government transactions; and

(3) rules and orders regulating the pay and allowances, pensions and other conditions of service of Government servants.

16.3 The work of Audit in relation to regularity of expenditure is of a quasi-judicial character. It involves interpretation of the Constitution, Statutes, rules and orders with reference to the case law of previous decisions and precedents. The Comptroller and Auditor General has not, however, save in the case of rules made by himself, the final power of interpretation; this resides in the authority specified in the Constitution or the Authority which is the author of the rule or order so long as the interpretation is not against the orders of a superior authority or contrary to any established financial principle or rule.

Scrutiny of Rules and Orders

16.4 In relation to audit of expenditure against regularity, it is the duty of Audit to examine all financial rules and orders affecting expenditure and other transactions subjected to audit, issued by the Executive authorities to see that the audit of transactions which they govern, may be effectively conducted against them.

16.5 In the scrutiny of these rules and orders it should be seen in Audit that:

(1) they are not inconsistent with any provisions of the Constitution or of the laws made there under;

(2) they are consistent with the essential requirements of audit and accounts as determined by the Comptroller and Auditor General;

(3) they do not conflict with the orders of or rules made by, any higher authority; and

(4) in case in which they have not been separately approved by a competent authority, the issuing authority possesses the necessary rule making power.

16.6 In applying the second check prescribed in the preceding paragraph, the principle to be observed is that the discretion vested in authorities empowered to make rules is not to be fattered unnecessarily merely because difficulties may arise in the application of the necessary audit checks or in the maintenance of proper accounts. If the audit and accounts procedure can be amended without loss of efficiency or extra expense, the rule should be accepted and the procedure amended accordingly.

16.7 In applying the third check, the guiding principles enunciated in clauses (i), (ii) and (iii) of paragraph 20.8 should be observed. Further, if there is reason to think that undue advantage is taken of the provisions of any orders under which the rule is issued, audit may bring the case to the notice of the proper superior authority.

16.8 All orders of delegation of financial authority are scrutinized carefully, as once they have been accepted, audit of sanctions as well as of expenditure or other transactions may be conducted against them for any indefinite length of time.

16.9 Wherever it is felt that an order of delegation is likely to impair seriously the efficiency of financial control, the Finance Ministry or Department of the Government is addressed to review the order.

16.10 Scrutiny by Audit of Rules and orders under the provisions of para 16.4 above will not require the department to undertake a formal scrutiny of and thereby to make themselves responsible for the accuracy of Departmental Manuals when these, so far as financial accounting and audit matters are concerned, merely reproduce extracts from substantive codes, regulations, rules etc. When such manuals introduce any new detailed financial accounting or audit procedure, the Accountant General/Director of Audit concerned may advise whether the rules are intravires of the authority issuing the manual and in accordance with correct principles, but such advice is given in respect of specific individual rules and not on the manuals as a whole.

16.11 All general rules and orders of a financial character (including those relating a conditions of service) issued by the President are scrutinized by the Comptroller and Auditor General. Other rules and orders of a financial character issued by the President (which are not of a general nature but are applicable exclusively to specified Departments), and all rules and orders of a financial character issued by authorities subordinate to the President are scrutinized by the Accountant General/Director of Audit concerned.

16.12 All rules and standing orders of a financial character issued by State Government or by authorities subordinate to State Government are scrutinized finally by the Accountant General of the State concerned.

Interpretation of the Constitution, Statutes, Rules and Orders

16.13 As stated in paragraph 16.3, the Comptroller and Auditor General does not possess the final power of interpretation of the Constitution, the Statutes and of the Rules made and orders issued by the Executive Government. Interpretation by Audit should be based on the plain meaning of the Article of the Constitution, Section of the Statutes, rule or order except where this is inconsistent with another Article, Section, rule or order. In a case the inconsistency should be referred to the competent authority for resolution. In no case must interpretation by Audit ever verge on legislation. It is, however, the duty of Audit to bring to the notice of the competent authority any expenditure which does not seem to be covered by the terms of the Article, Section, rule or order quoted as justifying it, and which has been incurred by placing upon the Article, Section, rule or order an interpretation which may seem to it not to be a natural, plain, or reasonable interpretation. In the case of regulations framed by a department of Government, audit will accept what the department considers to be the correct interpretation of its own regulation, provided that such interpretation is not opposed to the ruling of any superior authority, or contrary to any established financial principle or rule. Such discretionary power of interpretation dose not, however, give a department a free hand to interpret its rules to suit particular cases in other than a natural or reasonable manner. So long as a rule or regulation remains unamended the department is bound by it. Rules should be carefully adhered to and where in practice it is found that some dissertation is necessary in the application of a rule, such discretion should be provided for in term with respect to that rule.

16.14 In the application of rules to concrete cases an Audit Officer may find that

(1) the application of the rule both in letter and spirit is clear; if there are special reasons which in any case render the decision inequitable it is for the administrative authorities and not for the Audit Officer to move in the matter.

(2) even though he is confident as to the correct interpretation of the rules, he may think that the wording might be improved: In that event he should give his decision and should suggest a revision to remove the apparent discrepancy between the spirit and the letter of rule, or between two conflicting rules.

(3) There is a real difficulty in interpretation and that he cannot decide how to apply the rules to that case. In that event he should refer the matter to the competent authority for a decision.

16.15 The intention of a rule made by Government can be ascertained authoritatively only by reference to the discussions leading up to the framing of the rule, that is, to the files of Government. Such files may be obtained by Audit Officers, but if they cannot be made available the intention of the rule must be ascertained as nearly as possible from the records of the Audit Office in which this or similar rules have been discussed.

16.16 The following two points should be kept in mind in interpreting orders-

(a) the orders of a sanctioning authority must generally be interpreted in terms of the communication in which the application for sanction was made; and

(b) the word ‘etc.’ in an order covers only similar cases of a like nature and not an instance where there is a difference.

(B) AUDIT AGAINST PROPRIETY

16.17 It is an essential and inherent function of Audit to bring to light not only cases of clear irregularity but also every matter in which in its judgment appears to involve improper expenditure or waste of public money or stores even though the accounts themselves may be in order and no obvious irregularity has occurred. Such audit, often called ‘Propriety Audit’. extends beyond the formality of the expenditure to its wisdom, faithfulness and economy (Hallam). It is thus not sufficient authority have been observed. It is of equal importance to see that the broad principles of orthodox finance are borne in mind not only by disbursing officers but also by sanctioning authorities.

16.18 No precise rules can, however, be laid down for regulating the course of audit against propriety. Its object is to support a reasonably high standard of public financial morality, of sound financial administration and of devotion to the financial interests of Government. Audit Officers in the performance of their duties should in any case apply the following general principles which have for long been recognized as standards of financial propriety.

(a) The expenditure should not be prima facie more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person or ordinary prudence would exercise in respect of expenditure of his own money.

(b) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

(c) Public moneys should not be utilized for the benefit of a particular person or section of the community unless:

(i) the amount of expenditure involved is insignificant; or

(ii) a claim for the amount could be enforced in a court of law; or

(iii) the expenditure is in pursuance of a recognized policy or custom.

16.19 While conducting Propriety Audit, audit will not only see whether there is proper authority for expenditure, but will also investigate the necessary for it. It will ask whether individual items were in furtherance of the scheme for which the budget provided; whether the same results could have been obtained otherwise with greater economy, whether the rate and scale of expenditure were justified in the circumstances.

CHAPTER 17

ECONOMY EFFICIENCY AND EFFECTIVENESS OF AUDIT

17.1 Before independence, Government audit was mostly confined to check of individual transactions against provision of funds, or rules and orders, or sanctions, or propriety of expenditure, which was quite effective and fruitful in detection of cases of improper, irregular, extravagant, wasteful or uneconomical expenditure. When the pattern of Government expenditure, its nature and dimensions underwent radical and rapid transformation in the wake of increasing Governmental outlays in developmental activities after independence, the inadequacy of the system of scrutiny of individual transactions was felt. It became essential and necessary for audit to ascertain whether the various developmental programmes and welfare activities are being executed efficiently and their operations conducted economically and they are producing the results expected of them. Scarce resources and larger demands on them called for ensuring that available resources are utilized efficiently and economically and yield results expected of them. The concept of efficiency-cum-performance audit or economy efficiency and effectiveness audit has accordingly been developed to meet the changing requirements and is applied to review the performance in terms of the goals and objectives of a project or scheme.

Meaning of the three Es

17.2 Economy is the practical systematic management of the affairs of a project or scheme which assures minimum operating costs for carrying out functions and responsibilities. Efficiency is the accomplishment of assigned goals, production targets or other specific programme objectives in a systematic manner which contributes to minimizing operating costs without detracting from the level, quality or timing of the service to be provided by the public entity, project or enterprise. Effectiveness is the adoption of a course of action which assures achievement of the clearly defined predetermined plans, objectives or goals at the lowest reasonable costs and in a practical manner within an established or agreed time frame.

Planning the review

17.3 The selection of the project/scheme for review is done with utmost care after making a preliminary study taking into account various factors apart from the financial outlay involved. Active co-operation of the concerned departments and their proper appreciation of the task taken up by audit being an essential pre-requisite for meaningful review, a pre-review discussion is held with the departmental authorities soliciting suggestions regarding areas/aspects to be taken up for study and assistance in making available the records and data.

Processing the review

17.4 In processing the review the following stages are involved:

(i) Preliminary study of the selected project/scheme.

(ii) Development of Audit Plan

(iii) Review Proper

(iv) Preparing the Review Report

Preliminary study of Selected Project/Scheme

17.5 The preliminary study of the project/ scheme is aimed at having a comprehensive insight into the broad picture obtained at the time of initial selection to locate areas/ aspects requiring an in-depth examination. Acts, rules and regulations, budget and plan documents, performance budget of the department, progress reports, administrative reports, periodical appraisals, reports by the departmental officers and external agencies, if any, like working/ study groups of Planning Commission, Public Accounts Committee, Estimates Committee, Bureau of Public Enterprises reports etc. would provide the necessary background material for carrying out this study. Such a study helps in understanding the idea of the scheme, its aims and objectives, financial targets and actual expenditure, the agencies executing the schemes etc.

17.6 While conducting review of a project, it is necessary to understand the nature of the project right from the stage it is conceived. It is therefore seen during the preliminary study:

(i) Whether adequate surveys have been made before launching the project.

(ii) Whether proper feasibility reports were prepared.

(iii) Whether there is a detailed project report and if there are deviations, why these deviations have taken place.

(iv) Whether the specification/ performance of the various items of equipment is properly matched without leaving large idle capacity in any one of them and whether there is an effective system of materials management.

(v) What contracting systems have been laid down.

(vi) What are the operational problems and how they are got over.

(vii) Whether the project is functioning as it should be.

Development of Audit Plan

17.7 A specific plan of audit is chalked out in advance indicating the guidelines for investigation, marking out the offices/field units to be visited and the overall strategy for collecting relevant data, and the time allotted for completing the review. Necessary format and questionnaire are also prepared for collection of important data relating to the various aspects of the scheme not only from offices or units proposed to be visited but also from other units for being made use of for consolidation while framing the review. Man-power planning carrying out the detailed review is equally given importance.

Review Proper

17.8 The approach of audit is systematic, methodical, logical and rational. The review always commences with an in-depth study of the files in the offices of the concerned administrative Department and other Heads of Department. While scrutinizing the records, it has to be seen whether:

(i) the objectives of the project/scheme/organization have been clearly defined and are in conformity with the policies and decisions of Government

(ii) the programmes have been drawn up in accordance with these objectives and are being implemented by specific and well defined procedures.

(iii) A good monitoring/management information system exists for collecting reliable data as well as progress reports on implementation of the policies and programmes and whether the data is effectively utilized to improve organization or remedy deficiencies with utmost speed.

(iv) Proper built-in control mechanisms in the prescribed system exist to have an effective control over various areas of implementation of check leakages, losses, avoidable and wasteful expenditure, etc.

(v) Specified performance indicators exist if not, the procedure followed or yardstick/norm prescribed to assess the performance of the project/scheme have to be ascertained and their validity determined.

17.9 The next stage is carrying out the studies and collecting information from the selected field units. The examination and audit scrutiny of selected samples of transactions and study should be thorough and complete without the need for a second visit to the same offices. In order to have reasonably reliable audit findings, it is necessary that sample size taken up for detailed check in audit is adequate and is fairly representative of the whole. To elicit maximum information, it is useful to discuss details of the project/scheme with the officers of the institutions visited.

17.10 The review work, thus, involves in-depth study of project programmes, organizational set up, managerial process including systems, checks and controls, research and development, personnel policies and management, material management, budget and accounts work etc. Efficiency evaluation is a complex and multifaceted problem which needs not only technical skill but also a high degree of developed and abundant common sense.

Preparing the Review Report

17.11 This is the final stage of the review. The data collected or obtained from departmental offices and unit offices are consolidated for interpretation and detailed analysis. By careful, detailed and analytical dissection of the findings of investigations made at different stages, the review report is prepared highlighting major irregularities like non-realization of social and economic objectives, non-observance of time schedule and cost estimates, over-capitalization, large over-head expenditure, over-staffing, idle personnel, work backlogs, delay in construction of projects resulting in increase in expenditure, absence of trained manpower, plants operating below rated capacity, excessive inventories, absence of sound pricing policy, unauthorized occupation of government lands, idle plant and equipment, leakage or revenue, over payments, losses due to pilferages or non-observance of proper procedures, improper, avoidable or infructuous expenditure, etc.

CHAPTER 18

CENTRAL AUDIT AND LOCAL AUDIT

18.1 The system of central audit is confined to the offices of the Accountants General (Audit) located in the different States. Central Audit is based on the Accounts, vouchers, schedules and other documents submitted to them by the various disbursing outlets like Treasuries, Public Works/Forest Divisions and other Departmental Authorities as also the copies of sanctions endorsed to them by the various sanctioning authorities. It is conducted through Central Audit Parties at the Headquarters of each office. Separate duties and responsibilities have been assigned to each member of the Central Audit Party to ensure accountability and identification of performance in execution of work.

18.2 The following are the duties and functions carried out in Central audit:

(a) audit of sanctions, agreements, etc.,

(b) audit of vouchers and monthly accounts according to the quantum;

(c) recording of the objections in the Objection Book and issue of the objection memos and pursuance with the concerned departments;

(d) scrutiny and certification of the Finance Accounts and Appropriation Accounts.

18.3 Central Audit is by and large regularity and propriety audit. The principles laid down for such audit are kept in view while conducting central audit. In checking the vouchers furnished in support of the accounts, the more important points to which the auditor devotes his attention are:

(a) that the vouchers are in the prescribed form, that they are duly receipted by the payees, that they are in original and that sub vouchers contains notes of dates of payment;

(b) that the details work up to the totals and that the totals are in words as well as in figures;

(c) that they bear a Pay order, signed by the Treasury Officer in the case of vouchers cashed at treasuries or by the responsible disbursing officer in the case of other vouchers;

(d) that they are stamped “paid”,

(e) that there are no erasures and that any alterations in the total are attested by the officer concerned as many times as they are made,

(f) that receipt stamps are affixed to vouchers, where necessary and that they are punched;

(g) that except in cases in which it is specifically authorized no payment is made on a voucher or order signed by a subordinate instead of the head of the office himself and that copies of sanctions are certified by the sanctioning officer or by a gazetted officer authorized to sign for him;

(h) that, in all cases in which it is prescribed that agreement should be effected between two different documents, the fact of the agreement is noted on both the documents and the note initialled by the person who makes the agreement;

(i) that if a treasury voucher be paid by transfer, it is stamped as having been so paid, that the head to which the amount is credited is noted on it, and that the credit is traced in the Cash Account when possible;

(j) that fund and income-tax deductions have been made in strict conformity with the rules.

(k) That no claim against Government not preferred within the time limit prescribed by Government has been paid without the authorization of the Accountant General where so required by the State Financial Rules.

18.4 As mentioned earlier, Audit conducted in a Central Office of the Indian Audit and Accounts Department is based on accounts rendered to that office by the various disbursement outlets. The major portion of the original records, namely, the initial accounts and other books or papers on which the accounts so rendered are based, are retained in the offices where they originate. To enable him to assure himself of the accuracy of the original data on which the accounts and his audit work are based, the Comptroller and Auditor General has authority to inspect any office of accounts which is under the control of the Union or of a State Government, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts, as submit accounts to him. This authority is exercised by the officers of the Indian Audit and Accounts Department on behalf of the Comptroller and Auditor General.

Objects of Inspection and Local Audit

18.5 The primary objects of inspection are (i) to see that the initial accounts from which the accounts rendered by departmental officers are compiled, or on which they are based, are properly maintained in the prescribed forms and that financial rules and orders are being carried out, and (ii) to test the degree of care exercised by the departmental authorities responsible for keeping the accounts over the accuracy of original records. At the same time a test audit is applied to such accounts, vouchers etc., as are not audited in the Central Audit office or as cannot be checked adequately except at a local audit. In inspections the purpose of this test audit is to provide the material upon which a conclusion regarding (i) and (ii) above may be reached.

18.6 Local audit may be distinguished from inspection in that its purpose is to audit the initial accounts maintained in certain Government institutions and offices on the spot. Here the duties of audit are not confined merely to seeing whether the initial accounts are maintained in proper form or whether the financial rules are properly observed but a test audit of accounts is conducted in sufficient detail to verify the accuracy and completeness of accounts according to the prescribed rules for the audit of expenditure and receipts of the Union and State Governments.

(A) INSPECTION

Inspection of Treasuries

18.7 The object of inspection of treasuries by an Audit Officer is to assist the Revenue authorities in establishing a system of treasury working strictly in accordance with the prescribed rules. It is not intended that those authorities should be relieved of their responsibilities for management and inspection, but the Inspection Audit Officer should see generally that the rules prescribed by Government are understood and observed. He may also be asked to undertake any special enquiry which Government desires to be made. He is required to see:

(i) that the procedure observed at treasuries meets all the requirements of audit and that accounts are properly maintained; and

(ii) that orders regarding this custody and handling of cash and other valuables and the control of balances are duly observed.

No responsibility for physical verification of balances of cash, stamps, or opium, however, rests on the Inspecting Audit Officers or indeed on the Indian Audit and Accounts Department.

18.8 Where audit on the spot has been prescribed, this is conducted at the inspection. For this purpose, the original vouchers and other accounts documents requiring examination or verification are brought from the Audit Office, and the check of these documents previously exercised by the Treasury Officer is reviewed completely.

18.9 The scope of the inspections of treasuries is extended also to seeing, on behalf of the Government concerned or the Reserve Bank as the case may be (i) that the orders issued by the competent authority regarding the custody and handling of treasure and the control of the balances are duly observed, (ii) that the standing order relating to coins, currency , and remittances of treasure are clearly understood by the Treasury Officer and his staff, and duly observed in practice, and (iii) that the registers and forms prescribed for recording receipt and disposal of Securities are maintained correctly.

18.10 The Inspecting Officer sees that irregularities brought to notice at the previous inspection have been remedied and that the correct procedure is being observed in respect of all matters, the procedure relating to which was considered defective previously.

Inspection of Public Works Divisions

18.11 The primary objects of inspection are (i) a test audit of such accounts, vouchers etc., as are not audited in the audit office or as cannot be checked completely except at a local audit; (ii) an examination of initial accounts from which the accounts rendered by Divisional Officers are compiled or on which they are based, so that it may be seen that those accounts are properly maintained in the prescribed forms and (iii) a review of the work of Divisional Accountant posted by the Accountant General so that it may be seen that the Accountant discharges his duties with efficiency.

18.12 The inspecting officer do not merely confine himself to the routine audit and inspection work. He is allotted one major work or two minor works, whether completed or in progress, for a complete analysis and examination of these accounts since commencement. He also avails himself of the opportunity of assisting the officers of the Public Works Department with his advice in matters affecting the accounts or the financial regularity of transactions. He also finds scope for making suggestions bearing on the economy of public money.

18.13 For example, in a public works division he may find that there are chronic delays either in measuring work done or in making payments after measurements have been taken and that such delays lead to enhancement of rates. He may notice that no attempt is made to introduce competition amongst contractors, or that the arrangements for giving out contracts for work or supplies are otherwise so defective as to suggest that possibly Government does not receive full value for payment made.

(B) LOCAL AUDIT

Necessity for local audit

18.14 The main purpose of the local audit is to conduct a test check of the accounts for a particular period to verify the accuracy and completeness of accounts. It is also seen (a) that the vouchers not required to be sent to the Audit Office are kept on record duly cancelled and (b) that entries in the local accounts are properly vouched.

General arrangements for local audit

18.15 The periodicity, scoop and extent of local audit of the departmental offices and offices of authorities and bodies whose audit is entrusted to the Comptroller and Auditor General are determined by the Comptroller and Auditor General. Based on the guidelines issued by the Comptroller and Auditor General, the Accountants General/ Directors of Audit prepare an annual programme of inspections on the basis of offices to be inspected and the periodicity for inspection of different offices. The periodicity is decided with reference to the quantum of contingent expenditure incurred and the importance of the units on the pattern of administration obtaining in each State. Local audit is conducted by sending peripatetic parties to the departmental offices periodically or through establishment of concurrent resident audit officers at the site of the departments or agencies concerned.

18.16 The classes of accounts with which the local audit staff deals are so varied that any general rule and instruction applicable to local audits could not possibly be laid down. The essential object of accounts of any institution is to present a definite financial picture and intelligent audit is impossible unless there is some consideration of the general financial picture as well as investigation of the details of the transactions, the mass of which work to the financial result. The local audit staff before taking up the audit of any particular institution has, therefore, to study the system of accounts and books prescribed, to see why they have been prescribed and how far they fulfil the desired end. The staff members have also to consult the periodical administrative report or any other Government publication, where the accounts of income and expenditure of the institution appear, to obtain a correct perspective of the financial side of the institution. An important element of local audit is the examination of adequacy and efficiency of internal control procedures. The economy and efficiency with which various development programmes and schemes are implemented and programme results achieved is also checked in local audit.

18.17 The initial and subsidiary accounts are examined to see that they are properly maintained in the prescribed form; that financial rules and orders are being carried out and that adequate care and scrutiny are being exercised by the departmental officers to ensure their accuracy. The tender documents leading to the award of a contract for a work or supply of machinery, equipment, stores etc., the contract, the design and estimates, the project feasibility report, periodical appraisal reports of a project, cost documents, papers leading to a financial sanction or decision etc., are scrutinized. The purpose of this local test audit is to provide the material for reaching a conclusion in regard to proper maintenance of initial and subsidiary accounts and observance of financial rules and orders.

Audit of Establishment Charges

18.18 The pay allowances, overtime allowance claims, children’s education claims, reimbursement of tuition fees claims and T.A. Bills are checked with reference to the local records kept in the departmental accounts offices to satisfy about the correctness of the certificates on the basis of which the claims have been drawn and to see that the rules and regulations in regulating such claims have been followed.

18.19 The service books are checked to see that (i) a service book is maintained for every non-gazetted Government servant (ii) entries of all events in the official carrier of a Government servant made in the service book and attested by competent authority; (iii) no alteration is made in the date of birth without the sanction of competent authority; entries in the front page are re-attested every five years; (iv) annual certificate of verification of service is recorded in the service book. Entries is pay columns are verified with reference to the office copies of the pay bills for the month or months selected for detailed audit to see that they agree. The quantum of checks of service books has been prescribed so that each service book will be verified once in four years as the service books are the only documents for verification of pension.

18.20 In the service books selected for check, the correctness of pay and increments allowed to the Government servant from time to time for the period to which the check of service books relates, is also to be checked.

18.21 It is also checked that no payment has been made to a Government servant beyond his attaining the age of superannuation or on the expiry of term of extension of service sanctioned by competent authority. The audit endorsement duly signed by the incharge of the inspection party is required to be made in the service books checked during the local audit.

18.22 A test check of the leave accounts including accounts of persons likely to retire or likely to complete 30 years of qualifying service are checked in detail.

Results of Inspection and Local Audit

18.23 The results of the inspection and local audit are set forth in two separate documents:

(i) the inspection report detailing the more important defects of procedure and financial irregularities and describing briefly the general state of the accounts and the nature of the financial control over transactions;

(ii) the Test Audit Note dealing with errors and minor irregularities which are not important enough to be brought to the notice of higher authority.

18.24 As a rule trifling matters which, can be and have been set right on the spot or are of no consequence to the finances of Government, are not mentioned, but if a number of similar points are noticed, they are brought to notice, mentioning the type of error or irregularity with one or more instances, so that proper instructions may be issued for future guidance of the Government servants concerned. Improper and irregular individual transactions are identified and cited as examples to demonstrate the significance of faculty practices and promote the acceptance of constructive recommendations designed to save money, avoid improper payments or other losses or promote operational efficiency.

18.25 The statements and figures in relation to any defects or irregularities evidence. Instead of quoting the rules or the order violated, the actual or possible effect of such deviation on the financial interest of Government is to be explained clearly. Particular care is taken in regard to the language and tone of the report.

18.26 The Inspection Report is completed by the Inspecting Officer before the audit of the office inspected is closed and it is not signed until the officer-in-charge of the Office (or any other officer acting on his behalf) has been given the opportunity for reading and discussing it and suggesting any omissions or modifications. The inspection report is kept as brief as possible but the points raised in it are pursued until finally settled. The Test Audit Notes does not require a reply in detail, but it is verified at a subsequent inspection that necessary action has been taken on it.

CHAPTER 19

AUDIT OF RECEIPTS

19.1 Under the Audit and Accounts Order, 1936 as adapted, audit of receipts accruing under Debt, Deposit and Remittance heads and of those included in the subsidiary accounts of Government Commercial undertakings devolved on the Comptroller and Auditor General under paragraph 13(1) of the Order and is conducted in such manner and to such an extent as may be prescribed by him. The Comptroller and Auditor General may, with the approval of and shall if so required by, the President or the Governor of State, audit and report on the receipt of any Department of the Union or State and for this purpose the President or the Governor may, after consultation with the Comptroller and Auditor General, make regulations with respect of the conduct of audit of such Department.

19.2 The position in this regard has undergone a radical change with the coming into force of the Constitution. Article 151 of the Constitution and Section 49 of the Government of Union Territory Act, lay down that the Reports of the Comptroller and Auditor General of India relating to the accounts of the Union/Union Territories with Legislature and the States shall be submitted to the President or the Governor/Administrator, as the case may be, who shall cause them to be laid before each House of Parliament or Legislature. The reports of the Comptroller and Auditor General must relate to the totality of the accounts of the Union and of the States and thus cover not only the expenditure, but the receipts as well. Article 151 of the Constitution and Section 49 of the Government of Union Territories Act, 1963 thus lay on the Comptroller and Auditor General the duty for auditing the accounts, not only of expenditure, but also of receipts of the Union/ Union Territories with Legislature and the States.

The Comptroller and Auditor General's (Duties, Powers and Condition of Service) Act 1971 clearly reflected the above position by explicitly stating audit of all receipts so the duty of the C&AG.

19.3 Due to historical reasons, the audit of receipts has not been so pervasive as audit of expenditure. Receipts of the Customs, Public Works and Forest Departments were audited by the Auditor General for a long time. The checks exercised in audit were confined to seeing that (a) sums due are regularly recovered and checked against demand; and (b) sums received are duly brought to credit in the accounts. The detailed audit of receipts of the other major revenue earring departments like Income Tax, Excise, Sales Tax etc., was taken up in 1960

Nature of Revenues

19.4 Government revenues, i.e. Government receipts other than those under fund, deposit and loan heads of account, may be classified as tax revenues and not-tax revenues. Taxes are collected by the State for general purpose of the community; these do not involve any direct quid pro quo from the State to the tax payer. Taxes are generally levied as direct taxes and indirect taxes. Sometimes these are divided as personal taxes and taxes on services and commodities.

19.5 Not-tax revenues, on the other hand, involve some quid pro quo; these are, generally, receipts in return for supplies and services rendered by the State and include contractual receipts like those from sales of forest produce, gross revenues of service organizations or public utilities like road transport or railways and also surpluses of State commercial enterprises.

19.6 The levy and collection of a tax are regulated by substantive and procedural provisions of a law. A Non-tax revenue, on the other hand, is generally governed by a contract, a tariff or general financial rules and regulations. A tax assessment is a quasi-judicial act; a non-tax revenue is purely an administrative decision. This distinction governs the principles of audit of the two tax revenues.

Statutory Authority

19.7 With the passing of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 the audit of all receipts is vested in the Comptroller and Auditor General under an express provision in the Act in the following words:

"It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon".

19.8 The Comptroller and Auditor General now audits all tax and non-tax receipts of the Union, States and Union Territories. The more important of these receipts are:

(i)	Tax Receipts		
	(a) Union	Direct Taxes	Income Tax, Wealth Tax, Gift Tax, Estate Duty
		Indirect Taxes	Duties of Customs; Duties of Excise
	(b) States	Direct Taxes	Agricultural Income Tax; Taxes on profession,
		Indirect Taxes	Sales Tax, State Excise Duties, Motor Vehicles Tax, Stamp Duty, Entertainment Tax, Land Revenue, Taxes on Electricity
(ii)	Non-tax Receipts		Forest revenue; Royalties from Mines and Minerals; Irrigation receipts; Registration Fee; Other rents and fees; Interest Charges, Penalties.

Interpretation of law

19.9 Interpretation of law is a judicial function. Audit his therefore, to be regulated mainly with regard to the statutory provisions as judicially interpreted. Audit may well point out cases where there is an apparent lacuna or loophole in the law or where certain provisions in their actual working do not apparently bring out the true legislative insertion. As for the rules, regulations and instructions issued by the Revenue Departments under their delegated powers, or the exemptions granted by them, Audit has to see that these are issued by competent authorities after following the procedures prescribed by law and in accordance with the guidelines laid down in the law.

Function of Audit

19.10 The most important function of audit is to see (1) that adequate regulations and procedure have been framed by the Revenue Department to secure an effective check on assessment, collection and proper allocation of taxes; and (2) to satisfy itself by adequate test check that such regulations and procedure are actually being carried out. Audit also makes such examination as it thinks fit with respect of the correctness of the sums brought to account.

19.11 The Audit Department does not, in any substitute itself for the Revenue Authorities the performance of the statutory duties, but Audit satisfies itself in general that the departmental machine is sufficiently safeguarded against errors and fraud, that so far as can be judged, the procedure is calculated to give effect to the requirements of law.

19.12 It is not the duty of Audit to review a judicial decision nor does it consider it any part of its duty to passes in review the judgment exercised or the decision taken in individual cases by officers entrusted with those duties, but it must be recognized that an examination of such cases may be an important factor in judging the effectiveness of assessment procedure. Where, for example the information available on an individual case is insufficient, to enable audit to see how the requirements of the law have been complied with Audit may consider it its duty to ask any further information to enable it its duty to ask any further information to enable it to form the judgment required of it as to the effectiveness of the system. It is, however, to forming a general judgment, rather than to detection of individual errors of assessment etc. that the audit enquiries should be directed. The detection of individual errors is an incident rather than an object of audit.

19.13 Any obvious errors in computation of assessment etc., can be pointed out in audit leaving it to the administrative authorities to set right errors by adopting such legal course as they may deem necessary.

19.14 Where any financial rule or order applicable to the case prescribed the scale or periodicity of recoveries, it will be the duty of Audit to see as far as possible, that there is no deviation without proper authority from such scale or periodicity. When this check cannot be exercise centrally, a test audit may be conducted local inspections, the aim being to “apart from due realisation of particular debts” of rules or defects of procedure are not such as to lead to leakage of revenue.

19.15 Ordinarily, audit will see that the internal procedure adequately secures correct and regulating accounting of demands, collections and refunds that no amounts due to Government are left out standing on its book without sufficient reasons and that the claims are pursued with diligence and are not abandoned or reduced except with adequate justification and with proper authority. Audit should carefully watch any outstanding dues and suggested to the departmental authorities any feasible means for their recovery. Whenever any dues appear to be irrecoverable, orders for their waiver and adjustment should be sought. But unless permitted by any rule or order of a competent authority no sums may be credited to Government by debit to a suspense head. Credit must follow and not precede actual realization.

19.16 To sum up, the most important function of Audit in relation to assessments, collections and refunds is to satisfy itself by such test checks as it may consider necessary that the internal procedure adequately provides for and actually secures:

(1) the collection and utilization of data necessary for the computation of the demand or refund under the law;

(2) the prompt raising of demands on tax payers in the manner required by law;

(3) the regular accounting of demands, collections and refunds;

(4) the correct accounting and allocation of collections and their credit to the Consolidated Fund;

(5) that proper safeguards exist to ensure that there is no omission or negligence to levy or collect taxes, or to issue refunds;

(6) that claims of tax payers are pursued with due diligence and are not abandoned or reduced except with adequate justification and proper authority;

(7) that double refunds, fraudulent or forged refund orders, or other losses of revenue through fraud, default or mistake are promptly bought to light and investigated.

19.17 The procedure prescribed for raising and pursuing audit objections in relation to expenditure including power of Audit Officers to waive recovery of Government dues under certain conditions shall apply mutatis mutandis in respect of audit objections on any account of receipts.

Customs Audit

19.18 The audit of customs revenue is limited to receipts under the Customs Act, 1962 and includes all receipts of every description under that Act Customs Revenue is collected at the various Customs Stations comprising Customs Ports, land customs stations and Customs Airport. The audit of the various customs stations is entrusted to the Accountants General, Bihar, Gujarat, Kerala, Punjab, Rajasthan, Tamil Nadu, and Uttar Pradesh and Directors of Audit Central Bombay, Central Calcullta and Central Revenues, New Delhi according to the locations of the Customs stations in their respective jurisdictions.

19.19 The audit of customs documents is a test audit on a percentage basis conducted by resident audit parties stationed in major customs houses. Particular cases are taken up for audit and followed through the various prescribed processes to see that the regulations and procedures have been observed and indicate no defect in system or laxity on the part of the executive. The audit so conducted is purely financial and not in the nature of an administrative audit or inspection, The audit of Customs documents may be broadly categorized under two parts:

(i) The day-to-day scrutiny of current documents in the customs house involving a general review of all such documents and the detailed check of the percentage of them. These documents are (a) bills of entry; (b) shipping bills; (c) bills of export; (d) in-to and ex-bond bills; (e) baggage declarations and baggage duty receipts; and (g) postal transactions.

(ii) Audit of ships file (import and export). It is at this stage that ordinarily the audit of procedure is carried out and audit sees that the department accounts satisfactorily for all goods which enter the customs area and also for those liable to duty which are exported there from.

19.20 The audit staff also carries out a test check of payments like refunds, and drawbacks to see that they are in accordance with the statutory provisions, rules and regulations.

Audit of Central Excise Duties

19.21 Central excise duty is levied and collected on all excisable goods which are produced or manufactured in India as and at the rates set forth in the first schedule of the Central Excise and Salt Act, 1944. Audit of Central Excise Receipts and Refund mainly consists in seeing that the rates as laid down in the first schedule have been correctly applied as per tariff description and classification and that the levy and collection of duties, including granting of refunds, are in accordance with the statutory provisions of the Act and the rules made there under.

19.22 Central excise control, including levy and collection of duties on excisable goods, now operates under two different systems, viz.

(a) Physical Control

(b) Self-removal Procedure

(a) Physical control- Under this system, production and clearance of excisable goods is, inter alia, subjected to daily physical supervision by the Central Excise Officers without whose approval as recorded in the various assessment documents and the gate passes, no goods, can be removed outside the factory.

(b) Self removal procedure- Under this system, a manufacturer can himself remove the goods from the factory on payment of duty in the prescribed manner without the intervention of any Central Excise Officer. A manufacturer is required to file a monthly return in the prescribed form to the Central Excise Office (in charge) for scrutiny of the value or quantity of goods removed and finalization of assessment.

19.23 The system of physical control previously applicable to all excisable commodities has now been restricted to a few commodities, viz. Khandsari Sugar, unmanufactured tobacco, all types of mineral oils, paints and varnishes, paper cotton yarn and fabrics, jute manufactures. All other commodities come under the system of self-removal procedure (e.g. tea, steel products, wireless receiving set, patent and proprietary medicines, motor vehicles, etc.).

19.24 In respect of units governed by the self removal procedure, it has been made obligatory on the part of an assessee to produce all the accounts and return (whether the same are prescribed under the statute or not) to the audit parties.

19.25 The audit of central excise receipts is conducted at two levels:

(a) Review and test check of all initial assessment documents maintained by central excise ranges and factory/ warehouse units under both the systems (i.e. physical control and self-removal procedure); this is done by the peripatetic parties.

(b) Review of the work of departmental internal audit conducted by the chief accounts officer for each central excise collectorate. This is done by a concurrent audit party.

19.26 The Chief Accounts Officer receives copies of most of the initial assessment documents from the range/factory officer for internal scrutiny and record. He also deceives a copy of duty paying account (viz. treasury challans in Form AR I or DDI as the case may be) independently from the Treasury Officer. Audit undertakes a review of the check exercised by the chief accounts officer and sees that the prescribed percentage of checks is being followed by him. It is also the duty of audit to satisfy itself that the system of check prevalent in the subsidiary records and registers maintained by the Chief Accounts Officer's office are adequate and properly designed to detect irregularities. Audit has in particular to ensure that every assessment document is duly vouched for by treasury challans or other duty-paying documents which are independently supplied by the Treasury Officer to the Chief Accounting Officer. This check provides the most effective safeguard against payment of duty by licensees under forged treasury challans.

19.27 The broad outlines of the techniques of central excise revenue audit including those followed by the peripatetic parties, may be stated as follows:

(a) A study should be made of the manufacturing process of the commodity/commodities concerned with special reference to the raw materials used and the excitability or otherwise of products formed in the intermediate stage, with a view to satisfying in audit that duty is levied on all excisable materials and that the charge to duty is raised as soon as the goods are in a fully manufactured condition, and not deferred to a subsequent stage.

(b) Correctness of the classification of goods for the purpose of assessment should be invariably examined from all possible angles.

(c) Any assessment at Concessional rate of duty should be supported by an appropriate exemption notification. It should be specially seen whether the notification has been correctly applied.

(d) Executive instruction of the Central Board of Excise and Customs authorizing non-levy/ concessional levy should be carefully examined in audit.

(e) Where the classification and the rate of duty depend on the test reports of the Chemical Examiner, they should be scrutinized in detail.

(f) All kinds of processing loss and storage loss should be examined to see that the losses were properly attributable to bonafide causes and were not unduly more than what could be justified by genuine causes like drayage etc.

(g) Movement of goods enjoying special concession/exemption for their use in specified industrial processes should be examined with reference to relevant documents to ensure that goods were not diverted for other uses.

(h) In respect of goods falling under the self removal procedure the raw materials should be correlated with the finished product with the help of the master formula of production which the licensee is required to submit to the Collector. Other collateral factors like labour, fuel etc. should wherever possible be taken into account in examining this aspect.

(i) Judicial decisions and standard definitions given by Indian Standard Institute and other recognized bodies should be applied with a view to interpreting the tariff in case of doubt and determining the correct basis of assessment.

Export of excisable goods outside India

19.28 Under the central excise rules full rebate of duty paid on excisable goods exported out of India is admissible subject to certain conditions as laid down under the rules. Goods can also be exported under bond without payment of duty. Apart from the fulfilment of certain factors regarding the periods during which (i) the goods are to be exported and (ii) the claim for rebate is to be put up, etc. it should be specially seen in audit that no rebate of duty was granted on accidental losses of duty paid goods occurring between completion of excise formalities on shore and shipment. The rebate allowed should be restricted to duty equivalent of the quantity of goods actually exported.

Audit of refund bills

19.29 Claims of refunds arise in the following cases:

(1) Rebate of duty on goods outside India;

(2) Revision of duty when the duty ahs already been paid;

(3) Ad hoc refunds allowed by Government to encourage the production of expert of certain goods;

(4) Cost of damaged labels, unused central excise stamps, license fees on rejected applications;

(5) Fines and penalties subsequently waived.

While conducting audit of refund bills, the prescribed checks are exercised by audit.

Modvate scheme

19.30 Modified Value Added Tax has been introduced through the Finance Act, 1986 and has been effective from March 1, 1986.

19.31 The MODVAT scheme allows the manufacturer to obtain instant and complete reimbursement of the excise duty paid o the components and raw materials used as inputs for the final product. The scheme has been introduced for all goods covered by 73 specified chapters of the Central Excise Tariff Act, 1985 excluding the following:

Tobacco;

Mineral oils etc;

Matches;

Specified chemicals; and

Textiles and Textile articles.

19.32 Proforma credit given will cover both excise duty and additional duty of customs also known as counter-vailing duty. Items outside these chapters availing proforma credit and benefits of set off under any erstwhile schemes would be allowed to continue to get relief to the extent the revised tariff headings permit. However, the MODVAT scheme and the erstwhile schemes to the extent they are continued, will be mutually exclusive.

19.33 Audit of Receipts under MODVAT scheme is done by verifying that:

(i) MODVAT credit is allowed only when the inputs and final products fall under any of the 73 Chapters prescribed in the scheme.

(ii) In respect of the intimation which the manufacturer has to send to the concerned Assistant Collectors about the articles on which he proposed to have MODVAT credit and the product that he would manufacture out of those articles, the dated acknowledgement has been obtained and that the articles used and final product manufactured correspond to his earlier declaration.

(iii) MODVAT credit is not allowed in cases where the final product manufactured is assessable to nil rate of duty or is wholly exempt from duty.

(iv) The credit taken in respect of duty paid on raw materials or component parts should be checked with reference to the amounts of duty mentioned on Gate pass, ARI, Bill of Entry or any other document accompanying the raw materials or component parts evidencing the payment of duty.

(v) Where the same input is used for different finished products, some of which are not dutiable, credit is taken for that part attributable to inputs which are used for the manufacture of dutiable finished products only.

(vi) It has to be seen that MODVAT is not made available for duty paid on non-consumable capital goods used for the manufacture of final products.

(vii) In so far as allowing credit of duty is concerned, it has been allowed in relation to Basic excise duty, special excise duty and counter-vailing duty only and such credit has been utilized for payment of basic excise duty only; and

(viii) The excise duty paid on inputs removed for home consumption or for export under bond with the permission of the Assistant Collector is not less than the credit taken by the manufacturer earlier.

State Receipts

19.34 The basis and procedure for levy and collection of taxes and non-tax revenues are regulated by:

(a) Laws as are enforceable in different States.

(b) Rules framed under the relevant acts and

(c) Judicial decisions and executive instructions interpreting the provisions of the Acts and Rules.

Auditor is therefore required to be fully conversant with the relevant Acts and Rules of the respective Governments.

CHAPTER 20

AUDIT OF EXPENDITURE

20.1 Every payment of money on Government account involves three principal processes:

(a) the submission of a claim;

(b) the disbursement of the money claimed; and

(c) the incorporation of the transaction in the accounts.

It is clear, however, that a disbursing officer must have some criterion whereby he can judge the equity of a claim made and can justify his action in making a payment in satisfaction of it. We have, therefore, to consider what conditions regulate public expenditure.

20.2 The incurring of expenditure from the Consolidated Fund of India or Consolidated Fund of Union Territory with Legislature or the Consolidated Fund of a State is governed by the following essential conditions:

(i) that there should exist sanction, either special or general, accorded by a competent authority, authorizing the expenditure

(ii) that there should be provision of funds authorized by competent authority fixing the limits within which the expenditure can be incurred;

(iii) that the expenditure incurred should conform to the relevant provisions of the Constitution and of the laws made there under and should also be in accordance with the financial rules and regulations framed by competent authority;

(iv) that the expenditure should be incurred with due regard to broad and general principles of financial propriety.

Duty of Audit

20.3 In conducting the audit of expenditure Audit has to see that the administrative authorities comply with the essential conditions mentioned in the preceding paragraphs. Therefore, the audit of expenditure follows the line of these conditions.

20.4 In conducting the audit in respect of the first three conditions mentioned in para 20.2 the auditor performs quasi-judicial functions, in that he has to apply the rules and orders as they stand, irrespective of the position of the person against whom they are enforced. He may not relax or waive the rules, except where he is specially empowered to do so.

Nature of sanction audit

20.5 The power to sanction expenditure from the Consolidated Fund and the Contingency Fund of India including power to dispose of property and stores pertaining to the Union Government is vested by Article 77 (3) of the Constitution in the President whose sanction, given directly or by persons to whom the necessary powers have been delegated, is necessary to all expenditure from that Fund. The power to sanction expenditure from the Consolidated Fund of a State and the Contingency Fund of a State if such a fund is established in any State is like-wise vested by Article 166 (3) of the Constitution in the Governor of the State whose sanction given by himself or by persons to whom the necessary powers have been delegated, is required for expenditure from that the Consolidated or the Contingency Fund of the State. There is similar provision in the Government of Union Territories Act 1963 vesting the authority in the Administrator of the Union Territory. Audit of expenditure should not merely be confined to seeing that the expenditure is covered by a sanction, either general or special, but should extend to satisfy itself that the authority according a financial sanction is competent to do so by virtue of the powers vested in it by the provisions of the Constitution and of the Laws, Rules or Orders made there under or by the rules of delegation of financial authority made by a competent authority and that the sanction is definite and needs no reference to the sanctioning authority itself or to any higher authority. This check is otherwise known as Audit of sanction. Though the duty of audit in this regard is thus very simply stated, the conduct of this audit is complicated and its complexity lies in the knowledge and the correct application of the principles involved. Audit Officers have to conduct this audit with the utmost care and attention as once a sanction is accepted in audit, the expenditure may have to be passed against it for a length of time. In order to conduct the audit of sanctions properly it is, therefore, incumbent upon Audit Officers to make themselves fully conversant with the powers of sanction of the several authorities.

Communication of sanctions to audit

20.6 The Indian Audit and Accounts Department is entitled to receive a copy of an order sanctioning expenditure or a sanction which is otherwise to be enforced in audit from the authority competent to accord the sanction. The procedure of communicating such sanctions to audit is determined by the Rules of Business of the Government concerned.

In the case of petty matters, such as contingent expenditure, sanction may be regarded as being accorded by the signature or the countersignature on a bill; and in such cases it is the duty of Audit to see that no item in the bill actually requires the sanction of an authority higher than the singing or the countersigning officer.

Audit of sanction of the Government of India and of Government of the States

20.7 The audit of financial sanctions and orders of the Government of India and of Governments of the States/Government of Union Territories with Legislatures as well as of authorities subordinate to them devolves on the Audit Officer concerned but sanctions and orders issued with the concurrence of the Comptroller and Auditor General require no further audit check.

Certain guiding principles governing sanction audit

20.8 In the audit of sanctions to expenditure the guiding principles enunciated below are observed:

(i) if the sanctioning authority is vested with full powers in respect of certain class of expenditure, a sanction accorded under those powers can be challenged by Audit only on grounds of propriety;

(ii) if it is vested with powers which may be exercised provided due regard is paid to certain criteria which are expressed in a general form, sanctions accorded under those powers can be challenged by audit-

(a) if the disregard of the criteria is considered to be so serious as to make the sanction perverse, or

(b) if the facts of the case are such as to make the Audit Officer confident that one or more of the criteria have been disregarded.

(iii) if it is vested with powers which are expressed in precise terms, the Audit Officer is bound to ascertain that the order defining its powers is obeyed exactly in every instance;

(iv) for the purpose of financial sanctions, a group of work which forms one project shall be considered as one work and the necessity for obtaining the sanction of a higher authority to a project is not avoided by reason of the fact that the cost of each particular work in the project does not require such sanction;

(v) if any one item of a scheme requires sanction of a higher authority, Audit should hold under objection any expenditure on that item until sanction to it is obtained and in determining whether objection should be raised to expenditure on any other portion of the scheme prior to the receipt of such sanction, Audit should see that the expenditure is not likely to exceed at a later date the limit up to which sanction can be accorded by the original sanctioning authority; and

(vi) in the case of sanctions to new schemes of expenditure, Audit should see whether a satisfactory accounting procedure has been evolved, and the detailed cost and time schedules, physical targets and other objects of the expenditure are duly laid down by the sanctioning authority.

20.9 Recurring charges which are payable on the fulfilment of certain conditions or till the occurrence of a certain event are admitted in audit on receipt of a certificate from the drawing officer to the effect that the necessary conditions have been duly fulfilled or the event has not yet occurred, as the case may be.

20.10 Sanctions with a long period of currency, as well as sanctions of a permanent nature should be reviewed periodically so that, if there is any reason to think that the Administrative Authority concerned should be invited to review the sanction, such action may be taken.

Nature of Audit against provision of Funds

20.11 Audit against provision of funds is directed primarily to ascertaining that the money expended has been applied to the purpose or purposes for which the Grants and Appropriations specified in the Schedule to an Appropriation Act passed under Article 114 or Article 204 of the Constitution were intended to provide and that the amount of expenditure against each grant or appropriation does not exceed the amount included in that Schedule.

20.12 Each Grant or Appropriation specified in the Schedule to an Appropriation Act is a single total sum appropriated to the purpose set out in it. The particulars of a grant in that schedule are, however, based on the detailed estimates drawn up for the information of the Legislature. The distribution in these estimates between the various sub heads and detailed heads (units of appropriation) gives broadly the purposes for which the grant is made and the expenditure should be recorded against the Grant, the sub-heads and detailed heads of the Grant under which provision is made for service.

20.13 Audit has to satisfy itself that the expenditure which is being audited falls within the scope of a Grant or an Appropriation specified in the Schedule to an Appropriation Act and that it is within the amount of that Grant or Appropriation Expenditure in excess of the amount of a Grant or Appropriation as well as expenditure not falling within the scope or intention and Grant or Appropriation unless regularized as laid down in Article 115 or Article 205 of the Constitution, should be treated as unauthorized expenditure within the meaning of Article 114(3) and 204(3) ibid.

The responsibility for watching the progress of expenditure against a Grant or Appropriation devolves on the executive and the executive is ultimately responsible for keeping the expenditure within the Grant or Appropriation. Audit will however render all legitimate assistance to the executive in this matter and should see that suitable and adequate arrangements exist in all departments of Government for the control of expenditure.

Appropriation Audit

20.14 Besides watching that the total expenditure under a Grant or Appropriation does not exceed the amount of that Grant or Appropriation as specified in the Schedule to an Appropriation Act. Audit has the responsibility of ensuring that the total expenditure on each of the sub-heads fixed as units of appropriation under a grant or Appropriation does not exceed he allotment there of as modified by orders of reappropriation passed by competent authority from time to time.

20.15 Unless it is otherwise desired by Government as a special case, or where there is an division of superintending control between departmental authorities under a sub-head appropriation audit check will not be exercised beyond sub-heads of a Grant or Appropriation fixed as units of appropriation.

20.16 The selection of sub-heads of a Grant or Appropriation which are fixed as units of the appropriation, rests with Government, but if the selection of the sub-heads is such as to make it difficult to apply the essential principles of appropriation audit, the Accountant General can legitimately suggest to the Finance Ministry/Department the desirability of revising them in the next year's estimate.

20.17 Detailed appropriation audit is conducted in two stages:

(i) Sanction audit, i.e. audit of orders of allotment of funds and reappropriation which are to be enforced in audit; and

(ii) Audit of expenditure against allotments. The audit of orders of allotment are reappropriation consists in seeing-

(a) that an authority making allotments under a Grant or Appropriation does not allot amounts in excess of those available under the Grant or Appropriation;

(b) that the amount appropriated is available under the unit from which it is allotted;

(c) that the order is issued by competent authority; and

(d) that the amount reappropriated is not in respect of an expenditure constituting a 'New Service' or a 'New instrument of Service'.

Note- Reappropriations from one Grant or Appropriation to another Grant or Appropriation are not permissible, as such reappropriations will have the effect of reducing and increasing the amounts of the grants or Appropriation concerned as specified in the schedule to the Appropriation Act and will thus be ultravires of the provisions of the Constitution.

20.18 The Accountant General may also be required to see on behalf of the Executive Government that:

(a) if under the financial rules of the Government a particular object of expenditure requires as specific allotment, all expenditure on it is audited against such allotment; and

(b) if a lump sum allotment is made for a group of items of expenditure of an office, the total expenditure thereon is audited against the lump sum places at the disposal of the disbursing officer for the purpose. When, however, several officers are authorized to incur charges relating to a unit of appropriation against a lump sum allotment placed for the purpose at the disposal of a single higher authority, it devolves upon this authority to watch the progress of expenditure in all the offices and to keep the aggregate charges within the allotment. If the Accountant General is required by Government to audit the charges against the allotment he will comply with the request.

20.19 The responsibility in regard to appropriation audit as mentioned above is confined only where the accounting functions continue to be with the Comptroller and Auditor General. In other cases where the accounts are kept by a separate organization not subordinate to the Comptroller and Auditor General, the responsibility for similar checks vests with that organization.

20.20 The guiding principles in regard to audit against regularity and propriety and Efficiency cum-Performance Audit are incorporated in Chapter 16 and 17.

Audit of contingent expenditure

20.21 The principal duties of Audit in respect of the several classes of contingent charges are explained in the following paragraphs.

Contract contingencies- The rules governing contract contingencies differ in the sphere of different Governments, the principal variations being in the classes of expenditure brought under the contract system and the department to which the contract system and the department to which the system has been extended. In some cases the contract grants are provided direct to the disbursing officers while in others the contract grants are paced at the disposal of controlling officers, who distribute them annually among their subordinates, reserving a small portion for subsequent allotments in case of need. In spite of these and other minor variations the essential features of the system are common to all Governments. No details of the expenditure beyond such totals of the various contract items as may be required for purposes of classification, need be furnished in the bills; and disbursing officers are held personally responsible for any expenditure in excess of the contract grant until the excess is sanctioned by competent authority.

Scale regulated contingencies- Contingencies regulated by scale include such charges as cost of liveries, rewards for destruction of wild animals, batta to witnesses and the like. The authority prescribing the scale lays down the conditions precedent to its application in each case, making it clear whether special sanction of superior authority is necessary, whether bills should be countersigned before or after payment, and what certificates should support the bills. In accordance with the conditions so laid down, charges regulated by scale may become special, contract, countersigned or fully vouched contingencies and should be audited vouched contingencies and should be audited under the rules applicable to the particular class within which they fall. In addition the Audit Officer should satisfy himself that the charges incurred are in accordance with the scale which governs them.

Special contingencies- In respect of special contingencies where sanction is accorded by Government or departmental controlling authorities, systems and procedures followed in drawing and disbursing offices to limit the expenditure to the sanction and to abide by the terms and conditions, if any, prescribed in the sanctions should be specially seen during local inspections. When a sanctions does not contain an indication of the amount or limit of expenditure sanctioned, enquiry should be made from the authority which issued it and charges should not be admitted in audit until complete sanction is received.

Countersigned contingencies- In cases where bills are countersigned after payment, the money is actually drawn on an abstract bill, and the approval of the superior authority as indicated by its countersignature is subsequently received by Audit on the monthly detailed countersigned bill. Both the abstract bill and the detailed monthly bill require scrutiny in audit. The scrutiny of the abstract bill is limited to seeing that it is signed by an officer authorized to sign such bills, that the summations are correct and that there is nothing extraordinary or unusual in it. The amount of the bill is held under technical objection until the receipt of the detailed monthly bill duly countersigned together with the necessary sub vouchers. The monthly detailed bill is checked carefully and it is seen further that the bill is duly countersigned that the charges included in it cover the amount drawn from the treasury on abstract bills and that details of charges are given where necessary. Differences or disallowances in detailed bill are noted for recovery and adjustments are made if necessary on account of misclassifications, In cases where countersignature is required before payment, there will be no abstract bill, but payment will be made on a detailed bill. The audit checks will be the same as in the case of detailed bills countersigned after payment.

Fully vouched contingencies- Payment of fully vouched contingencies will be made on detailed bills and audit will be conducted as in the case of bills countersigned before payment.

Relative responsibilities of controlling and audit authorities

20.22 A comparison of the relative responsibilities of the controlling officer and the Audit Officer in regard to contingencies shows that the duties of the former are more onerous that those of the later; it is more difficulty to decide whether expenditure is necessary than whether it is unusual and whether rates are reasonable than whether they are apparently extravagant. At the same time the Audit Officer also has to determine, as far as possible, whether the controlling officer is doing his work adequately and this is perhaps his most important duty in respect of contingent expenditure. It is incumbent on Audit to challenge extravagant rates, prices or amounts in charges not otherwise objectionable in character and to refer for orders any item of expenditure which is positively objectionable or even of doubtful propriety. A charge should not, however, be held to require the special sanction of Government merely because it is unusual in the sense that it does not occur at frequent intervals.

Audit of payment against contracts

20.23 Payments charged to contingencies are sometimes made against contracts entered into by Government for supplies of material etc. The contracts placed by Government mainly fall into the following categories

1. Contracts placed on suppliers in India;

2. Contracts placed on suppliers abroad either-

    (a) through the agency of the Supply Mission , attached to Indian Embassy at Washington; or

    (b) on FOB basis subject to inspection by that Mission; or

    (c) direct without the intervention of the supply Mission, Washington;

(d) through the agency of the Stores Department attached to the High Commission in London.

There are detailed procedures of payments against such contracts and arrangements for their audit (including audit of the contracts themselves).

Verification by Audit Office

20.24 It must be admitted that it would be impossible for Audit to verify the initial facts unless a representative of the Audit Department were present at every act vouched by the certificates that accompany proof of payments. These acts include the payment of the pay and allowances of and the journeys performed by every Government servant, the measurement of all work done by and for the Public Works Department and the verification of Government stores of all description including coin, stamps and other valuables. It is obvious, then, that the Audit Department could not verify the actual facts without a very much large establishment and the extra expenditure thereby involved would undoubtedly be disproportionate to the advantages obtained.

Part played by Countersigning and Controlling Officer

20.25 The recognition of this fact has led to the check exercised by Audit being supplemented to a large extent by executive check. Work done and paid for in the Public Works Department is inspected by superior officers of that department travelling allowance bills are checked by countersigning authorities who are in a position to have knowledge of journeys performed, bills for important contingent expenditure are countersigned by controlling officers who can verify and judge the necessity for such expenditure and the proper rates of payment and can satisfy themselves at inspection that the materials billed for have been purchased.

20.26 As regards the verification of original records relating to the receipt of money, where such receipts are required to be audited by the Indian Audit and Accounts Department, the position is explained in Chapter 19.

20.27 Because this work is not done in the Indian Audit and Accounts Department, there is a tendency in the executive departments to overlook its importance and to consider that it would be better done if it were undertaken by the officers of the Indian Audit and Accounts Department. But, although the latter have the technical training in checking accounts, executive officers have an intimate knowledge of the details of the work and are in a better position to verify the facts and to check the economy in the expenditure passed by them than outside officials would be. Audit has, therefore, to depend largely upon the Executive in this respect. It is, however, the duty of Audit Officers to scrutinize, with reference to the records submitted for Audit, the manner in which the executive officers discharge their financial responsibilities; and in order to supplement this scrutiny, a local inspection, including a test audit of the original records of the treasuries. Public Works divisions and (where possible and desirable) other important account units, is conducted periodically by the Audit Office.

20.28 Audit is, however, not entitled to make independent enquiries among the tax payers or the general public as such action is held to be an encroachment on the functions of the Executive. Audit should confine itself to calling upon the Executive to obtain and furnish the necessary information; and in cases of difficulty, it should confer with the Executive as to the best means of obtaining the evidence which it requires.

Detection of fraud

20.29 It has already been pointed out that commercial audit regards the detection of fraud as one of its main duties. But such detection is almost impossible except at the verification of the original records, and so the detection of fraud in an Audit Office in India is rare. And yet it must not be hastily assumed that this indicates a defect in the system of Government audit in India. The detection of fraud by an executive officer is frequently due to the letter issued by the Audit Office plainly indicating that something is wrong.. Thus in one case, the Audit Officer pointed out that the accounts rendered to him by one Public Works Division were not supported by treasury's acknowledgements of remittances stated to have been made nor were these acknowledgements received for a long period and that the treasury had also denied receipts of some of the remittances. Subsequent investigation conducted by the department led to the detection of frauds amounting to more than a lakh of rupees over a period of two years.

Numerous similar cases can be quoted showing that action by the Audit Office has led to the detection of fraud. Frauds are also detected at the local inspections which give the expert eye of the trained auditor an opportunity to detect in the original records suspicious factors which could no come to notice in the Audit Office.

20.30 It is essential to investigate frauds care fully because valuable lessons can almost always be learnt from them. There is a tendency to suggest the framing of new rules to prevent each particular fraud. This tendency should be resisted; there are quite enough rules already and if the preventive machinery is made too elaborate, the chances are that it will not work efficiently. The main point in every fraud investigation must be to ascertain whether the exercise of ordinary common sense, such as one ought to expect from every Government official, and the application of existing rules, would not have rendered the fraud impossible. The importance of this line of investigation should always be borne in mind, because fraud is prevented far more by punishing the person guilty of the defalcation and the official whose negligence rendered the fraud possible than by adding to the enormous number of rules already in existence. But fraud investigation may sometimes indicate a defective system of check and then the revision of the system is essential.

CHAPTER 21

AUDIT OF CONTINGENCY FUNDS AND PUBLIC ACCOUTNS

21.1 Under section 13(b) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Comptroller and Auditor General is responsible for audit of all transactions of the Union and of the States relating to Contingency Funds and Public Accounts. Expenditure under Contingency Funds has the same characteristics as any expenditure under the Consolidated Fund except that authorization of such expenditure by the concerned Legislature could not be obtained in advance. Public Accounts embrace debt, deposits and remittances and suspense heads. Transactions under debt/deposit heads comprise receipts and payments in respect of which Government becomes liable to repay the moneys received or has a claim to recover amounts paid together with repayments of the former and recoveries of the latter. Remittances embrace all transactions which are taken to merely adjusting heads of accounts, the debits or credits under which are eventually cleared by a corresponding credit or debit either within the same or in another circle of audit. Suspense heads accommodate temporarily, transactions which can not be taken in to final heads or which represent amount due to or from others and are cleared by transfer to final heads or recovery or payment as the case may be.

(i) AUDIT OF CONTINGENCY FUNDS

(ii) AUDIT OF PUBLIC ACCOUNTS

21.2 The principles, scope and extent that govern audit of expenditure from Consolidated Fund apply equally to audit of expenditure met out of advances from Contingency Fund.

General Principles

21.3 The general principles and rules of audit which govern audit of expenditure apply mutatis mutandis to disbursement s under Debt, Deposit, Remittance and Suspense heads. In the case of a repayment, Audit should check the payment against the original receipts and should satisfy itself that the repayment is made according to the rules, regulations or orders which govern the transactions. Similarly, in the case of a payment subject to recovery, Audit should ascertain that the payment conforms to the authority which governs it and has further to watch that the moneys are regularly repaid by the debtor.

21.4 It is an important part of the duties of Audit to review and verify the balances under Debt/ Deposit heads and the outstanding under suspense and Remittance heads as disclosed in the books of Accounts Officer at the close of the year. The first step in the process of this verification is to see how far the final results of any detailed account kept of the transactions work up to and agree with the balances in the ledger. The next step is to ascertain, where necessary, whether the person or persons by whom the balance is owed or to whom it is due, admit its correctness, and in case of balances due to Government how far they are really recoverable.

Sinking Funds

21.5 In auditing the transactions connected with the Sinking Funds regularly constituted for the redemption of loans raised by Government, the Audit Officer has to satisfy himself that credits to these funds are in accordance with the undertaking given by Government and set forth in the prospectus of the loans and that the payments are eventually utilized for the purpose for which the funds themselves were created.

21.6 The general principles in accordance with which the adequacy of the amortization arrangements should be examined are set out below:

(1) Amortization arrangements for loans for unproductive purposes may be related to some extent to the period of maturity of the loans and also to the chances of growth of the particular type of unproductive debt. It is however, sounder and more prudent to relate the arrangements rather to the object of the borrowing than

to the currency of the actual loans. The period ought to be comparatively short where the expenditure on unproductive purpose should more properly be met from revenue, where the assets constructed from the loan are comparatively short-lived, or where the total of the borrowings for the unproductive purpose is likely to increase rapidly. Where material asset is produced the amortization period should never exceed the life of the asset.

(2) The arrangements for the amortization of loans for productive purposes must again depend on the particular circumstances of each case. Where the net earning power of an asset substantially exceeds the interest on the debt, it may not be necessary to suggest amortization; it should be recognized however, that it is sound and prudent financial policy to make amortization arrangements even in connection with the most productive debt. In the case of borrowings to finance loans to cultivators and others, the actual recoveries of principal may be sufficient for debt repayment if used for that purposes provided all losses etc., are written off to revenue. Where depreciation or renewal reserves are constituted for the replacement of assets constructed from loan fund, amortization is often omitted altogether or its rate scaled down; but here again the remark made about productive loan is valid. Normally the rate of amortization should be related to the life of the revenue producing asset for the construction of which the debt was incurred.

21.7 In discharging the responsibility for audit of transactions connected with the Debt Redemption Scheme of the Union Government or of any such scheme adopted by a State Government, it should be seen that the conditions of the schemes are scrupulously observed that is, the annual debits against revenue under the scheme are calculated strictly in accordance with the approved programme, that the appropriations for reduction or avoidance of the debt are applied to the objects for which the money has been set aside and that liquidation of debt proceeds at the rate and on the lines prescribed.

Investment

21.8 Audit is responsible for keeping a watch over investment of funds forming part of the Public Account of India or of a State. It is to be seen in audit that the investments made on account of any regularly constituted Sinking Fund or other fund administered by Government are of the category authorized by the statutory provisions or instrument by which the fund is governed. When there is no governing statutory provision or instrument, proper authority for the investment should be demanded. The principle also applies to the investment of cash balances of the Union or of a State Government. The Audit Officer is required to take up promptly with the Government any cases of investment which he considers to be unauthorized, irregular or unsound. Any ascertained losses connected with investments or unusual depreciation in the market price of any investment are also reported to Government in a suitable manner with such comments as may be considered appropriate.

Service and Provident Fund

21.9 The audit of transactions pertaining to Service and Provident Funds controlled by Government mainly consists in seeing that the transactions conform to the rules or regulations governing the administration of each Fund and any subsidiary instructions issued thereunder. Having first satisfied itself that subscriptions to a Service or Provident Fund are received only from such Government servants as are either required or permitted by the rules of the Fund to subscribe to it. Audit will watch that subscriptions and any other dues recoverable under the rules of the Fund are duly and regularly recovered from the Government servant concerned. In the case of Contributory Provident Funds, Audit will also examine that Government’s share is properly calculated and brought to account. Finally, Audit is to verify that the accounts of the funds are correct both in total and in the detailed accounts of the subscribers.

Reserves and Reserve Funds

21.10 There exist a number of Reserve and Reserve Funds in the Deposit Section of the accounts of the Government of India and the States which have been created for specific and well defined purposes and are fed by contributions or grants from the revenues of the Union and the State or from outside agencies. In relation to the transactions pertaining to such Funds, Audit is required to see-

(1) that the transactions are classified and accounted for according to the prescribed principles; and

(2) that the transactions conform to the rules or orders governing the administration of each fund made by a competent authority.

Audit should also verify the balance at the close of the year standing in the account of each fund.

Deposits

21.11 In the case of moneys received to be held as deposits with Government, Audit has to satisfy itself that the money can properly be credited to the Public Account of India or of a State by virtue of a statutory provision or of general or special orders of Government. Audit has also to see that no item is credited as a revenue receipt or in reduction of ordinary expenditure of that Government. In respect of repayments of deposits, Audit is required to examine that there are proper vouchers in support of the amount repaid and to check each repayment against the original receipt either individually or against the total credit in a particular account in order to see that repayments do not exceed the amounts originally received and credited to Government. The check of individual items of repayments against original deposits is done during local audit.

21.12 It is also the function of Audit to see that balances in deposit accounts are correctly carried over from year to year, that the balances at the close of the year in each account are acknowledged as correct by the person or body concerned where necessary ad practicable and that any deposits remaining unclaimed for such periods as may be prescribed by Government in this behalf are duly credited as revenue receipts of Government.

Loans and Advances by Government

21.13 Government disbursed loans and advances to public and quasi-public bodies and individuals. Some of these loans and advances are made under specific laws, other for special reasons or as a matter or recognized policy. Except in the case of loans and advances made under special laws or in respect of which Government has issued any general rules or orders, Audit may require that the reasons for making it as well as the conditions on which it is made are stated in full in the orders sanctioning the loan or Advance. Audit may also enquire the reason for any unusual condition, e.g., remission of interest in an individual case. Audit should see that the conditions of repayment of a loan or an advance are complied with by the debtor and should exercise a close watch over payment of principal and realization of interest, if any. In reviewing the outstanding loans and advances, Audit will pay special attention to irregularities in repayment, acknowledgement of balances and unrealisable and doubtful assets.

21.14 In respect of loans and advances the detailed accounts of which are kept by him, the Audit Officer is required to report without delay any default in payment, either of principal or of interest to the authority which sanctioned the loan or the advance. If that authority enforces any penal interest upon the overdue instalments of interest or principal and interest it will be the duty of audit to watch its recovery.

21.15 Any information which may come to the notice of the Audit Officer in the course of his official business in respect of the financial position of a debtor should be communicated by him confidentially to Government with such comments as he may think fit. This duty should be performed by the head of the Audit Office personally with the utmost care and discretion.

Suspense Accounts

21.16 Under Suspense heads are recorded all such transactions as are ultimately removed either by payment or recovery in cash or by book adjustment.

Audit of transactions under Suspense heads consists not only in applying the ordinary procedure of audit of expenditure and receipts but also in seeing:

(1) that the unadjusted balances under these heads continue to represent bonafide assets or liabilities of Government, capable of being realized or settled, as the case may be, and

(2) that satisfactory action towards such realization or settlement is being taken by the officers responsible therefor.

21.17 All balances under Suspense heads have to be reviewed at short intervals so that it may be secured that no item remains unadjusted longer than is reasonably necessary to bring about its clearance in the ordinary course with due regard to the rules applicable to each case.

Remittances

21.18 In the audit of Remittance transactions it has to be seen that debits and credits are cleared either by receipt or payment in cash or by book adjustment under the relevant Service or Revenue heads of account or have been paired off by corresponding credits or debits within the same or in another account circle. An important Part of this audit is to scrutinize the balances from month to month in order to effect their early clearance and to determine the accuracy of the outstandings at the end of the year.

CHAPTER 22

ACCOUNTING AND AUDIT OF DEPARTMENTAL COMMERCIAL UNITS

22.1 The undertakings, whether of the Central or State Governments, which are run on commercial lines can be broadly grouped into any one of the following three categories:

(i) Departmentally managed undertakings which form part and parcel of government activities;

(ii) Government companies and deemed government companies set up under the Companies Act where Government or Government - owned and controlled institutions own 51 per cent or more of the paid up capital;

(iii) Corporations set up under the specific Acts of the Legislature.

22.2 The principal difference between departmental concerns and the other types of concerns is in the degree and extent of autonomy allowed to them. Departmentally managed concerns are directly under a Ministry or Department of Government and are subject to Government rules and procedure (sometimes with minor modifications). Government corporations and companies, on the other hand, are governed by separate Acts of Parliament/legislature which contain detailed provisions regarding their scope and functions etc. or by the Companies Act, 1956.

The succeeding paragraphs describe the provisions relating to Departmental Commercial Units*.

Accounts

22.3 An accounting system must be framed in such manner as will provide the management of the concerns with information as to the details of the

* Government Corporations Companies are dealt with in Chapter 31.

transactions of the concerns as well as the financial results of the operations.

22.4 In the case of departmental undertakings the responsibility for the introduction of a commercial Accounting System rests with the Finance Ministry or Department of the Government of India or of the State but a Commercial Accounting system will not be introduced without consultation with the Audit Officer concerned. The Audit Officer is responsible for seeing that the system that may be adopted conforms to the fundamental principles of accounts and audit.

22.5 Departmental concerns maintain accounts on a single entry system (as distinct from the double entry system in vogue in commercial accounts) and on a cash basis i.e. their accounts only show the actual receipts and disbursements during the accounting period and do not include assets or liabilities accrued during the period.

22.6 For the purpose of ascertaining the profit or loss arising out of the year's transactions, these concerns prepare a proforma Trading and Profit and Loss Account and Balance Sheet annually. For this purpose, it is necessary, first, to put the accounts on a double-entry basis; this is usually done by entering the total figures of receipts and expenditure under each head (such as establishment, stores etc.) in a journal and thereafter into various ledger accounts; and secondly, to bring in the additional liabilities and assets (such as debts and claims) accrued during the year (e.g. including debts acquired for purchases made during the year, excluding payments made during the year of debts acquired in previous years etc.). These will also be journalised and posted to the relevant ledger accounts. The trial balance is then compiled from the totals of the various ledger accounts and the Profit and Loss Account and the Balance Sheet prepared in the usual way.

22.7 For the purpose of determining the capital to be shown on the Balance Sheet, the net cash withdrawals from the treasury and the net book adjustments made for services rendered by other departments are taken into account, as also the Profit and Loss up to the date of the Balance Sheet.

Audit

22.8 The duties of the auditor commence when those of the accountant have been completed. The accountant and his staff write up the books of accounts and prepare therefrom at the end of the year or half-year, as the case may be, the manufacturing, Trading, Profit and Loss Accounts and the Balance Sheet which are placed eventually before the auditor. It is impossible to lay down rules or regulations which are applicable without exception to all audits and auditors must, therefore, use their own judgement whether the general rules are applicable to the audit in which they are engaged.

The main functions of audit, however, are:

(a) to secure that the commercial accounts present a full and true picture of the financial results of the undertaking in terms of commercial ideas of liability and assets, debit and credit, profit and loss;

(b) to ensure that subsidiary accounts are so prepared as to render it possible to compare, as far as may be, the relative efficiency of Government trading and manufacturing institutions with one another or with similar institutions not controlled by Government;

(c) to verify the correctness of the allocation of expenditure between capital and revenue, the valuation of assets upon a reasonable basis, and the adequacy of provision for depreciation and bad debts.

22.9 An auditor has frequently to accept the results of what is known as ‘internal control’. The following are examples of what are known as internal checks: a periodical examination by the Superintendent of a concern of cash book vouchers or petty cash vouchers, including the additions of the cash book and petty cash book, and the balancing of the cash book periodically with the bank or treasury pass book, a periodical examination of debtor's accounts; the calling over of the postings of the day books and journal into ledger by clerks who have no duty connected with the writing up of these books and the posting of them into ledger accounts; a system of continuous stock verification; or the checking of pay rolls by clerks who are in no way connected with the preparation of the rolls.

22.10 It is an important part of an auditor's duty to scrutinize the system of internal control in order to see that it is adequate in itself and as independent in character as circumstances permit, and to assure himself that the system is being applied efficiently. The extent of the scrutiny to be applied should depend on the adequacy of the system of internal control and on the completeness and accuracy with which it is being applied.

22.11 Authority for audit of all Trading and Manufacturing and Profit and Loss Accounts and Balance Sheet of departmental concerns vests with the Comptroller and Auditor General.

Results of Audit

22.12 A synopsis of the results shown by the Proforma Profit and Loss Accounts and Balance Sheets of Departmental concerns together with audit reviews of selected concerns incorporating also their proforma accounts in a simplified form, and any salient feature of the Financial Review drawn up by the Administration are included in the Comptroller and Auditor General's Audit Reports which are presented to Parliament/State Legislature each year.

Parliamentary Control

22.13 Parliamentary Control over departmental undertakings is the same as over any Government Department. These concerns derive their finances from the Budget allocations of the Administrative Ministries/ Departments; their receipts go into the Consolidated Fund of the Union/State and their payments have to be made from the fund within the grant voted for the purpose by Parliament/ State Legislature.

CHAPTER 23

AUDIT OF GRANTS-IN-AID

23.1 Grants-in-aid are final payments in the nature of donation or subscription to the grantees. The following paragraphs apply to the audit of the grants-in-aid made by Government to another Government, Body. Institution, concern or individual. They do not apply to Statutory grants-in-aid to State Governments etc. which are charged on the Consolidated Fund of India under certain specific provisions of the Constitution (for example Article 275).

Authority

23.2 Sections 15(1) and (2) of the Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act, 1971, describe the functions of the Comptroller and Auditor General in the case of grants or loans given to any body or authority for specific purpose. This section has two parts. The first part imposes a statutory responsibility on the Comptroller and Auditor General of India to scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfilment of the conditions subject to which such grants or loans are given. The second part gives him the right of access to the books and accounts of the authority or body in receipt of such grants or loans. These are subject to the following:

(i) the authority or body is not a foreign State or international Organization;

(ii) the President/Governor/Administrator concerned may, in public interest, by order, relieve the Comptroller and Auditor General after consultation with him, from making any such scrutiny in respect of any body or authority.

(iii) The right of access to the books and accounts of any corporation where the law establishing it (or the rules and regulations framed under that law) provides for audit by an agency other than the

Comptroller and Auditor General of India, is available only if authorized by the President or the Governor or the Administrator, as the case may be. Such authorization is made after prior consultation with the Comptroller and Auditor General and after giving the concerned corporation a reasonable opportunity of making representation with regard to the proposal.

Audit

23.3 Audit can be applied (i) to the original grant itself, and (ii) to the expenditure which is subsequently incurred from it by the grantee.

23.4 Audit of the grant itself is conducted according to the general principles and rules laid down for the audit of expenditure from the Consolidated fund.

23.5 The extent of the audit of the expenditure incurred from a grant-in-aid by the grantee depends on whether the grant is conditional or unconditional. Where no conditions are attached to a grant, Audit is in no way concerned with the manner in which the grant is utilized by the grantee.

Where conditions are attached to the utilization of the grant, these usually take the shape of specification of the particular objects on which, or the time within which, the money must be spent. Whatever the nature of the conditions, Audit has to see that they are fulfilled.

23.6 Unless it is otherwise ruled by Government, every grant made for a specified object is subject to the implied conditions:

(i) that the grant will be spent upon that object within a reasonable time, if no time limit has been fixed by the sanctioning authority; and

(ii) any portion of the amount which is not ultimately required for expenditure upon that object will be surrendered.

Audit scrutiny, when applied, should pay due attention to these points.

23.7 When recurring grants-in-aid are made to an institution, Audit will as far as possible verify that the grantee continues to function as such institution and that the circumstances in recognition of which the grant was sanctioned still continue to exist.

23.8 In respect of grants to non-government or quasi-Government bodies or institutions, the Central Government have decided that where assets are to be acquired wholly or substantially out of Government's grants it should be laid down that assets should not without the prior sanction of the Government, be disposed of or utilized for purposes other than those for which the grants are sanctioned. The Audit Officer has, therefore, to watch compliance with these rules, or any similar rules issued by State Government in this behalf.

23.9 It is an important function of Audit to watch:

(1) that there is no tendency on the part of Government to go on disbursing fresh grants to a grantee when substantial amounts out of the earlier grants remain unutilised by him; and

(2) that the Executive Authorities have adequate machinery to keep a continual watch over the progress of expenditure from the grant and on the continued solvency of the grantee and the safety of the funds entrusted to him.

Audit should also try to ascertain how far the overall objectives of the major schemes for which grants-in-aid are disbursed by the Central and State Governments can be said to have been attained and that there is no wasteful expenditure.

CHAPTER 24

WORKS AND FOREST ACCOUNTS AND AUDIT

(A) PUBLIC WORKS ACCOUNTS

(a) Constitution of the P.W. Department

24.1 Organization- The department as a whole is generally divided into several branches e.g. Buildings, Roads, Irrigation, Public Health Engineering etc. - each branch in a State being generally in charge of a Chief Engineer who controls the Superintending Engineers.

24.2 For purposes of Public Works Administration, each State is generally divided into circles, each circle in charge of a Superintending Engineer. In the Central Public Works Department a functional cum territorial basis is adopted for constitution of circles. Each circle is divided into divisions which are again sub-divided into sub-divisions. The divisions are in charge of Assistant Executive Engineers/Assistant Engineers or Upper Subordinates who are called sub-divisional officers. The Executive Engineers and Sub-Divisional Officers are also called Divisional and District Engineers in some States.

(b) Relation with Treasury

24.3 Payments- Disbursing Officers of the Public Works Department obtain from the treasury the cash which they require for disbursement, in two ways either directly by bills drawn on the treasury or by means of cheques.

24.4 For the payment of pay and allowances of Government servants, bills are drawn on treasuries. In some states the funds to meet contingent charges are also obtained in the same manner. Such payments are brought to account in the treasury accounts in the same manner as similar payments for other civil departments and do not enter the Public Works accounts which the Divisional Officer submit to the Accountant General.

24.5 All other disbursements are made by Divisional Officers by cheques drawn on treasuries with which they are placed in account by the Accountant General. A Divisional Officer may also empower his sub-Divisional Officers to draw cheques against his own account with a treasury. He keeps a pass book in which each cheque paid by the treasury is recorded by the Treasury Officer. The pass book is sent periodically to the treasury for completion. At the end of each month, the Treasury Officer furnishes a certificate to the Divisional Officer showing the total amount of cheques paid during the month against his account. The Divisional Officer checks the certificates and the Pass Book with his accounts, makes out a list of cheques drawn but not cashed at the treasury and then submits the certificates with the list of uncashed cheques to the Accountant General in support of his account. The paid cheques are also sent to the Accountant General twice a month, by the Treasury Officer, in support of the lump debits in the List of Payments.

Receipts

24.6 Receipts realized by the officers of the department are remitted as soon as possible in lump into the treasury. With each remittance a remittance book accompanied by the usual challan is sent to the treasury and the treasury acknowledgement is recorded in this book. At the end of each month, the Divisional Officer prepares a consolidated receipt for the whole of the remittances made to each treasury for entire division and sends it to the Treasury Officer concerned, for signature. The Divisional Officer submits this receipt to the Accountant General alongwith his accounts.

(c) Preparation of initial accounts

24.7 Divisional and Sub-Divisional Offices- The Public Works Accounts units is the division and it includes one or more sub-divisions. To each divisional office is attached an Accountant, who is a subordinate of the Accountant General but is posted to the divisional office to check and compile the divisional accounts under the supervision and responsibility of the divisional officer. In some States viz. Andhra Pradesh, Jammu and Kashmir, Karnataka and Kerala, the cadre of the Divisional Accountants is, however, under the control of State Governments. Similarly the Divisional Accountants posted at C.P.W.D. Divisions are under the control of the Ministry of Urban Development.

(i) SUB-DIVISINOAL ACCOUNTS

Funds

24.8 A sub-divisional officer is placed in funds in one of the following ways:

(a) by a fixed imprest or permanent advance which he can have recouped on depletion;

(b) by transfer of cash from the divisional chest;

(c) by a drawing account against the Divisional Officer's account with a treasury.

24.9 He has a cash chest in which he places departmental revenue realized by him pending its remittance to the treasury, and also if he has drawing account with the treasury, all sums drawn on cheques which he is unable to disburse at once to the payees. If he is financed by a fixed imprest or an advance from the Divisional Officer's chest, he keeps the balance of the imprest/advance in his cash chest. Payments are made only on prepared bills duly passed for payment in cash from the chest in the case of imprests or advances, or by cheques where there is a drawing account. Cheques are drawn by the Sub-Divisional Officer usually in favour of the actual payees (contractors, etc.) but sometimes in favour of himself to replenish his chest when he has small payments to make.

Account Records

24.10 A sub-divisional officer's principal account records are (a) cash book; (b) muster roll; (c) Measurement book; (d) works abstract; (e) Records of Receipts and Issues of Stock, Tools and Plant and Road Metal.

(a) Cash Book- The cash book is the most important primary account record. All receipts and payments are posted into it daily. The sub-Divisional Officer regularly examines and initials it and is personally responsible for its correctness. It is balanced at the time of closing for the month and signed by the sub-Divisional Officer, who at the same time personally counts and certifies the cash balance.

(b) Muster roll- The muster roll, as its name denotes, is a nominal roll or list of labourers employed daily on works. There is generally a separate roll for each work. Payments on muster rolls are made and witnessed by the official of the highest standing available on the spot, who should certify to the payments individually or by groups, at the same time specifying both in words and in figures, at the foot of the muster roll, the total amount paid on each date.

In exceptional and urgent cases, labourers are employed casually for short periods and are paid on casual labour rolls by a Gazetted Officer or an upper subordinate.

(c) Measurement book- The measurement book is an initial account of the greatest importance in the Public Works Department. It is the basis of all accounts of quantities (and qualities) whether of work done by daily labour or by piece job or contract or of materials received. From the measurement book, or record of quantities (and qualities) made on the spot by personal measurement by Executive, Assistant Executive or Assistant Engineer or by Executive subordinate in charge of the works to whom measurement books have been supplied for the purpose, all bills for work and supplies are prepared.

(d) Works abstract- The works abstract records in detail the cash, stock and other charges on each work whether carried out by departmental agency or contract. In the case of major works (estimates) it shows the works outlay by sub-heads and each sub-heads shows the progress of work done, its value and rate of cost. For manufacture operations, a works abstract is required for each operation, and in addition an account is kept of the quantities and values of the products of manufacture.

(e) Stores accounts- Materials received are examined and counted or measured, as the case may be, when delivery is taken and a record of detailed count or measurement is kept in the Goods Received Sheet. A separate goods received sheet is prepared in respect of goods purchased from one supplier. To facilitate the preparation of the summary of stock receipts separate goods received sheets are prepared in respect of items falling under each sub-head of stock or the articles falling under each sub-head are grouped together in the same goods received sheet as far as possible. Issue of materials from stock is made on receipt of an indent dully signed by the divisional or the sub-divisional officer.

Monthly sub-divisional accounts

24.11 The monthly sub-divisional accounts are prepared and sent to the divisional office as follows.

The cashbook and initial accounts of stores for a month are closed on the 25th or an earlier date prescribed by the Accountant General. On closing the cash book the sub-divisional officer counts the cash in his chest and submits a cash balance report to the divisional office. Copies of the cashbook supported by vouchers, are sent to the divisional office twice a month or oftener as directed by the divisional officer, the copy relating to the last period of an account month being submitted with the cash balance report. Within 3 days of the closing of the account of the month the Sub-Divisional Officer also submits the works abstract and the month's accounts of stock etc. He does not, however, consolidate the transactions into a compiled monthly account; this work is being done in the divisional office for the entire division.

If the sub-Divisional Officer is financed by an imprest, the Divisional officer embodies the Sub-Divisional Imprest Account in his own cash book; if however, the sub-divisional officer has a drawing account on the treasury, or if cash is transferred to him from the divisional cash chest his cash book is not embodied in the divisional cash book but the transactions are consolidated direct into the monthly accounts of the division.

Divisional Accounts

24.12 As in the case of the sub-divisional officer, a divisional officer has a cash chest, a cash book, a measurement book, works abstracts and muster rolls for works which are directly under his charge and he uses them in the same way. The foregoing remarks under these heads apply equally to him. He has also stores, accounts, and in some cases, manufacture and workshop accounts. He receives revenue and in the same way as the sub-divisional officer makes payments for works, etc. on properly drawn bills duly passed for payment by cheques or if the bills are for small amounts in cash from his chest.

24.13 The main accounts which he keeps in addition to those kept in the sub-division are:(a)Contractor's Ledger; (b) Register of works; (c) Transfer Entry Book; (d) Priced Stores Ledger.

(a) Contractor's Ledger- The contractor's ledger is a running account with each contractor, showing the amounts due by him for advances made to him, and due to him for work done by him, and is closed and balanced monthly.

(b) Register of works- Register of works contains a permanent and collective record of the expenditure incurred in the division during a year month by month on each major or minor work (estimate) and compares the progress of expenditure with the estimates. In the case of major works, or in other cases where specially required by the competent authority, the expenditure is recorded by sub-heads of works, by which is meant item of work such as brick work, doors and windows etc. which are specified in the sanctioned estimate. The object of such a record is to show the divisional officer the rates at which these different kinds of works are carried out and to enable him to obtain the necessary sanction.

(c) Transfer entry- The transfer entry book contains a record of all transfer entries included in the accounts of the division as for example work done or payments made by other divisions, departments or Governments , write back of an erroneous debit or credit etc. The book is posted as soon as the transactions become known from advices of debit, transfer entry orders, etc.

(d) Priced stores ledger- Priced stores ledger is a chronological record of all the transactions of different items of stock. Separate ledgers are maintained for separate sub-heads of stock materials. It is a value-cum-numerical account of the stores held in the division, receipt of stores being posted from the goods received sheets and issues from the indent.

Revenue Accounts

24.14 The main account records of revenue comprise the registers of revenue realized, refunds or revenue and register of rents of buildings and lands, in which all cash receipts or refunds, as the case may be are entered under the different minor heads prescribed for the purpose.

Monthly divisional accounts

24.15 The cash and stock accounts of the divisional office for a month are closed on the last working day of the month. On closing the cash book, the Divisional Officer counts the cash in his chest and prepares a cash balance report. The cash balance reports for the entire division enable the divisional officer to certify the correctness of the cash balance of the division as given in his monthly account submitted to the Accountant General. The transfer entry book is also closed as soon as possible after the expiry of the month. The cash, stock and transfer entry transactions of the entire division are then posted in the relevant schedule dockets, registers and schedules which are abstracted in the monthly account submitted each month to the Accountant General/ Ministry of Urban Development between the 7^{th} and 10^{th} of the month following that to which it relates.

24.16 This account is accompanied by schedules (supported by vouchers), the more important of which are:

(1) stock account prepared from the sub-divisional officer's accounts of quantities of stock received and issued during the month after their valuation in the divisional office,

(2) schedules of works expenditure which are prepared from the sub-divisional works abstracts completed in the divisional office as regard stock and transfer entry transactions,

(3) Schedule dockets showing expenditure on each work,

(4) Schedule of revenue realized,\

(5) Schedule of Miscellaneous Works Advances, and

(6) Schedule of Deposits etc. etc.

Basic rules applicable to works executed by the Public Works Department

24.17 Each Government frames its own rules governing the execution of works by the Public Works Department. Under the rules framed by the Government of India there are three main stages in the project for work, namely, expenditure sanction, technical sanction and the allotment or reappropriation of funds.

24.18 These stages are explained below briefly:

Designed so as to fulfil its purpose best. Thus the design has usually to be prepared in consultation with and to be accepted by the department requiring the work. The concurrence of the administrative department in the proposal for the execution of expenditure thereon is called sanction of the specified work with the expenditure sanction.

Expenditure sanction on works beyond certain limits requires previous sanction of the Finance Ministry, while in other cases the act of allotment or reappropriation of funds operates as sanction to expenditure*.

(ii) Technical sanction- Except for petty works, petty repair works for which lump provision has been sanctioned, a properly detailed estimate is prepared for each work to be sanctioned by the competent authority. This sanction is known as the technical sanction to the estimate and amounts to no more than a guarantee that the proposals are structurally sound and that the estimates are accurately calculated and based on adequate data. Such sanction is accorded by the Public Works Department and should, except in urgent and in emergent cases, be obtained before the construction of the work is commenced. If in working out the detailed estimates or during the construction of the work, it is found necessary to make any important deviation from the design to which administrative sanction has been obtained, such sanction has also to be obtained to the deviation.

(iii) Allotment and re-appropriation- These represent the provision of a particular sum of money to meet expenditure on a specified object; such provision is operative only for the financial year for which it is made.

Supplementary and revised estimates

24.19 Even with the greatest care and accuracy, it is not always possible to foresee everything that will be required or to frame an estimate which will not be exceeded. Therefore, it is prescribed in the rules that any

* Note: In the case of State Government Works, however, concurrence of the administrative departments to the execution of works and sanction of competent authority for expenditure on the work are arranged separately through “administrative approval” and “expenditure sanction” respectively.

development of a project considered necessary while a work is in progress, which is not fairly contingent on the proper execution of the work as first sanctioned, must be covered by a supplementary estimate accompanied by a full report of the circumstances which render it necessary and that a revised estimate must be submitted when the sanctioned estimate is likely to be exceeded by more than five per cent.

24.20 But the extra expenditure which has to be covered by a supplementary or revised estimate is often incurred before sanction to the supplementary or the revised estimate can be obtained. This nullifies the value of such estimates, and therefore, it is further prescribed in the rules that when any excess over a sanctioned estimate is foreseen and there is likely to be unavoidable delay in the preparation of a revised estimate, an immediate report of the circumstances should be made to the authority whose sanction will ultimately be required.

24.21 When excesses occur at such an advanced period in the construction of a work as to render the submission of a revised estimate purposeless, the excesses, if beyond the power of the Divisional Officer to pass, are explained in the completion statement or detailed completion report mentioned in the following paragraph.

24.22 Finally, a consolidated completion statement is prepared monthly of completed works the actual expenditure on which is in excess of the sanctioned estimate by an amount which a Divisional Officer is empowered to pass. But in respect of completed works on which the outlay has been recorded by sub-heads, a detailed completion report for individual work is prepared, instead of a completion statement in the following cases:

(i) When if the work was sanctioned by higher authority, the total estimate has been exceeded by more than 5 percent, and

(ii) When if the work was sanctioned by the Divisional Officer, the total estimate has been exceeded by an amount greater than that which he is empowered to pass.

24.23 The consolidated completion statement shows each work or group of works, the estimated amount, the outlay and the excess. In cases in which the completion statement is utilized instead of a revised estimate the excess is set forth in sufficient detail to satisfy the authority whose sanction is necessary. The detailed completion report gives a comparison and explanation of the differences between the quantity, rate and cost of the work executed and those entered in the estimate. The object of the completion statement or detailed completion is to enable the superior authorities to scrutinize the excess and to sanction it where it is reasonable.

Importance of accurate measurement

24.24 Works expenditure is incurred on the utilization of materials and labour. Material may be supplied from stores or bought for the work or provided by the contractor, work may be carried out by daily labour, by piece work (that is to say, work paid for at a fixed rate) or by contract. A contract should be in writing and should contain stipulations as to the quantity and quality of work to be done, the time within which it is to be completed, the terms upon which the payments will be made, etc. Most contract works are carried out by petty contractors who cannot wait for payment till completion of work, and are, therefore, paid periodically according to work done up to date. Thus, whether payment is to be made for work on the basis of a contract or of piece rate, prompt measurement is essential and of course, the accuracy of the recorded measurement of work done is the basis upon which rests the efficiency of the audit of works expenditure. The check by actual measurement is conducted entirely by the executive. It would be impossible for audit to take any part in this work unless it had a staff of measurers in every division in India to make the original measurements or a staff in each State to tour throughout it, checking measurements. The sole check over these initial measurements is exercised by the sub-divisional or divisional officer, or by the Superintending Engineer, who verifies them either by making check measurements or by inspection. The expert knowledge of an experienced engineer enables him in many cases to detect any very gross over measurements or overpayments on inspection and comparison with the recorded expenditure on the work.

But executive authorities do not always realize the extreme importance of accurate measurement. There is always liable to be a rush of expenditure in March, the last month of the financial year and cases have occurred in which payments have been made on measurement reports submitted by subordinates whose travelling allowance journals indicate that on the day on which the measurement was alleged to have been made, they were miles away from the site of the work. Such measurement reports have no value and if Audit detects such cases at inspection, prompt notice should be taken of them.

Contracts

24.25 The purchase of stores, the execution of work, etc. are often done by contract. For this purpose Government enters into contract or an agreement in writing with the person or body concerned. Such a document contains inter alia stipulations as to the quantity and price of stores to be supplied or work to be done and the time within which it is to be completed. As a general rule such contracts should be concluded only after competitive tenders have even invited in the most public manner possible. The general principles applicable to contracts are contained in General Financial Rules. Audit has power to examine contracts and to bring to the notice of the proper authority cases where competitive tenders have not been invited or where high tenders have been accepted or where other irregularities in procedure have come to light.

Audit of Works Expenditure

24.26 The audit of public works expenditure falls under three heads:

(a) preliminary internal check by the Divisional Accountant in the divisional office;

(b) Audit in the Audit Office; and

(c) Test audit at the periodical inspection of the divisional office.

Divisional Accountant and his functions

24.27 A trained Divisional Accountant is posted by the Accountant General to each divisional office to assist the Divisional Officer in the discharge of his responsibilities in respect of the accounts of the division. The functions of the Divisional Accountant are three fold-

(i) As Accountant, the compiler of the accounts of the division in accordance with the prescribed rules and from the data furnished to him;

(ii) As internal checker, charged with the responsibility of applying certain preliminary checks to the initial accounts, vouchers, etc.

(iii) Financial assistant- the general assistant and adviser to the Divisional Officer in all matters relating to the accounts and budget estimates, or to the operation of financial rules generally.

24.28 The Divisional Accountant is expected to see that the rules and orders in force are observed in respect of all the transactions of the division. If he considers that any transaction or order affecting receipts or expenditure is such as would be challenged by the Accountant General if the internal check entrusted to the Accountant were applied by the former, it is his duty to bring this fact to the notice of the Divisional officer with a statement of his reasons and to obtain the order of that officer. It will then be his duty to comply with the orders of the Divisional Officer, but if he has been overruled and is not satisfied with the decision, he will at the same time make a brief note of the case in the Register of the Divisional Accountant's objections and lay the register before the Divisional Officer so that the latter may have an opportunity either of accepting the Divisional Accountant's advice on reconsideration and ordering action accordingly or of recording for the information of the Accountant General, his reasons for disregarding that advice. An objection recorded in this register is not considered as finally cleared until it has been reviewed by the Accountant General.

24.29 The Divisional Accountant brings to the Divisional Officer's notice all instances in which subordinate officers exceed the financial limits placed on their power by the Divisional Officer or a higher authority. He may further be required by the Divisional Officer to undertake on his behalf such other scrutiny of the accounts of the receipts and disbursements of subordinate officer, falling within the Divisional Officer's own powers of sanction as the latter may consider necessary. He is further expected to inspect the accounts records of sub-divisional officers so as to check a percentage of the initial accounts and to bring the defects to the notice of the Divisional Officer. The results of this inspection are placed on record for the inspection of the Accountant General and any serious financial irregularities are reported at once to him.

24.30 The Divisional Accountant is responsible for examining the accounts returns of the Sub-Divisional Officers to see-

(i) that they have been received in a complete state;

(ii) that all sums receivable are duly realized, and on realization credited to the proper head of account and also to the proper personal account (if any) of the contractor, employee or other individual;

(iii) that the charges are covered by sanctions and allotments and are supported by complete vouchers setting forth the claims and the acknowledgements of the payees legally entitled to receive the sums paid;

(iv) that all vouchers and accounts are arithmetically correct;

(v) that they are in all respect properly prepared in accordance with rule;

(vi) That all charges are classified correctly, those which are debitable to the personal account of a contractor, employee or other individual being recorded as such in a prescribed account; and

(vii) that on the basis of rates sanctioned by competent authorities and of facts (as to quantities of work done, supplies made, etc., or services rendered) certified by authorized Government servants, the claims admitted for payment are valid and in order.

It is not necessary that the Divisional Accountant should check personally the arithmetical accuracy of all vouchers and accounts, but he is responsible that a cent per cent check is exercised efficiently under his supervision.

24.31 It is one of the functions of the Divisional Accountant to see that expenditure which is within the competence of the Divisional Officer to sanction or regularize is not incurred as a matter of course under the orders of the subordinate disbursing officer without his knowledge.

24.32 The Divisional Accountant conduct the detailed check of muster rolls and petty vouchers which are not submitted to the Audit Office, and of all accounts of stores.

24.33 The Divisional Accountant is responsible for the arrangements for checking the computed tenders, i.e., for seeing that satisfactory and efficient arrangements are made for checking and that the comparative statement incorporates the totals as checked of the individual tenders. He should also personally conduct a test check of the Compiled and checked tenders in order to satisfy himself that the checking work has been properly done.

24.34 The Divisional Accountant checks the works expenditure with the estimates to ensure that the charges incurred are in pursuance of the objects for which the estimate was intended to provide. In the case of work the expenditure of which is recorded by sub-heads (that is, items of work such as brick work, etc.) the Divisional Accountants is responsible for checking the expenditure on each sub-head with the estimated quantity of work to be done, the sanctioned rate and the total sanctioned cost, so as to bring to notice all deviations from the sanctioned estimate.

Audit in the audit office

24.35 The audit of works expenditure in the audit office is conducted mainly with reference to-

(a) the sufficiency of the authority for incurring the expenditure;

(b) the accuracy of the classification of the charges against the works, persons, services and heads of accounts concerned;

(c) the proof of payment to the correct individual;

(d) the observance of standards of financial propriety; and

(e) the execution of schemes and projects economically and the achievement of anticipated targets.

24.36 The basis upon which audit relies for exercising the first check is the technical sanction to detailed estimates. For this purpose sanctions are communicated to the Audit Office either individually or in a consolidated monthly statement. These are scrutinized as explained in Chapter 20. Unless, with the concurrence of the Comptroller and Auditor General the Government concerned has specially desired this, the Audit Office is not required to see that the amount of the technical sanction does not exceed without proper authority the amount of the administrative approval-cum expenditure sanction. It has, however, to be seen that expenditure sanction has been accorded for each work for which such a sanction is necessary under the rules, and that all charges which under the rules require the sanction of an authority superior to the Divisional Officer are duly sanctioned by such authority. The monthly expenditure on each work (the name of which appears in the works audit register) is posted in the register month by month from the monthly accounts of the division. Objections in respect of such works regarding cases for want of sanctioned estimates, excess over sanctioned estimates, want of allotment, Excess over allotment, want of administrative approval, Excess over administrative approval and inordinate delay in regularization of objectionable expenditure are brought to the special notice of the Superintending Engineer through monthly audit note.

24.37 The second check consists in seeing (i) that, if the charge is debitable to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account so as to facilitate watch of the recovery of the amount due; (ii) that the charge is classified under the proper heads of account; and (iii) that the expenditure is incurred in pursuance of the precise objects for which the detailed estimate for the work was intended to provide. The first check is not complete till the contractor's ledger (containing the personal accounts of contractors, which are credited with the value of the work done and supplies made by them and debited with the amounts paid or the value of stores supplied to them) is test checked during local inspection of the division. The last item of the check cannot be exercised properly in the Audit Office as the detailed estimates which define the objects on which expenditure is to be incurred are not available there. Charges are therefore examined generally for verification that there is no apparent misclassification; but the detailed check with estimates is left to the Divisional Accountant.

24.38 The third check consists mainly in seeing that a properly receipted voucher is sent for every payment. The responsibility for making payments to the person entitled to receive payment rests with the paying officer.

24.39 As regards the fourth and fifth check, the standards of financial propriety to be applied and the lines on which efficiency audit has to be conducted have already been explained in Chapters 16 and 17.

24.40 Besides these five checks, each voucher for payment on running account is compared with the last bill and it is seen that the up to date and other figures which are dependent on the entries in that bill are correct. The arithmetical calculation of the bills are also checked.

Loan Inspections

24.41 The third of the heads mentioned in paragraph 24.44 concerns the procedure under which the audit conducted in audit office is supplemented by the local inspection of divisional office. This duty is explained in Chapter 18.

Audit of Works Receipts

24.42 Much of the Public Works receipts are realized by the civil authorities and adjusted through the accounts. In such cases, the ordinary principles regarding the audit of receipts are applicable (see chapter 19). Of the receipts realized direct by Public Works Officers, the most important are the rents of residential buildings and other services and it is the duty of Audit to see in respect of these (a) that the standard rents are correctly determined in accordance with the relevant rules, (b) that the rent recoverable from each tenant is correctly calculated, and (c) that the rents due are realized.

24.43 In exercising the first of these checks the Audit Officer verifies the capital cost and sees that the allowance for maintenance and repairs is according to the scale fixed by Government and is reasonable. In regard to the second check it is seen that the rent assessed is either the standard rent or such lower rate as may be prescribed. If the recovery is appreciably below the standard rent, the Audit Officer has to satisfy himself that the scale of accommodation provided does not exceed that which is appropriate to the status of the occupant.

24.44 In some States the accounts of rents are not submitted to the Audit Office. In such cases the checks, contemplated in para 24.42 are left to be exercised by the Divisional Accountant and a test check is exercised at the time of the periodical inspection of the division.

ACCOUNTS OF LARGE CONSTRUCTION PROJECTS

Accounting principles

24.45 The accounting rules set forth in the Account Code are not intended to cover fully the requirements of large construction projects. The exact form of the accounts, whether direct or proforma, which are to be maintained for these projects (other than Railways, for which separate rules exist) must be governed by the following four main considerations:

(i) the form of the project estimate;

(ii) the requirements of the Engineer-in-charge to enable him to exercise adequate financial control during the construction period;

(iii) the ultimate form of the capital and revenue accounts to be maintained for the project after construction; and

(iv) the form of the report which the Engineer in charge will desire to write after the completion of the project, describing the manner in which the work has been undertaken and the cost of the main items of the work.

24.46 As regards item (i), it may be theoretically possible to prepare project estimates in such a form that accounts maintained on the lines of the estimate would not only serve the purpose of item (ii) but would also be the basis on which items (iii) and (iv) would rest. It is however customary to prepare project estimates in a form which groups together under the head general charges all such indirect charges as tools and plant, establishment (other than that charged to works), interest, and all other miscellaneous charges, instead of allocating them in advance proportionately to the several units of the project. When writing his final report however the Engineer-in-Charge will desire to show the real cost or the work under each of the more important units of that work. For that purpose in his report, the Engineer in Charge may work on the basis of the sub divisions of the works as they appear in the project estimate, or of the subsequent sub divisions as determined by the allocation to revenue producing units of the capital at charge of the work. In either case, such a report of real cost by units must necessitate a corresponding ultimate distribution of all the indirect charges mentioned above.

24.47 It might be feasible to overcome the difficulty of allocating in advance most of the general charges between the several units. But there are peculiar problems in the way of framing in advance an estimate, the competent items of which shall correspond with the sub-division of the completed work into revenue producing units of the allocation of charges connected with (a) Special Tools and Plant, and (b) Interest.

Special tools and plants

24.48 Where special tools and plant are used or any large labour saving machinery is employed, the question at once arises of the debit of a proportion of the capital cost of different units of the project. The capital cost of special tools and plant is ordinarily debited in the first instance to a separate head and the question of charging depreciation on such account raises difficult issues. It is in some cases held to be impossible to calculate the depreciation and to determine the relative utility to individual items of work, with sufficient accuracy, to justify and attempt to clear this separate head by debit to units of the work. On the other hand, the Engineer may desire that the cost of special tools and plant should be written off against the several works on which they are used, so that he may know the real cost of the works and also exercise proper control over expenditure. This cannot be done without the determination of suitable rates of depreciation on account of tools and plant and a reasonable estimate of their residual value on the completion of work. These have to be fixed by the executive in consultation with Audit.

24.49 In regard to the following matters the executive will consult Audit, though the final decision rests with the former:

(a) what items of plant are to be regarded as ordinary and what as special.

(b) what item of plant are to be depreciated and distributed and what are to be charged finally to special tools and plant. In the latter case, the sale proceeds will of course be credited to the same head.

(c) the method of charging of depreciation whether on a time or on an output basis.

Interest Charges

24.50 The interest charges on capital outlay are classified ordinarily under the general heads of account and adjusted periodically by debit to the accounts of the project. In exceptional cases, when the size of a project necessitates a delay of many years before it can begin to be productive, special sanction may be accorded for the adjustment of interest during the construction period by an increase of the loan capital at charge. In either case, the adjustment of interest as between the units of the project will follow the same lines as the adjustment of the capital at charge for the purpose of determining the allocation as between those units for the purposes of the capital and revenue accounts.

24.51 A consideration of these general principles will make it clear that the initial accounts of such a project must follow the form of the project estimate, and that audit must follow the same lines in order to ensure that financial control is being exercised through a comparison of expenditure with the relevant figures in the project estimate.

24.52 At the same time it is essential that, as soon as possible after construction is started, a decision should be reached regarding items (iii) and (iv) mentioned in paragraph 24.25 above, namely:

(a) the ultimate form of the capital and revenue accounts which will have to be opened when the work has been constructed and comes into operation; and

(b) the form of the report which the Engineer in charge will desire to produce on the termination of his work.

24.53 Accounting will have to be so ordered that the material is prepared in suitable form for both these purposes. So far as the latter is concerned, this is essentially work done on behalf of the Executive and is therefore subject to the orders passed by the Executive. For the former the Comptroller and Auditor General has a definite responsibility. For the fulfilment of that responsibility audit must in this case follow the form of the accounts, to enable the Comptroller and Auditor General, on the completion of the project and the closing of the accounts, to satisfy himself as to the correct allocation of the capital at charge between the separate working units.

(B) FOREST ACCOUNTS

(a) Constitution of the Forest Department

24.54 Organization- As in the Public Works department, the Forest administrative and accounts unit is the division, which includes one or more sub-divisions. The division is under the charge of a Divisional Officer, on whom rests the responsibility for the effective internal check and control of the accounts of the entire division, in respect of both revenue and expenditure.

24.55 The Conservator, who is in charge of a circle comprising of a number of divisions, is responsible for exercising a strict control over the whole outlay for conservancy and works and for examining the charges on account of travelling allowance and contingencies.

(b) Relations with the Treasury

24.56 Cash collections and funds- The Forest Department is not required to maintain a pass book for treasury receipts and payments. The receipts are remitted into the treasury with a challan in duplicate, one copy is retained by the treasury while the other is returned as an acknowledgement. The treasury furnishes to the Divisional Forest Officer a consolidated receipt for the entire month's remittances.

24.57 Funds are supplied to officers in the Forest Department, by means of cheques drawn on civil treasuries with which the drawing officers may be placed in account by the Accountant General. The debits in the List of Payments are, as usual, supported by the paid cheques.

(c) Preparation of initial accounts

24.58 Account records- Like the divisional officer in the Public Works Department, each (Divisional and Sub-Divisional) Forest Officer has a cash chest in which he keeps receipts not remitted to the treasury and money drawn from the treasury but not paid away. The cash is counted by the Forest Officer himself on the last day of the month and a report is sent to the Accountant General.

24.59 The main divisional account record is the Cash Book, in which are recorded the daily transactions as they take place as well as the monthly total of the sub-divisional cash books received towards the end of the month.

24.60 In addition to his Cash Book the Divisional Officer maintain a Register of Cheques Drawn, a Register of Works, an Account of Stores and a

Contractor's and Disburser's Ledger which is a sort of running account with each departmental contractor and disburser.

24.61 Besides a copy of the monthly Register of Cheques Drawn the Divisional officer renders to the Accountant General the following monthly accounts and such accounts of revenue due and outstanding and of timber and other transactions as the Accountant General may from time to time require: (i) Cash Account (ii) classified abstract of revenue and expenditure; (iii) schedule of remittances to the treasury; (iv) schedule of transactions with other Governments and Railways; and (v) Abstract of Contractor's and Disburser's ledger.

24.62 The cash account is a general account of the receipts and disbursement of the whole of the division and is compiled from the divisional cash book. In the classified abstract of revenue and expenditure all items of revenue and expenditure for the month are classified and arranged in accordance with the prescribed accounts classification, the entries being made in such detail as may be required by the Accountant General. The schedule of Remittance is supported by the consolidated treasury receipts and shows each item of remittance separately.

CHAPTER 25

STORES AND STOCK ACCOUNTS AND AUDIT

(A) GENERAL

Introductory

25.1 The term 'Stores' applies generally to all articles and materials purchased or otherwise acquired for use of Government including not only expendable and issuable articles in use or accumulated for specific purposes, but also articles of dead stock of the nature of plant, machinery, instruments, furniture, equipment, fixtures etc. Management of Stores and stock embraces acquisition of stores, their custody and distribution according to requirements and their disposal. Practically, every department of Government has charge of articles purchased with public money. These articles may be divided broadly into (i) unpriced articles and (ii) priced articles.

25.2 Unpriced articles comprise those articles of stationery furniture, office equipment, etc. which are required for the administrative purpose of an office. They are purchased and are stored in the office for use as occasion demands. The accounting procedure is simple, as only numerical account is maintained of each class of article.

25.3 With few exceptions, all articles required for the activities of the department fall under the head "priced articles" if the cost of their purchase or manufacture is debited to a suspense head, which in turn is relieved as articles are consumed. Government departments engaged in manufacturing activities maintain inventories to support their activities. The accounting methods are some what complicated in view of the fact that they include two sets of accounts, namely, (i) numerical accounts; (ii) priced account; and these two sets of accounts are in many cases maintained by different persons.

25.4 The general principles of the audit of stores and stock accounts have been explained in paras 25.74 et seq. It remains now to explain the system of accounts maintained of the various classes of stores and stock. In this completion it is only possible to deal with a few of them by way of illustration, The examples chosen for this purpose are:

(i) Public Works Stores,

(ii) Stores and Stock Accounts of Railways, and

(iii) Stores and Stock Accounts of the Engineering Branch of the Posts and Telegraphs Department.

25.5 A brief account is also given of the working of the purchase organization of the Government of India, which serves these three and numerous other departments of Government.

(B) PUBLIC WORKS STORES

Administration and Control

25.6 The general administration of all the stores of a Public Works Division, under the headings, stock, tools, and plant, materials charged to works and road metal, is vested in the Divisional Officer, on whom primarily devolves the duty of arranging, in accordance with the rules of the Government concerned, for (i) the acquisition of stores, (ii) their custody and distribution according to the requirements of works and (iii) their disposal.

25.7 The accounts of these stores are based on the fundamental principle that the cost of their acquisition should direct to the final head of account concerned or the particular work for which they are required, and if either of these cannot be determined at once, it should be kept in a suspense account pending clearance, as the materials are actually issued, by debit to specific heads of account or works.

Maintenance of Stock

25.8 The stock of a division is sometimes kept in a single godown or yard in the charge of a storekeeper or each sub-divisional officer may have separate stock in his charge, either at his headquarters, or scattered over the sub-division in the direct custody of subordinates or other Sectional Officers. Again, the stock, although scattered over the entire division may be in the general charge of a single official and the sub-divisional officers may merely indent upon him, the accounts being kept by the former.

Accounts maintained by the Executive

25.9 Briefly, following is the accounting procedure followed by sub-divisional officers who hold charge of stock. The Divisional Officer follows similar procedure in regard to stock in his own charge.

25.10 A chronological record by quantity only of the receipts, issues and the remaining balance of each article stock is kept by the officer in charge in the Bin Card, the value account of stores being maintained by the Divisional Officer, in the Priced Stores Ledger. The Bin Card is posted from the goods received sheet and stores indent and is sent on completion to the divisional office for checking with the Priced Stores Ledger*.

25.11 Goods received in the stores are examined, counted or measured and entered in the goods received sheets printed in the form of booklets duly machine numbered and the total number or quantity of goods received is also entered immediately in the Bin Card. The goods received sheets are generally prepared in triplicate (in quadruplicate if payments are made by the Sub-Divisional Officer) by carbon process in indelible ink or copying pencil one copy retained by the store keeper and the other two sent to the Sub-Divisional Office, out of which one copy will be passed on to the

* Note: Each division maintains a priced vocabulary of stores in stock showing their correct description and identifying number order to ensure the accuracy of posting of all transactions and facilitate the preparation and valuation of indents.

supplier and the other to the Divisional Office for posting the Priced Stores Ledger and making payments.

25.12 An issue rate is assigned to each new article as it is brought on stock. This rate is fixed on the principle that the cost to be charged to works on which materials are to be used is approximately equal to the actual cost of the stores and that there may be no ultimate profit or loss in the Stock accounts. It should provide beyond the original price paid and the cost of carriage, etc. for expenditure incurred after the acquisition of stores, on the establishment employed on handing and keeping initial accounts, the custody of stock, and maintenance of the store godown or yard etc. The issue rate of an article of stock is fixed at the beginning of each year. Normally this rate remains constant throughout the year but in the case of material fluctuation in the purchase rates during the course of the year, the issue rates can be revised earlier. The issue rates are, however, kept within the market rates.

25.13 Materials are issued from the stores only on receipt of an indent signed by the Divisional Officer or Sub-Divisional Officer. But when a Sectional Officer has to issue stock materials for the requirements of works under himself, a consolidated indent for materials drawn during the month would suffice if so authorized.

25.14 The Store-Keeper or Sectional Officer while issuing materials from the stores will sign the indent in the space provided for the purpose, after entering the quantity issued in all the copies. An entry of the stores issued is simultaneously made in the Bin Card, One copy of the indent is retained by the stores as a voucher in support of the entry in the Bin-Card, the second returned at once to the indenting officer. The third and the fourth copies of the indent are sent to the Divisional Officer for further action.

25.15 The goods received sheets are valued in the Divisional Office on the basis of price paid or payable as per bills or other claims. The indents are also valued in the Divisional Office at the issue rates fixed. The goods received sheets and the indents are used for posting the Priced Stores Ledger. The receipt and issue transactions of the entire division are abstracted in the Summary of Stock Receipts and the Summary of Indents. These forms are posted daily in the Divisional Office from the copies of the Goods Received Sheets and Indents, the entries being made only in respect of values and reconciled with the corresponding monthly totals of the Priced Stores Ledger.

25.16 The priced Stores Ledger maintained in the divisional office contains an account of the daily transactions relating to each item of stock, the ledger being kept in different sections or sets of pages for different articles of stock with columns for receipts, issues and balances of both quantities and values. The ledger is closed for both quantities and value at the end of each month. The transactions pertaining to each articles of stock are abstracted at the end of the month and monthly total of receipts, issues and balances are then worked out for each sub head and a consolidated abstract prepared for all the sub-heads which should agree with the Summary of Stock-Receipts and the Summary of Indents.

25.17 Certain State Governments, however, maintain the Store Accounts in the manner indicated in the ensuring paragraphs:

(i) Two registers of stock are maintained, one for receipts and the other for issues in which the transactions are posted as they occur. The receipts and issue transactions are then abstracted monthly in the Abstract of Stock Receipts and “Abstract of Stock Issues” showing the sources from which articles are received and the account head or work to which the issues are to be debited. These are then submitted to the Divisional Officer, the entries being first posted in the half-yearly balance return, which is closed as soon as the entries of the last month of the half year have been made. The registers and returns represent only the quantity accounts, the value accounts being ordinarily maintained in the divisional office.

The abstracts of stock receipts and stock issues are completed in the divisional office by valuation of the quantities and incorporation of adjustments on accounts of manufacture operations, storage charges and incidental charges such as those for carriage, loading and un-loading of stock materials.

(ii) The monthly transaction of stock of the sub-divisions as brought out in the monthly abstracts of receipts and issues together with those of the divisional office, if any, are then posted in the half yearly register of stock. This register is divided into three parts. In part I are posted the quantities of each item and the aggregated values of the total receipts and issues for each sub-head. The closing balances of the aggregate values of sub-heads are struck at the end of each half year. Their reconciliation with the accounts is effected through Part II of the register. Part II of the register is used for the review of the state of affairs of stock accounts by the Divisional Accountant and the orders of the Divisional Officer.

(iii) Under this method, the rate of articles borne on stock is fixed on the same principle as enunciated in para 25.12 above with the difference that a separate rate known as storage rate is fixed annually for each division or sub-division on the principle that the total estimated annual expenditure on establishment employed on handling and keeping initial accounts, the custody of stock and maintenance of store godown or yard etc. is as far as possible recovered from the issues likely to be made during the year. At the time of closing the half yearly register of stock, the Divisional Officer takes the opportunity to revise the issue rate of the articles of stock on the basis of the rates prevailing in the market, and this necessitates the adjustment of the difference in the values of stock as worked out at the existing issue rate and the issue rate fixed for the future.

Stock verification

25.18 In order to ensure that the stock consists of efficient and necessary articles and than the quantity balances as shown in the accounts are correct; the articles are verified periodically at least once a year by a responsible officer, and any discrepancies are brought to the notice of the Divisional Officer. Necessary adjustments are made on receipt of orders of the competent authority.

Accounts of Tools and Plant and Road Metal

25.19 The accounts of tool and plant and of road metal are comparatively simple as only numerical accounts are maintained, their value being debited to the final heads of account or work immediately after their acquisition.

Tools and Plant

25.20 (i) The consolidated account of receipts, issues and balance of tools and plant, both general or ordinary tools and plant i.e. those required for the general use of the division and special tools and plant i.e. those required not for general purpose but for a specific work are maintained in the sub-divisional office in the Tools and Plant Ledger. The ledger which is posted from the Tools and Plant received sheets and tools and plant requisition known as tools and plant indent, is kept in three parts.

Part I – for articles in hand,

Part II- for articles temporarily lent or sent out, and

Part III- for shortages awaiting adjustment.

25.21 Part I and Part II of the Ledger are posted from the office copies of the tools and plant received sheets and tools and plants as and when a transaction takes place. Each separate transaction connected with articles lent or sent out for repairs are further posted in Part II in the section reserved for the contractor or person concerned , articles lent etc. being shown in the column for issues and those received back in the column for receipts.

25.22 In some States, however, the procedure as indicated below is followed for the maintenance of accounts of tools and plant.

The sub-Divisional Officer in charge of the articles, maintains two accounts for recording the receipts and issues respectively of these articles. The transactions appearing in these accounts are consolidated monthly in a yearly register of tools and plant. At the same time, the Divisional Officer maintains a register of tools and plant for each subdivision which is posted from the monthly returns received from the sub-divisions. Annually, a reconciliation is effected of the closing balance in respect of each kind of article as worked out in these two registers.

Road metal

25.23 The Sub-Divisional Officer maintain a quantity account of receipts, issues and balance of road metal, copies on loose sheets being submitted monthly to the divisional office.

(C) STORES AND STOCK ACCOUNTS OF RAILWAYS

Administration and Control

25.24 The administration and control of the Stores Organization of the Railways rests with the Stores Directorate in the Railway Board (Department of Railways) which handles policy formulation as part of its functions. Each Zonal Railway and Production Unit has a Stores Department headed by a Controller of Stores, on whom devolves the duty of ascertaining the needs of the Railway in the matter of materials and stores, and or arranging for procurement and supply of such materials and stores in the most efficient, economical and expeditious manner possible utilizing the purchasing agencies of the Director General, Supplies and Disposal or the Railway Board, where necessary. He is responsible for the receipt, inspection and distribution of stores to the various stores depots, for their custody while in charge of the Stores Department and finally for their issue on requisitions received from authorized officials of the Railway. Each stores depot is in charge of a Depot Stores Keeper or a Depot Officer, as the case may be, depending on the value and quantity of stores held. The Depot Officers are assisted by store keepers, ward keepers etc.

25.25 The Stores Department is not required to keep any priced accounts of the stores transactions of the Railway; its duties in this respect are limited to the maintenance of numerical records of stores in stock and the preparation of the initial documents of receipts and issues. Priced accounts are maintained by the Stores Accounts Officers.

Supply of stores

25.26 The sources of supply or receipts of stores required by Railways are mainly purchases, manufacture by Railway Workshops and from other Government Departments including Public Sector Undertakings.

Purchases of stores

25.27 The purchases of stores are made mainly by three different agencies. These are Directorate General of Supplies and Disposals, the Railway Board and the Railways/ Production Units themselves. The purchases of stores which are entirely or largely peculiar to Railways (such as rails, track materials, signaling stores etc.) are handled by the Railways themselves. The items of stores which are of common use for other Government Departments also are purchased through the agency of Directorate General of Supplies and Disposals so as to avail of the benefits accruing from bulk purchases by a centralized agency. However, where the value of the articles is less than the monetary limit prescribed or where the articles are needed urgently, the Comptroller of Stores may purchase the requirements locally. Among the railway items of stores, certain items such as rolling stock steel, train lighting equipment, etc., are purchased by the Railway Board. The centralization of purchase of these items is intended to obviate competing demands and higher prices.

Manufacture

25.28 Some specialized items of stores such as locomotive spares, castings, signal material etc. required by a Railway are manufactured in the Railway Workshop and brought on to stock.

Foreign purchases

25.29 Proprietary items and articles which cannot be manufactured in India economically are imported by placing indents on the supply wing of the High Commission of India. London or the Supply Wing of Embassy of India, Washington. Some items like rails, locomotives, etc. are purchased direct by the Railway Board after inviting global tenders.

Funds for purchases

25.30 The cost of all railway stores, is first debited to a suspense head under Capital. Therefore even if stores are required for revenue purposes, necessary funds have to be provided from capital in the first instance.

Issue of stores

25.31 When stores are supplied by the stores Depots on indents, an issue note is prepared showing full particulars of the stores supplied, the officer served, etc. and is receipted by the officer supplied.

Numerical Accounts in the Store Depot-Card Ledgers

25.32 The transactions of receipts and issues are posted, as they take place in numerical record called the Card Ledger. A separate card is maintained for each item of stores. The receipts are posted from the receipt vouchers, viz. receipt notes, advices of despatch, workshop receipts, advice notes of returned stores, depot transfers, book transfers and departmental stock verification sheet while issues are posted from the issue notes and depots transfers.

Daily returns to the Accounts Office

25.33 At the end of each day's work a memorandum is prepared of the Day's transactions and is submitted with the supporting documents to the Stores Accounts Section of the Accounts office to enable it to post the priced ledger and class summaries.

Permanent Way Inspectors' Imprests

25.34 For the purpose of ordinary maintenance each Permanent Way Inspector is provided with an imprest of materials, the amount and nature of which is fixed by the competent authority.

Divisional Sub-depots

25.35 The aggregate of the imprests in each Division forms the Divisional balance of materials, for which the Divisional Engineer must account. Further, where local conditions, such as distance from a regular stores depot, render it desirable a sub depot may be established at the headquarters of the Division where a limited supply of material is kept, sufficient to carry on normal maintenance and to make recoupments of the Divisional Permanent Way Inspectors' imprests. The balance in these sub-depots forms part of the Divisional balance of materials.

Imprest and Surplus Stores Accounts- The Divisional Engineer consolidates these accounts in the Divisional Balance Register of Stores. The initial documents and accounts vouchers will be dealt with by the Accounts Offices of the Engineering Branch who will send the necessary transfer certificates for the debits and credits to the Store Accounts Office. Separate numerical accounts are maintained in respect of materials obtained from the store depots for specific work.

25.36 The Divisional Engineer arranges that a certain number of items is verified by actual count each month, so that the whole Divisional stock is verified at least once in every six months.

Unserviceable Stores

25.37 After stores become unserviceable owing to depreciation or deterioration or damage, or are of obsolete pattern, or become surplus, they are not allowed to remain long in stock. They are, if possible, adapted to present requirements, but when such action is not practicable, a special report on all such stores is made by Survey Committee appointed by the General Manager. This Committee determines what stores should be retained in stock for possible use in future classified as second-hand or as scrap, at what rates they should be borne on the books and how they should be ultimately disposed of. Further action is taken by the Controller of Stores in accordance with the orders of the General Manger on the Committee's recommendations.

Duties of the Accounts Office

25.38 It has been explained in paragraph 25.25 above that the responsibility of the departmental authorities in regard to the stores accounts is limited to the maintenance of numerical records of stores in stock and the preparation of the initial documents of receipts and issues. All other accounts work in connection with the stores transactions as for example their valuation, allocation of expenditure to works, etc. is carried out in the Accounts Office.

25.39 The work is done in a separate section called the Stores Accounts Section under the control of the Financial Adviser and the Chief Accounts Officer of the Railway, which is located at or near the general stores magazine and the office of the Controller of Stores. The section is responsible:

(i) for the maintenance of priced stores ledgers,

(ii) for the scrutiny and payment of all bills for purposes of stores,

(iii) for the regular periodical reconciliation of figures in the different connected sets of books, and

(iv) for the maintenance of a regular and effective system of stock verification and proper investigation of all discrepancies which it brings to light.

25.40 The stores Accounts Officer also acts as adviser to the Controller of Stores in all matters of stores accounts and finance.

Pricing of articles

25.41 The receipts into stores are priced from the bills or invoices of suppliers, while the issues from stores are priced at book average rates. The book average rate is the rate arrived at by dividing the value balance shown in the priced ledgers by the quantity balance.

Priced Ledgers

25.42 The Stores Accounts Section maintains priced ledgers, in which a separate account is opened for each item of stores for which a separate card ledger is kept in the depots. The postings in the ledgers are made daily, (a) as regards receipts from the receipt notes in respect of local purchase, the advices of despatch in case of imported stores, the advice notes of returned stores and issue notes for transfers between depots and receipts from workshops, and (b) as regards issues, from the abstracts of issue notes. The ledgers are balanced after each day's new postings as regards quantities and as frequently as is considered necessary by the local authorities in respect of values. The balancing at the end of each month is completed as regards quantities, rates and values.

Reconciliation between card ledgers and priced ledgers

25.43 It has been explained that the accounts office maintains priced ledgers in respect of all the stores of the Railways. It is therefore, necessary to secure a complete reconciliation of the balance in stock as shown in the card ledgers with that shown in the priced ledgers maintained by the Accounts Office. How this is done is explained below:

25.44 As each card ledger for an item of stores is filled up, the depot store keeper, or the ward keeper in charge of each section of the depot, counts the balance of the items in stock and records the actual balance as the last entry on the card, for example balance by actual count 475. Any excess is brought on as a receipt and any deficiency entered as a minus receipt. Anew card ledger is then opened for the item of stores and the balance by actual count is brought forward. The completed card ledger is than sent to the Accounts Office for reconciliation with the priced ledgers. In the case of articles of stock where the transactions are few and long intervals elapse between the completion of each card, the verification by actual count is done at such intervals as the Controller of Stores considers advisable. In such cases, the result of the verification of the balance is recorded on the card ledger which is sent to the Accounts Office for verification.

25.45 The procedures in paragraphs 25.42, 25.43 and 25.44 above are applicable to the stores accounts maintained manually. On the Railways, the Stores Accounts and Stores functions have been computerized in stages. The salient features of computerization are:

(1) Mechanization of priced ledgers- the issue notes, receipt notes and stock verification reports are posted to stock files maintained on the computers. The pricing of stores and preparation of various schedules, priced ledgers and statements are done by the computer. As the same source document is used for getting up-to-date priced ledger balance, departmental summaries etc., the need for elaborate reconciliation does not arise.

(2) Elimination of numerical ledgers by replacing it with a transaction statement.

(3) Mechanization of order progressing to produce information reports relating to over due supplies and suppliers' performance.

(4) Stock review and recoupment.

Stock verification

25.46 Each class stores in the custody of the Stores Department is verified periodically by a staff of stock verifiers, who are under the administrative control of the Accounts Officer. The periodicity of verification depends on the annual usage value of the items checked. This verification is independent of and in addition to the periodical counts made by ward keepers. These stock verifiers also verify at intervals of not more than two years, all engineering materials with Permanent Way Inspectors and Divisional Engineers, and at, intervals of three years, the Tools and Plant of all departments of Railway.

(D) STORES AND STOCK ACCOUNTS OF THE ENGINEERING BRANCH OF THE DEPARTMENT OF TELECOMMUNICATION

Administration and Control

25.47 The purchase of the stores of the Engineering Branch of the Department of Telecommunication and their custody prior to their issue for consumption are entrusted to the Stores Branch, supervised by the General Manager of Telecommunication Stores, Calcutta who works under the direct administrative control of the Director General, Department of Telecommunication.

25.48 The department has its main depots at Calcutta, Jabalpur, Bombay, Madras and New Delhi and several circle store depots mainly at the Headquarters of circle office as well as a Branch Depot at Bangalore. These depots works independently as regards Store Accounts and submit their returns etc. relating to transactions in stores direct to the Circle Accountant of the office of General Manager Telecommunication Stores, Calcutta.

Accounts in Executive Officers

25.49 The General Manager of Telecommunication Stores is responsible for ensuring that numerical accounts are maintained by all officers in charge of store depots in respect of transactions of receipt and issues of stores and that the prescribed returns are submitted by them to the Regional Accounts Officers concerned under the Chief Accounts Officer Stores and Workshops.

25.50 The numerical accounts consist of series of stock cards, one being maintained for each description of stores. Each receipt or issue of stores is supported by a voucher of receipt or issue in the prescribed form. The transactions are posted in the stock cards and the balance struck therein. The vouchers relating to the Stores transaction of each day are submitted to the Regional Accounts Officer on the first following day.

Pricing of Articles

25.51 The issue rates, that is to say the rates at which articles of stock are issued to works, are revised from time to time, on the initiative of the Accounts Office, as may be necessitated by important fluctuations in the market rate, and are notified by the General Manager Telecommunication Stores.

25.52 When a revised rate comes into force the Accounts Office revises the rate of the articles as entered in its books and makes a book adjustment for the difference.

Stores and Stock with the Divisional Engineers

25.53 The Divisional Engineers and Sub-Divisional Officers also maintain numerical accounts of stores obtained for use on, and released from works, which also form part of the store balances of the departments.

25.54 Except for such stores as are purchased locally or obtained direct from other departments of Government, all stores are obtained either from the main depots or from the circle stores depots or the branch depot and their value is debited under the head Remittance by the Accounts Office. The divisional office compiles a monthly account and renders it to the Circle

Accountant, crediting the value of such stores to the head Remittance and debiting it to the works or services concerned.

25.55 The Divisional Engineers maintain numerical account of the receipts, issues and balances of all stores obtained for the execution of works.

Unserviceable Stores

25.56 Unserviceable and obsolete stores consist of (i) those released from works or offices, etc. and (ii) those which become unserviceable while in stock in stores depots. The bulk of the former are sold locally by the officers in charge of works and the accounts of such sales form part of and are audited with the accounts of works. A few kinds of line materials and all apparatus and plant are, however, returned to the Store Depots for disposal. A surplus Stores Committee is set up to deal with unserviceable or obsolete (i) instruments received from divisions, and (ii) line material or apparatus and plant, borne on stock. On the recommendation of the committee the articles are either sold by auction or sent to the workshop as scrap.

Duties of the Accounts Office

25.57 It has been explained in paragraph 25.49 above that the executive officers are responsible for the maintenance of numerical accounts of stores. All other work in connection with stores transaction as for example, valuation, allocation of expenditure, etc. is carried out in the Accounts Office.

25.58 The Accounts Officer makes all disbursements of cash after initial check of vouchers for purchase of stores etc.

25.59 The Accounts Officer is responsible for compiling the initial accounts of stores and for the submission of the compiled accounts to the Circle Accountant in the office of General Manager Telecommunication Stores, Calcutta.

25.60 The Chief Accounts Officer, Stores and Workshops also acts as an adviser to the General Manager Telecommunication Stores, in all matters of stores accounts and general finance and assists that officer in the preparation of the budget estimates and other returns, with all information in connection with book rates and consumption of stores, balances, etc. which may be available from his accounts.

Stock verification

25.61 In order to secure efficiency in store-keeping a continuous or progressive stock taking is carried out by officers in charge of stores in such a manner that all stores are verified completely in the course of the year. The stock held in the store depots is also verified once a year by a stock verifier working under the orders of the Accounts Officer. The progressive stock taking of a particular item as well as independent stock verification are conducted in such a way that there is sufficient interval between the two.

25.62 Discrepancies noticed in the course of stock taking are reported to the authorities concerned and their orders obtained for the adjustment of the value of excesses or write-off of the value of deficiency in stock.

Note- With effect from December 1, 1968 the accounting work of the Stores Organization has been transferred to the control of the Director General Posts and Telegraphs (Director General of Telecommunications from January 1, 1985). The consolidated accounts with effect from that date are forwarded by the Director, Telecommunication Accounts, Office of the Director General Posts and Telegraphs, New Delhi, for incorporation in the General Accounts.

(E) PURCHASE ORGANISATION OF THE GOVERNMENT OF INDIA

Activities of the Purchase Organization

25.63 It has been explained in the foregoing paragraphs how the accounts of stock are maintained in certain Government Departments and how they undergo audit scrutiny. These and other departments consume a considerable quantity of stores and in order to procure these stores in the most economical way, a central purchase organization under the Government of India, namely, the Organization of the Director General Supply and Disposal has been established in India. A Supply Wing, attached to the High Commission of India at London and another attached to the Indian Embassy at Washington are functioning for procurement of stores from the regions attached to them.

25.64 All indents for purchase are placed on the Director General Supply and Disposal in India who arrange. for their procurement as far as possible from local sources. Should indigenous production be either insufficient or of unacceptable quality, the Supply Wings at London and Washington are approached.

25.65 The Army Purchase Organization is working separately under the Ministry of Defence. All purchase requirements of the Army are attended to by this Organization. Food stuffs like sugar, rice and wheat are procured by this Organization through the Department of Food who fix the price and issue release/allocation orders for these items.

25.66 The Organization of the Director General, Supply and Disposal effects purchases of stores on behalf of all Ministries of Government of India and their attached and subordinate offices and also those State Governments, Local Bodies, quasi-public bodies like Municipalities, District Boards, Statutory Corporations and Government Undertakings converted into joint stock companies who may desire to avail of its services. The payments for the cost of stores purchased through DGS&D are adjusted by the Pay and Accounts Office (Department of Supply) against the accounts officer of the consignee.

25.67 No purchases are normally made against indent received from non-Government indenters unless they are accompanied by an advance deposit covering the cost of Stores plus departmental charges. In respect of certain quasi-Government undertaking specially authorized by the Government, the Pay and Accounts Officers first make the payments on behalf of them to the suppliers and then obtain reimbursements from the indenters.

25.68 The function of the purchasing branches is to receive indents and to arrange for compliance with them by placing contracts with supplying firms, orders are placed in accordance with the "Rules for Supply of articles required to be purchased for the Public Service" and instructions issued thereunder by the Government of India.

25.69 Orders for supply of stores are placed in one of two ways-either by placing a separate order for the stores demanded (technically known as an Acceptance of Tender), or by combining the demand with orders for compliance under a "running" or "rate" contract. In the case of rate and running contracts certain departments and officers mentioned therein are authorized to get their supplies by placing "Direct Supply Orders" on the firm concerned. When an indenting officer is not authorized to operate directly against the contract, supply orders are placed by the purchasing officers of the Director General, Supplies and Disposals for each supply indented for.

25.70 There are also regional purchase officers located at Calcutta, Bombay and Madras. These officers receive indents up to certain money limits direct from indenters and normally comply with them from sources within their local areas.

25.71 The effect of the purchase of stores for the various departments of Government by this organization may be summarized broadly as follows:

(i) They are procured in the most economical way.

(ii) The locking up of capital in Stock is minimized.

(iii) The wastage of articles which may otherwise be considerable is minimized.

(iv) The indigenous sources and supply are encouraged and fully utilized.

Settlement of Accounts

25.72 In their capacity as Accounting Officers the Pay and Accounts Officers, Department of Supply, raise debits for the cost of stores purchased through the organization of the Director General, Supply and Disposal by Government Officers (and also for the Departmental charges which are levied by the Organization for purchase and inspection conducted on behalf of State Governments or for Defence and Commercial Departments) against the Accounts Officer of the consignee through the cash settlement account of the week in which the suppliers bills are paid.

The Accounts Officer accepts the debits against the account of the indenting officer and notifies the latter that he has done so.

Payments for supplies of food stuffs procured through the Department of Food are arranged by the Controller General of Defence Accounts.

25.73 In respect of stores received by civil consignees in one financial year and paid in another year, the Pay and Accounts Officer sends an intimation of debits to the consignee, so that the latter may take cognisance of the liabilities for the purpose of exercising financial control against provision of funds.

(F) AUDIT OF STORES AND STOCKS

General

25.74 The audit of payments for the purchase of stores is conducted according to the rules prescribed by the Comptroller and Auditor General for audit of expenditure from the consolidated Fund of India/the Union Territories with Legislatures and of the States. Audit processes are applied to both the purchase and disposal of Stores.

25.75 Whenever material assets have to be retained for any time in the custody of Government servants, stores accounts have to be maintained. Stores accounts, which are records of all articles brought into and sent out of stores, may be either quantity accounts without values or such accounts with value. The general principle to determine the system of accounts to be used is that the former should be employed in the case of stores the cost of which is charged to a final head on purchase or manufacture whereas the latter applies when the cost of the stores is subject to subsequent adjustment.

Audit of Stores Accounts

25.76 The audit of the accounts of stores and stock kept in an office or department of Government is conducted in accordance with the instructions laid down below:

(1) Departmental regulations exist governing purchase, receipt and issue, custody, condemnation, sale and stock taking of stores. Audit should examine whether they are well devised and properly carried into effect and should bring to the notice of the Government any important deficiencies in quantities of Stores, held, or any grave defects in the system of control.

(2) Audit should ascertain that the accounts of receipts of stores, whether purchased or otherwise obtained and of their issues and balances are correctly maintained. Where a scale has been prescribed by Government or other authority for issue of Stores of any particular kind, it should be seen that the scale is not exceeded.

(3) Stores, in many cases, represent a locking up of capital, which is not justifiable unless essential. In order to effect economy in this direction Audit should see that the balance in hand does not exceed the maximum limit prescribed by a Competent Authority and is not in excess of requirement for a reasonable period.

(4) Audit should scrutinize sanctions to writes off of stores accorded by a competent authority and bring to the notice of Government any defect of system which appears to require attention.

(5) The accounting for and maintenance of unserviceable stores which cannot be utilized by the departmental in whose custody they are kept, involve waste of labour and space. The retention of stores in excess of the probable requirements of the department in the near future may result in loss to Government through deterioration. Audit should, therefore, see that measures are taken to survey, segregate and consider the disposal of unserviceable surplus and obsolete stores in accordance with the procedure prescribed by Government in this behalf.

(6) It is an important function of Audit to ascertain that the articles are counted periodically and otherwise examined to verify the accuracy of the quantity in the books. Audit shall not except when specially authorized to do so assume responsibility for the physical verification of stores, but it has the right to investigate balance of stores if any discrepancies in the stores accounts suggest that such action is necessary. Audit has, however, to see that a certificate of verification of stores is recorded periodically by a responsible authority, that the system of verification adopted by the Executive is adequate and proper, that discrepancies found on stock taking are properly investigated and adjusted and that wherever possible the staff responsible for the verification is independent of the staff which is responsible for the physical custody of the stock or for keeping accounts of it. It should also be seen that wherever practicable, verifiers of stock work directly under the control of Government and not under the heads of individual department.

(7) Where a priced account is maintained, Audit should see that,

(a) the stores are priced with reasonable accuracy;

(b) the rate initially fixed are reviewed from time to time and revised whenever necessary so as to correlate them with the market rates;

(c) the value accounts tally with the accounts of works and of departments connected with stores transactions;

(d) the total of the value accounts tallies with the outstanding amount in the general accounts;

(e) the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores; and

(f) steps are taken for the adjustment of profits or losses due to revaluation, stock taking or other causes and that these are not indicative of any serious disregard of rules.

The results of audit of Stores and Stock of Civil and Public Works are incorporated separately in the Audit Report.

Audit of Purchase of Stores

25.77 As regards purchases of stores, Audit will see that:

(i) the purchases are covered by proper sanction;

(ii) they are made economically in accordance with any rules or orders made by competent authority;

(iii) when stores are purchased from contractors, the system of open competitive tender is adopted and that the purchase is made from the lowest tenderer unless there are recorded reasons to the contrary;

(iv) the rates paid agree with those shown in the contract or agreement made for the supply of stores;

(v) certificates of quality and quantity are furnished by the passing and receiving Government servants before payment is made, except where the contrary is allowed by the rules of Government regulating purchase of stores; and

(vi) purchase orders have not been split up so as to avoid the necessity for obtaining the sanction of higher authority required with reference to the total amount of the orders. Cases involving uneconomical purchases of stores and losses due to defective or inferior nature of stores accepted and certified to the satisfactory in quality are brought to the notice of the competent authority.

CHAPTER 26

POSTS AND TELECOMMUNICATION ACCOUNTS AND AUDIT

(A) GENERAL

Expenditure

26.1 Much of the expenditure in the Indian Posts and Telecommunications Departments is on account of Pay and allowances, contingencies and works; and the procedure described in the relevant preceding chapters applies to such expenditure in these Departments also. This chapter deals with those branches of the work of the Departments which are distinctive.

Receipts

26.2 The major portion of the receipts of the Department of Posts is derived from postage, and that of Department of Telecommunication from message and telephone revenues.

26.3 Stamps were earlier sold at Civil Treasuries either direct to the public or to vendors (including Posts and Telegraphs offices) and the necessary credits were afforded to the Department through the Civil Accounts. Now the Postal Stamp Depots has been opened on the Circle basis. The Depots obtain and Stock postage and other stamps, the value of which is creditable to the Department of Posts, from the Central Stamp Store, Nasik and supplied to the Posts Offices. The duty of the departmental officers is confined, therefore, to seeing that stamps of the proper value are affixed to letters and parcels and that all stamps are properly defaced with date stamps so that they may not be available for use again.

26.4 In the case of a Telegraph Branch, a test check of inland and foreign messages transmitted throughout India is conducted by the Telegraph Check Office, Calcutta to see that the proper value has been realized in cash or in stamps as the case may be and that the stamps have been properly defaced. The checks so conducted are subjected to a test review during the statutory audit conducted by the Deputy Director of Audit, Posts Telegraphs, Stores, Works and Telegraphs Check, Calcutta.

26.5 Postage on postal articles is, subject to certain conditions, also paid by means of impressions of franking machines. An account is maintained with each licensee of a franking machine showing the amounts of postage paid him from time to time in respect of postal articles. The Executive is responsible for seeing that the postal articles have been franked by the licensee and that no under payment is going on.

26.6 The cost of telegraphs is generally recovered is cash; but those Government departments using service postage stamps for this purpose prior to January 1, 1965 enjoy the option to continue to do so if they find it difficult to arrange cash payment for telegrams issued by them. In a few cases (like field posts offices) the cost is, however, realized in the shape of stamps. In some large Telegraph Offices National Cash Register Machines have been installed for rapid booking of telegrams and the cost of telegrams so booked is also collected in cash.

26.7 In certain cases, telegrams are accepted without prepayment. Private telegrams may be booked without pre-payment if the sender has deposited with the Telegraph Office an amount varying with the number of his messages and the intervals at which the accounts are settled. A similar provision exists for press telegrams. In the case of private telegrams, bills are prepared by the Telegraphs Office, copies of which are checked by the Chief Accounts Officer, Telegraph Check Office. In the case of Press Messages, the bills are prepared by the Telegraphs Check Office, itself. Offices of Government may, under orders of the Director General, Department of Telecommunication send Government telegrams on credit. Bills for such telegrams are prepared by the Telegraph Office and copies of them are checked by the Telegraph Check Office. In all these cases, an additional fee is levied for the upkeep of the account and bills are paid in cash.

26.8 There are several other heads under which revenue is received in cash. The important items are commission on money orders and on Indian Postal Orders, receipts from other Posts and Telecommunications Administrations in settlement of message accounts, rents for wires and instruments leased to Railways and Canals, rents and royalties for Teleprinter Telex and Printogram services leased to the Press Agencies and other subscribers, recoveries from guarantors, rents of residential buildings etc.

(B) RELATIONS WITH THE TREASURY

(i) Postal Section

26.9 Cash collections and funds. Unlike most other departments, Posts Offices do not remit all their departmental receipts direct into treasuries , but are permitted to utilize their cash receipts for departmental purposes. They remit only the surplus cash to the treasury. The money paid into a treasury is forwarded with the memorandum of remittance and the Post Office Treasury Pass Book.

26.10 Directors/ Deputy Directors Accounts (Postal) place Head Post Masters in account with treasuries. The Postmasters draw necessary funds either by means of treasury vouchers or by cheques. A Postmaster may empower any of his sub-postmasters to draw against his drawing account Vouchers of the paid cheques support the details in the treasury lists of payments.

26.11 All transaction both of drawing and payments are recorded in the Treasury Pass Book maintained in each Post Office. This Pass Book is sent to the treasury with all cash transactions, as they occur, and attested by the Treasury Officer. In the case of drawings by means of cheques, the treasury pass book is not sent to the treasury at the time the entry is made, but it is sent only when the next cash transaction takes place. The entry for the cheque drawn is attested by the treasury officer only after the cheque is cashed. At the end of each month separate schedules showing the details of remittances to the treasury and drawings from Treasury are prepared by the Postmasters and submitted along with the monthly cash account to the Postal Circle Accounts office in support of the transactions in the cash accounts.

Note- At places where the cash business of the treasury is conducted by the Reserve Bank, or its branches or its agencies, Postmasters are placed in account with the Bank. The Postmasters draw funds from and remit surplus cash to, the Bank. The Postal transactions taking place in the branches and agencies of the Reserve Bank of India do not pass through the treasury accounts and consequently the accounts of the Civil Accountant General. These are brought to account direct against the Postal Accounts in the book of the Bank. Each office and branch of the bank furnish to the circle Postal Accounts office concerned everyday a copy of the debit/credit scroll relating to transactions together with their requisite vouchers. A copy of the daily debit/credit scroll is simultaneously sent by the bank to the concerned disbursing officers. At the end of each month a separate schedule showing the details of remittances to the Bank and drawing from the Bank are prepared by the Postmasters and submitted along with the monthly cash account to the Postal Accounts office in support of the transactions in the cash accounts.

(ii) Telecommunication Section

26.12 Cash collection and funds. Officers in charge of Departmental Telegraphs offices (excepting certain selected ones) draw funds from and remit their receipts to the local post offices. Superintendents, in charge of selected departmental telegraph offices, officers in charge of Telegraph and Telephone Engineering Divisions, Telephone Districts and Telecommunication Store Depots and Accounts Officers, Stores and Workshop Alipore, Madras, Jabalpur, Bombay and New Delhi obtain funds from treasuries by means of cheques. The paid cheques support the debits in the treasury list of payments. The disbursing officers who draw money from the treasury deposit their cash receipts also into the treasury. Cheques drawn by the disbursing officers are recorded in a Treasury Pass Book, whereas each remittance book of cash receipts is entered in a remittance and sent to the treasury accompanied by memorandum of remittance and is acknowledged by the treasury.

26.13 For cheques drawn, the treasury pass book duly completed for the month is sent to the treasury officer who issues a certificate of the total issues from the treasury on cheques drawn by the Telecommunication Officers. For payments into the Treasury, the Treasury Officer or the Accountant and the Treasurer as the case may be shall furnish the Telecommunication Officer with a separate receipt as his voucher for payment.

Note- At places where the cash business of the treasury is conducted by the Reserve Bank or its branches or its agencies, Telecom offices are placed in account with the Bank by circle Telecom Accounts. These officers draw funds from and remit surplus cash to the Bank. The Telecom transactions taking place in the branches and agencies of the Reserve Bank do not pass through the treasury accounts and consequently the accounts of the civil Accountant General. These are brought to account direct against the circle Telecom Accounts in the books of the Bank. Each office and branch of the bank furnish to the circle Telecom Accounts office concerned every day a copy of debit/credit scroll relating to transactions together with the requisite vouchers. A copy of the debit/credit scroll is simultaneously sent by the Bank to the concerned disbursing officer. At the end of the month a separate schedule showing the detail of remittances to the banks and drawings from Banks are prepared by the Telecom offices and submitted along with the monthly cash account current to the circle Telecom Accounts office in support of the transaction in the cash account current.

(C) PREPARATION OF INITIAL ACCOUNTS

(i) POSTAL SECTION

Organization and account records

26.14 The account unit is the Head Post Office, which incorporates in its accounts the transactions of the sub and branch post offices under it. The primary accounts maintained by a Head Post Office are:

(1) The Treasurer's Cash Book;

(2) The Head Office Summary;

(3) The Head Office Cash Book.

(1) Treasurer's Cash Book- In each head post office one of the clerks is appointed treasurer who receives and pay all moneys. All valuables are kept in a safe under double lock, the keys of one lock being held by the Postmaster and those of the other by the treasurer. All transactions of receipts and payments (including stamps) are entered in the Treasurer's cash book as they take place. At the close of the day the cash book is totalled and balanced and signed by the Postmaster, who at the same time verifies the cash balance.

(2) Head Office Summary- This is a classified account of cash receipts and payments of the head office and is written up daily by the treasurer, its daily balance agreeing with the daily balance of the treasurer's cash book. As each transaction of receipts and payments occurs it is entered not only in the cash book but also independently in subsidiary registers, such as letter postage account, register of miscellaneous receipts and payments, register of cash certificates, moneys orders and savings bank journals, register of treasury transactions etc. The daily totals of the subsidiary registers are taken into the summary. In this respect the

system is similar to that of a civil treasury. In addition to the account items, the summary contains a memorandum of items kept out of account in the joint custody of the Postmaster and Treasurer, as for example, undisbursed pay and allowances, value payable money orders remaining in hand, etc. It is signed daily by both the Postmaster and Treasurer.

(3) Head Office cash book- This is classified record of the daily transactions, not only of the head office but also of the sub and branch offices under it. The entries are made daily by the Postmaster from the head, sub and branch office summaries (the two latter prepared in the head office from the sub and branch office accounts) and progressive totals are struck from day today. A daily balance sheet is also prepared to effect a reconciliation between the Head Office Cash Book and the Treasurer’s cash book.

Monthly Cash Account

26.15 On the first of each month a cash account is sent by each head office to the Director/Deputy Director of Accounts (Postal) concerned. The entries are taken from the Head Office cash book and a statement is given at the foot of the account showing total drawings from and remittances to each treasury with which the head office (including its sub and branch offices) has transactions. The cash account is signed by the Postmaster and is accompanied by a cash balance report in the prescribed form, as well as vouchers and schedules.

Other returns

26.16 In addition to the monthly cash account and the cash balance report, the head office sends weekly or fortnightly as the case may be to the Director/Deputy Director of Accounts (Postal) concerned, journals of money order and cash certificate transactions of its own and its sub and branch offices, supported by vouchers.

Railway Mail Service

26.17 In the case of the railway mail service the account unit is the head record office and the primary account maintained in that office is the cash book in which the transactions with the local head post office are recorded. Cash accounts are submitted twice in the month by each head record clerk to the account office, which incorporates the accounts in the classified abstract of the head post office concerned.

(ii) TELECOMMUNICATION SECTION

Account records

26.18 Separate accounts are maintained by each Telegraph/Telephone Engineering Division and Telephone District and each officer in charge of a Departmental Telegraph Office. The former is responsible for all receipts realized and expenditure incurred in connection with the construction, maintenance and repair of telegraph lines and instruments within his jurisdiction, while the latter has to account for all receipts and disbursements of his own office.

26.19 The primary account record in the case of telegraph and telephone engineering divisions and Telephone districts and departmental telegraph offices is the cash book which contains a complete record of cash transactions as they take place. At the close of the month a classified account called the Account Current in the case of Telegraph and Telephone Engineering divisions and Telephone Districts or the ‘Primary Abstract of the cash Book’ in the case of the Departmental Telegraph Office is prepared and sent to the Director/Deputy Director Telecommunication circle Accountants concerned, for check and further compilations.

Stores Transactions

26.20 Main depots at Calcutta, Jabalpur, Bombay, Madras, New Delhi and circle Stores depots for the circles and telephone districts at various places as well as branch stores depot at Bangalore maintain a very large stock of materials and instruments required for the use of the department. Detailed priced ledgers for these stores transactions are maintained by the regional accounts office under the Chief Accounts Officer, Stores and Workshops to which the depots render daily accounts of receipts and issues. Monthly adjustments are made in the accounts office debiting the proper account heads with the net value of stores or freight charges incurred.

Works Accounts

26.21 In respect of construction, the responsibilities of Divisional Engineers of telegraphs and telephones and officer in charge of telephone districts are analogous with those of divisional officers of the Public Works Department. There is, therefore, a similar procedure in respect of registers of works, muster rolls and contractors ledgers.

(D) ACCOUNTS

General

26.22 With effect from 1st October, 1960 Post and Telegraphs Account has been created proforma and the balances of the posts and Telegraphs department are separated from the balances of the Central Government. All transactions with or on behalf of the Posts and Telegraphs Department arising in the accounts of the Central and State Government and vice-versa are adjusted by the Reserve Bank against the balances of the Departments of Posts and Department of Telecommunications.

26.23 The Posts and Telecommunication Departments are commercial Departments in the sense that they are expected to meet their liabilities from their own revenues. Surpluses after payment of dividend of the revenue of the Posts and Telecommunication Departments are appropriated to different funds of the Departments. The features of the Posts and Telecommunication accounting system are:-

(i) a capital Account to exhibit the value of the assets;

(ii) a Renewals Reserve Fund built up from contributions debited to the revenues of the Department; the Renewals Reserve Fund was formerly a Depreciation Reserve Fund first on a sinking fund, then on a straight line basis, but with effect from 1st April, 1936 the accumulations in the old Depreciation Reserve Fund were transferred to a Renewals Reserve Fund to which a annual contribution of a fixed sum was made from the Posts and Telegraphs revenues. From 1st April 1960 the surplus available after payment of dividend to General Revenues is utilized by the departments for making adequate contribution to the Renewals Reserve Fund, the balance of the surplus if any still remaining is founded by the Departments for being utilized for its development programmes and other capital needs. With effect from 1964-65 however, the contributions to the Renewals Reserve Fund have been made a charge against the revenues of the Departments and are, as such made before the payment of the dividend. From 1967-68 the Fund ceased to earn interest as its balance was netted against the dividend bearing capital outlay. In 1970, the Posts and Telegraphs Renewals Reserve Fund intended to meet the replacement costs of assets has been abolished and the balance at the credit of the Fund has been set off against the capital at charge by proforma without financial adjustment. All expenditure on renewals and replacement hitherto debitable to the Renewals Reserve Fund is treated as fresh capital outlay. From 1st April 1970 the value of the assets of the Department is shown as reduced by the amount of depreciation calculated on the historical cost of assets, as well as to meet the inflationary element of the cost of replacement of assets from the working expenses.

(iii) Suspense Accounts, in which are recorded the transactions relating to the purchase and consumption of stores and the transactions relating to manufactures, etc. undertaken in Departmental Factories and

(iv) The exhibition of the true or commercial profit or loss on the working of each of the three branches of the Telecommunication Department, namely, Telegraphs, Telephones and Radio. The Department of Posts and Telecommunication bear all charges incurred on their account in other departments and receives credits for all services rendered by these departments to other departments.

Capital Account

26.24 The Capital outlay of the Departments of Post & Telecommunication including outlay on renewals and replacements, is recorded under the major head 5201-Capital Outlay on Postal Services and 5225-Capital Outlay on Telecommunication Services outside the Revenue Account. The outlay on renewals and replacements is subsequently set off against an equal amount transferred from the Renewals Reserve Fund. Prior to 1st April 1933, however, only such portion of the outlay on renewals and replacements as was debitable to the Depreciation Reserve Fund was being met from the Fund, the remaining cost of replacements being met from interest bearing advances from the Government of India. The reconstituted Capital Account started with the depreciated values of the assets existing on 1st April 1925 and includes the total subsequent capital outlay on the acquisition or construction of new assets and the total of interest bearing advances obtained during the years 1925-26 to 1932-33 from the Government of India for the rehabilitation of the assets existing on 1st April, 1925. On the partition of the country on 15th August, 1947, the Indian share of the capital outlay to the end of the pre-partition period under each category of assets was worked out in accordance with percentage fixed by the Government. The assets were taken over by either Government according to their physical location and an inventory was compiled from the list furnished by the units from their records. The portion of capital expenditure which the Deptt. of Posts and the Deptt. of Telecommunications decide in each year to meet from the internal resources of the Department is transferred from the Posts & Telegraphs Capital Reserve Fund to the capital Account where it is taken as reduction of expenditure under dividend bearing capital outlay of the Department.

26.25 Dividend up to 31st March, 1960 was payable on the total capital outlay whether financed from Loan Funds or From Revenue. From 1st April 1960, a dividend is payable to General Revenues calculated on the mean capital at charge at the beginning and at the end of the year reduced by the amount of the accumulated surplus at the credit of the department in the proforma account on 31st March, 1960 and further reduced by the balances in the Renewals Reserve Fund with effect from the year 1967-68. The rate of dividend will be fixed by the Government each year.

Note- The Renewals Reserve Fund was wound up in 1970 and its balance was netted against the dividend bearing capital outlay of the P&T Departments. From 1974 the department will pay dividend to General Revenues on the Capital outlay which has been arrived at after deducting the balance in the Renewals Reserve Fund and the accumulated surplus of the department and on the capital further advanced to it from the General Revenues. Dividend is not payable in respect of the Capital outlay met from the internal resources of the P&T Departments.

Records of Assets

26.26 Accurate numerical records of all capital assets are maintained by the executive.

Capital Reserve Fund

26.27 Prior to April 1, 1968 there were two funds namely Telephone Development Fund for Capital Telephone works and the Posts and Telegraphs Development Fund for certain other items of Posts and

Telegraphs Capital works. While the former was fed from advance rentals recovered under the Own Your Telephone Scheme, the latter was fed from working surpluses of the Posts and Telegraphs Departments. In order to simplify the existing accounting procedure relating to the Capital Expenditure of the Posts and Telegraphs Department the Telephone Development Fund and the Posts and Telegraphs Development Fund were replaced by a new fund called Posts and Telegraphs Capital Reserve Fund with effect from April 1, 1968. The balances in the two funds as on March 31, 1968, were transferred to the new fund. Wording surpluses of the Posts and Telegraphs Department after payment of dividend and appropriations to the Revenue Reserve Fund, if any to be made, are appropriated to the new fund, which is utilized for financing such part of the Posts and Telegraphs Department's Capital expenditure as may be decided upon each year. The interest on the balance in the fund accrues to the fund, from April 1, 1970, the supplementary provision towards inflationary element of the cost of replacement of assets which is made annually from working expenses is appropriated to this fund.

Revenue Reserve Fund

26.28 The Revenue Reserve Fund has been constituted from April 1, 1960 to secure the payment of dividend to General Revenue in those years when the net receipts are insufficient to meet such payments. Credits to the Fund, of an amount, to be decided by the Posts and Telegraphs Board, are made from the surplus after payment of Dividend to General Revenues. From April 1, 1967, this fund also receives credits for loans taken from General Revenues for the payment of dividend when the surplus is insufficient to meet it or for meeting the shortfall in the working results of the Department and bears debits for final withdrawal of these amounts to meet the liability for which the loans has been taken. The interest on the balance at the credit of the fund accurse to the fund itself.

Revenue Account

26.29 Revenue realization and Revenue expenditure (other than dividend charges) of the department are booked under the major heads 1201-Postal Receipts/ 1225-Telecom Department and 3201-Postal Services/ 3225-Telecom Services. These major heads are divided into a series of abstracts and sub-divided into a number of detailed heads.

The portion of the capital expenditure debatable in the revenue section of accounts is explained in the paragraph 6.53 above. It is important to note that a large amount of revenue expenditure of the department relates jointly to two or more of the four branches namely (i) Post Office, (ii) Telegraphs, (iii) Telephones and (iv) Radio. The arrangements of the account is such that receipts or expenditure relating solely to one branch are exhibited separately while those relating to more than one branch are isolated for subsequent apportionment between the branches concerned.

Adjustment of Dividend charges

26.30 The dividend on the capital outlay of the Telecommunication Departments is recorded under the Major head "3220- Dividends to General Revenues". The Department of Posts is not required to pay Dividend to General Revenues from the year 1985-86.

Profit and Loss Account

26.31 To show in a concise from whether the working of the Department shows a commercial gain or loss, the Profit and Loss Account of the Departments is prepared annually, exhibiting the Gross Receipts and working Expenses.*

* Note :- From January, 1985, the Posts & Telegraphs Department has been bifurcated into two distinctive departments viz. Department of Posts and Department of Telecommunications under the Ministry of Communications. From the year 1985-86 Separate Demands for Grants and Profit and Loss Accounts are prepared for each of Department.

(E) AUDIT

(i) Postal Branch

26.32 The functions of the postal department are more on agency basis which serve the public as an utility service rather than doing a commercial function. The following are the various items that are transacted through the post office:

(1) Savings Bank;

(2) Cash Certificates;

(3) Money Orders;

(4) Pension Payments including Railway and Defence Personnel on commission basis;

(5) Receipt of collection of telephone revenue bills;

(6) Issue and payment of Indian Postal Orders and British Postal Orders;

(7) Sale of postage stamps;

(8) Sale of revenue stamps;

(9) Realization of customs duty on foreign parcels;

(10) Sale of Public Utility Forms;

(11) Carriage of mails.

26.33 A major portion of the revenue of the department is realized through the sale of postage stamps which again is a service to the public rather than a revenue earning item for the Postal Department.

26.34 The rates for sale of post cards, inland letter and postal cover have been fixed by the Government only with a view to provide communication facilities to the common man at more cheaper rates. The other transactions are done on a commission basis i.e. Money Order, Indian

Postal Order, British Postal Order, etc., commission for which is directly realized from the public on fixed rates.

Postal Life Insurance Policies

26.35 Receipts on accounts of premia for and refund of loans granted on Postal Life Insurance policies are checked in the office of the Heads of circles/ Deputy Directors, Postal Life Insurance, Calcutta. A test check of Postal Life Insurance Accounts and Ledger cards maintained by the executive officers is conducted during local audit inspection of these offices for seeing that the policies issued, loans granted and payments made are strictly according to rules, that rates for premia and instalment of loans repayment are filed in accordance with Government orders and are recovered regularly and that the rules governing lapses of policies are followed.

Money Order Transaction

26.36 In the Cash Accounts received in the circle Accounts Office from Head Post Offices, Money Order transactions are entered in lump under special heads, the figures relating to payments being classified according to the month of issue. A detailed account of them is prepared in the Postal Circle Accounts Office under a special procedure. Audit consists in seeing by test check that for every money order paid there is a corresponding credit at some offices of issue, and that there are no excess or double payments. Every Head Office sends periodically an issue List in which the money orders which it issues and the commission thereon are entered in detail. The commission entries in the Issue Lists are test checked in audit. The total of amounts of money order as shown in the Issue Lists is checked by a independent total cast on a Comptrometer Machine. Paid Lists are also submitted periodically in which all payments made are entered and supported by paid money orders containing payee’s receipts. The amount of each order paid is not compared with the entry in the paid lists, but the amounts shown as paid in the money orders are totalled on a comptrometer machine; and if the total reached on the machine agrees with that in the paid lists, the entries, in the paid lists are taken as correct.

26.37 The enormous number of Money Order transactions renders it necessary to divide the vouchers into suitable compartments, for facility of audit and of verification with some degree of certainty of the balances outstanding. This is secured by each month's issues being regarded as a separate unit. The payments, too, made in any month are separated according to the month of issue, and so separate paid Lists are received according to months of issue for the payments of the month. There are thus twelve separate receipts and payments heads in the ledgers, and the credits on account of money orders issued in one month in a given circle form a distinct compartment in the accounts, and the payments or debits are classified against it. The balance of each month's issues is thus worked out. The work may be said to have been satisfactorily performed when the particular money orders composing this balance can be identified.

26.38 The voucher received with each paid List are sorted and arranged according to the office of issue and serial number and then debit-checking is undertaken by the Postal circle Accounts office.

This consists in marking off in the issue List every money order for which a receipt of payment is available. After the payment for two months have been thus debit-checked against the issue List of any month, the outstanding unpaid items are extracted. The total of these items if the work were done accurately should agree with the balance on the books for that month. In practice, however, differences do emerge, the book balance generally being found less owing to mistakes in the several stages of check and adjustment, or owing to paid money orders being mislaid or so left unchecked. Steps are taken to reduce this difference by overhaul of the adjustments made and tracing the charges of 'unpaid' money orders in the paid Lists. Although the difference shows that the liability of the Department is more than that indicated in the accounts, experience shows that no special financial or account adjustment is necessary. Almost always the value of lapsed money order (vide para 26.39 below) exceeds the “unexplained” difference.

26.39 A money order remains current for the month in which it is issued and for the following month; thereafter it becomes what is technically called “void”. It can be reissued for payment to the partly concerned under proper authority, the value lapses to Government if it remains unclaimed for three financial years, but this does not prevent subsequent payments of these money orders if claims are received at a later date.

26.40 When “void” money orders are paid, they are included in a separate list instead of the ordinary paid list, but checking is conducted in a manner similar to that prescribed in respect of ordinary money orders.

26.41 Money Orders are also exchanged with foreign countries through certain specified Head Post Offices known as Offices of Exchange, and the accounts of such foreign money orders are adjusted by the several Postal Circle Accounts Offices.

Saving Bank Transactions

26.42 Savings Bank transactions like Money Order transactions, are also entered in the Cash Account in lump under separate heads, and the work of accounting is carried out by the saving Bank Central Organization in Head Post Office etc.

26.43 Separate ledger account for each depositor is maintained by the Head Post Office according to the Card Ledger System. The Principal account received by the circle Accounts Office is a consolidated statement showing monthly total of each type of transactions, viz deposits, withdrawals, corrections to interest, transfers of accounts, etc., besides the total opening and closing balances for the month. A grand summary of interest allowed by the Post Office and credited to each individual account is also received annually. A preliminary comparison is made between the amounts appearing in the monthly consolidated statement and in the Cash Account and a final reconciliation between the total monthly transactions and the amounts appearing in the Detail Book is made through a system of Control Accounts, of which one is maintained for each Head Post Office. The closing balance as worked out in the Control Account is also agreed with that shown in the Consolidated statement received from the Post Office. The individual ledger accounts, vouchers and other accounts records maintained in the Post Office including Saving Bank Central Organization are subjected to local audit inspections periodically.

26.44 Each Head Post office also submits Debit/ Credit transfer journals for the Savings Bank Accounts transferred to/received on transfer from other Head Post Offices by it every month and each outward transfer is paired by the Central/Circle/ saving unit as the case may be with the corresponding inward transfer.

26.45 With effect from 15-3-68, a new scheme of ‘Post Office fixed Deposit Accounts’, has been introduced according to which term deposits for 5 years are accepted by the Post Office Savings Bank. The Central and Local Audit procedure as applicable to Savings Bank Account applies, mutatis mutandis, to these accounts also.

26.46 Post Office Cumulative Time Deposit Rules which came into force on April 1, 1982 provides for the opening of one type of account namely a 10 year account and its maturity period shall be ten years. A 15 year account opened under the Post Office Saving Bank (Cumulative Time Deposit) Rules 1959 shall be continued under specified conditions. The balance at credit together with interest is paid at the end of the term in accordance with prescribed table.

The Principal Account of Post Office (Cumulative Time Deposit) transactions received from a Post Office is the journal in which every case of deposit or withdrawal is shown in chronological order. All withdrawal entries are supported by warrants of payment and all entries of new accounts are supported by the applications for opening the accounts. The journals of (Cumulative Time Deposit) transactions are test checked during local audit and it is seen that the transactions are covered by rules and orders issued by competent authority, that vouchers or other documents have been submitted for every entry appearing in the journals and that the vouchers have been prepared according to rule and constitute genuine evidence of the transaction having occurred as detailed in the accounts.

Governmental Securities

26.47 To facilitate the investment of Savings Bank deposits in Government securities the Post Office acting as agent to the Government of India undertook the purchase, sale and safe custody of securities on behalf of Savings Bank Depositors. The facility of purchase of Government Securities through Post Office on behalf of Savings Bank Depositors was withdrawn from March 1, 1965 while the sale and safe custody of the securities already purchased through Post Offices continues. The Director of Audit Posts and Telegraphs, exercise on behalf of the Comptroller and Auditor General the same authority in respect of the audit of Government securities transactions as in the case of Savings Bank transactions. The accounts work in connection with Government Securities is conducted in the office of the Director of Accounts (Postal) Calcutta.

Post Office Certificate Transactions

26.48 The transactions relating to post Office certificates are entered in the cash Account under a separate head and accounted for by a special procedure. The Postal Circle Accounts Office maintains a Stock and Issue Register of Post Office certificates. On receipt of the consolidated list of certificates issued to Post Offices, the serial number of each Post Office certificate is entered separately in the register. From the weekly lists, received from the Post Office relating to Post Offices Certificates issued and discharged, the week of issue or discharge as the case may be, is posted against the particular number appearing in the register. The issues and discharges as posted in the register are then compiled in monthly proof sheets and the figures agree with those shown in the Circle Balance sheet in which the monthly transactions of Head Offices are entered in lump.

26.49 The balances of Post Office certificates issued but remaining un-discharged on the March 31 of each year as shown in the balance sheet, are verified with the actual outstandings in the stock, issue and safe custody registers, and all differences reconciled.

26.50 Lists of Post Office certificates remaining unsold in Post Offices on the March 31 of each year are received in the accounts office. The entries in the list are compared with those in the stock and issue registers and the discrepancies if any, noticed are settled in communication with the post master concerned. This check is an important means of detecting fraudulent issues within one year of the transactions.

26.51 Audit consists in seeing during concurrent audit by test check that the postings in the registers have been made with issue and discharge journals and vouchers to see that the entries have been correctly made. The interest allowed on discharge certificates should also be checked with reference to the dates of issue and discharge of the certificates.

Customs Duty realized by Post Offices

26.52 Customs duty is also realized by Post Offices in respect of letter mail articles and postal parcels containing dutiable articles received for delivery in India from foreign countries. All such articles are received only through certain specified post offices called the Offices of Exchange e.g. Bombay, Calcutta, Madras, New Delhi, Jaipur (Sub-Exchange offices under Madras), and Ahmedabad Sub-Exchange office. After the articles are assessed by the local customs authorities, the office of Exchange sends them on to the Post Offices of destination where the duty is recovered in cash at the time of delivery.

26.53 The amount of Customs duty on the parcels despatched from India to certain foreign countries, may with a small commission, be deposited by the senders. The sums so received are converted into postage stamps, which are affixed to the sender's agreements. The amount of customs duty and the Postal fee are adjusted by deduction from the revenue derived from the sale of stamps used for the purpose.

(ii) Telecommunications

26.54 (a) The Telegraph and Telephone Branches construct and Maintain all the telegraph and telephone lines and wires which run alongside the Railway lines, and Canals. The wires necessary for the Railways for their own administrative telegraph are leased to them, and rent is recovered from them at a fixed annual rate per kilometres of wire. Instruments for the use of Railway and Canal Offices are also supplied by the Telegraph Branch on payment of rent. The executive officers supply details of the wire mileage, and also of different kinds of instruments supplied to the Circle Accountant which calculates the rent and arranges for the recovery of the revenue either in cash or by book transfer with the Accounts Officer concerned.

(b) Telegraph offices are also opened at the instance of a State Government or private person or body of private persons on an annual guarantee protecting the Department against loss in working and maintaining them. Bills for the deficit in working are prepared annually by the Circle Accountant on data furnished by the Executive and the amount is realized in cash.

(c) The Tata Iron and Steel Company Limited, a private body, has been Licensed to work the telephone system for profit at Jamshedpur on payment of royalty at a fixed rate on the revenue. The amount of royalty is calculated by the Divisional Engineer concerned on the basis of audited monthly and quarterly accounts of the company and in accordance with the terms of the license.

26.55 Audit of expenditure on Telecommunication systems which covers Revenue expenditure, Capital expenditure and Revenue Receipts has been divided into four parts viz.

(i) Establishment Audit.

(ii) Works Audit.

(iii) Project Audit.

(iv) Receipt Audit.

The principles and procedures followed for these audits are the same as those for the civil Departments.

CHAPTER 27

RAILWAY ACCOUNTS AND AUDIT

(A) GENERAL

Railways-Ownership

27.1 As a result of federal financial integration the entire Railways System in India, with the exception of a few branch lines, is now owned and operated by the Government of India. In virtue of the delegation made under Section (2) of the Indian Railways Board Act, 1905, the central controlling authority in respect of all the lines vest in the Railway Board which functions as a Department of the Government.

Railway Finance

27.2 Until 1924, the Railway undertaking formed an integral part of the administrative machinery of the Government without an independent financial status. Primarily in order to secure stability to the General Finances of the country by relieving it of the violent fluctuations caused by the incorporation therein of railway estimates and secondly to enable the railways to have some flexibility in administration and to carry out a continuous policy based on the necessity of making a definite return to general revenues, the railway finances were separated from the General Finances in 1924. This separation based on a recommendation of the Committee of Legislature in 1924 bestowed on the Railways the status of a separate financial entity. The most notable features of the convention were firstly the fixing of a definite annual contribution from Railway to General Revenues* calculated with reference to the capital outlay on the railway system and the profits earned by it and secondly, the establishment of Railway Reserve (later renamed as Revenue Reserve Fund) and Depreciation Reserve Fund for the Railways. Before the

* The expression "General Revenue" occurring in this chapter means the revenue of the Central (Union) Government as distinct from Railway revenues.

depreciation Reserve Fund was set up, the cost of renewals and replacements was being charged as working expenses. After the Fund (based on the assumed lives of the various types of assets) was treated as working expenses and the cost of all renewals and replacements met from the Depreciation Reserve Fund.

27.3 Under this arrangement the contribution from Railway Revenues to General Revenues continued to be an indeterminate amount, dependent on the volume of the railway revenue surplus in individual years and did not assist either forward planning of Civil Estimates accurately or building up of adequate reserves by the Railways in years of prosperity so as to ensure maintenance of at least a minimum return to General Revenues in years of depression. The convention thus produced the anomalous result of securing substantial contributions to general revenues in years of prosperity while denying to it any contribution other than the interest charges in years of economic depression, when the need for assistance was the greatest. In order to rectify these distortions, the rate of dividend as well as other financial arrangements between the railways and the General Finances are reviewed once in five years by a Parliamentary Convention Committee, which is constituted by a resolution passed by the Lok Sabha and adopted by the Rajya Sabha. The recommendations of the Committee are adopted by a resolution of the Lok Sabha and the Rajya Sabha.

27.4 The separation of Railway from General Finance has reference only to railway revenue and expenditure vis-à-vis the non-railway (General) revenue and expenditure. It does not involve separation of the ways and means part of the two accounts. The Railways have no working balance of their own, whether opening or closing. However, the balances in various Railway Reserve Funds (except development fund) carry interest at the same rate as that paid as dividend.

Organization and Management

27.5 The Indian Railways network is owned and managed by the Union Government. The operations are controlled and directed by the Railway Board. The Board has six members including the Financial Commissioner for Railways and the Chairman who also holds a functional portfolio. The Chairman is ex-officio Principal Secretary to the Government of India in the Department of Railways. The Chairman is responsible for intra Board co-ordination. The Financial Commissioner for Railways represents the Ministry of Finance on the Board and also functions as ex-officio Secretary to the Government of India in the Ministry of Transport, Department of Railways (Railway Board) in financial matters. He has direct access to the Finance Minister whom he keeps informed of developments in the Department of Railways. In any case of disagreement with the Chairman, Railways Board or the Railway Minister on any financial aspect, he has the right to refer the case to the Finance Minister. Each member is an ex-officio Secretary to the Government of India.

27.6 The Zonal Railways and Production Units constitute the field organizations and operation managements while the Railway Board at the apex constitute the top management group. The Railway Board has been set up to discharge the fundamental management functions of planning, co-ordination, organization, direction and control on overall basis for the purposeful functioning of the Railway system in the country.

(B) CASH RECEIPTS AND PAYMENTS

(i) RAILWAYS-OPEN LINES

(a) Cash collection and funds

27.7 Railway Station remits its cash collections daily to the Accounts Officer of the railway at headquarters who makes consolidated payments into the headquarters Government treasury/Banks. At the end of each month a consolidated receipt is furnished by the treasury to the Accounts Officer. A few large stations pay their collection direct into the nearest treasury/local Banks. Funds are obtained on cheques.

(b) Preparation of Initial Accounts

General

27.8 This part deals only with the initial accounting system in the Railways.

Receipts

27.9 On Railways, the revenue unit is the station master, who remits his cash collections daily to the Accounts Officer and sends his monthly accounts of receipts. Vouchers relating to foreign claims of Railways are sent to the Accounts Officer with supporting lists for adjustment.

27.10 Each station maintains two main cash books for coaching and goods traffic respectively. There are also a number of subsidiary registers in which are recorded the details of the collections under each head of traffic. Thus under coaching, a separate account is maintained in respect of passenger's tickets, excess fares, parcels luggage, horses, carriages and dogs etc. and under goods on account of both inward and outward consignment. Each of these accounts is again sub-divided into two parts according as the traffic is local that is originating and terminating on the same Railway or "foreign" that is originating on one Railway terminating on another Railway.

27.11 At the close of the month each Station Master prepares two cash accounts called balance sheets, one for coaching and the other for goods transactions. The entries for both receipts and payments (that is, remittance to the Accounts Office) are taken from the Cash Books and subsidiary registers and are supported by vouchers and schedules. The closing balances represent the cash in hand or sums recoverable for which the Station Master is accountable.

Payments

27.12 Except in specified cases, the Station Master makes no payments from station earnings nor indeed do any Railway Officers on open lines. Payments are made by the Accounts Officers, after check of the bills except in specified cases where only post checks are exercised through the agency of a staff of cash and pay office. The spending units are the various departments of the Railway, namely stores, engineering, traffic, mechanical etc. or the divisions. After the bills are checked and paid they are entered in the primary registers and books, from which the monthly accounts of the Railway are compiled.

27.13 The executive departments responsible for the maintenance and working of open lines of a Railway are not permitted except in certain special circumstances, to make their own purchases of materials required by them in their operations. All such purchases are centralized in the Stores Department under the control of a Controller of Stores by whom issues of materials are made to executive departments as required. Initial documents connected therewith are submitted to the Accounts Officer, by whom the stores accounts are compiled, the Controller of Stores maintaining numerical records of stock only.

(ii) RAILWAYS UNDER CONSTRUCTION

Organization

27.14 For administrative purposes a railway line under construction is divided into a number of divisions, each being in charge of an Executive Engineer who is responsible for all the expenditure incurred in his division whether by himself or by his subordinates. As in case of the Public Works Department, each railway division is divided into a number of sub-divisions which are in charge of Assistant Engineers. The procedure followed in accounting for the receipts and the payments of a railway under construction is basically different from that described earlier in the section dealing with the Public Works Department, in as much as these functions in the case of the former are performed by an independent Accounts office (and not by the Executive Engineer as in the case of Public Works Department). The payments which the Executive Engineer has usually to make are arranged by the Accounts Officer. Normally, therefore, all initial accounts of cash expenditure are kept in the Accounts office. All cash receipts are remitted to the Railway Cash office.

(C) ACCOUNTING AND INTERNAL CHECK

(i) GENERAL

Main Divisions

27.15 The following paragraph explain briefly the general principles under the accounting and internal check in regard to-

(i) capital expenditure;

(ii) revenue expenditure; and

(iii) receipts

are done by the Railway Accounts Department

(ii) CAPITAL EXPENDITURE

Provisions of funds for capital expenditure

27.16 The main source from which funds are provided for capital expenditure on Railways are:

(a) loans from surplus general revenues or cash balance accruing from previous surplus;

(b) amounts borrowed in the open market.

Programme of capital expenditure

27.17 The following procedure is followed in determining the programme of capital expenditure on Railways.

The entire amount, required for railway construction expenditure in any year, is set out in an annual estimate, the limits of which are determined on the one hand by the funds which can be made available from the sources mentioned in the preceding paragraph and on the other by the capacity of the Railways to spend the money profitably and economically within the year. Some time before the preparation of the budget for the next financial year, a careful forecast is made of the probable requirement on the basis of the survey made under competent sanction. The amount for which the programme is to be prepared having been decided, the apportionment of this amount between the several Railways, irrespective of the sources from which the funds are to be provided, is then settled by the Ministry of Transport, Department of Railways (Railway Board) on the basis of estimates of requirements received from the Railway Administration.

27.18 All proposals for expenditure on the construction of new lines are submitted for the sanction of competent authority supported by estimates; and ordinarily sanction is not accorded till such estimates are received and considered.

Check against construction estimates

27.19 The construction estimate for a new railway, after it has received the sanction of Government, becomes the authority for the Financial Adviser and Chief Accounts Officer to pass expenditure on the project up to the amount sanctioned under the several heads and sub-heads of the estimate, and it is his duty to bring to the notice of the Engineer-in-chief or other administrative officer in charge of the work the fact that the provision under any head or sub head is being or is likely to be exceeded, immediately after this becomes apparent. For the purpose he keeps a register in which is recorded from month to month the expenditure actually incurred against the sanctioned provision under each head and sub head.

27.20 The Engineer-in-Chief or other Administrative Officer in charge of the work has been delegated with power subject to certain limitations to transfer anticipated savings under certain heads/sub heads to meet probable excesses under others. If any excesses occur which cannot be regularized by the Engineer-in-Chief, or the Administrative Officer in charge of the work or if he is satisfied that there is reasonable probability of such excess occurring, a reference must immediately be made to the Railway Board, accompanied if necessary, by a revised estimate with a full explanation of the causes which have led or are likely to lead to the excesses.

Check against budget provision

27.21 In addition to the control exercised over the total construction expenditure on a railway by means of the construction estimate, there is the further control to be exercised over the expenditure in any year with reference to the budget provision for the year as in the case of any other expenditure of the Government of India. Funds for the year for capital expenditure on all Railways are obtained through budget/ supplementary grants by the Ministry of Transport , Department of Railways (Railway Board) which distribute them among the several Railway Administrations.

Control over capital expenditure

27.22 Expenditure against provision of funds under the capital account is closely watched in order to ensure on the one hand that the total provision for all Railways is not exceeded and on the other that lapses of the allotments for all the Railways combined are minimized.

27.23 The Financial Adviser and the Chief Accounts Officer accordingly sees that the amount allotted to the railway is not exceeded and assists the General Manger and the heads of departments by issuing warnings to them as soon as the records show that there is a probability of an excess over the sanctioned allotment or that portion of it which is entrusted to the head of the department concerned. He also brings to the notice of the Administration the likelihood of any portion of the allotted amount not being spent during the year, in order that the amount no longer required may be definitely surrendered to the Ministry of Transport, Department of Railways (Railway Board) so that it may be placed at the disposal of some other Railway which is in urgent need of additional funds.

(iii) REVENUE EXPENDITURE

27.24 he revenue expenditure of railways includes; working expenses incurred in connection with the administration, operation, maintenance and repairs of lines open for traffic;

- Payments to worked lines.
- Miscellaneous Railway Expenditure.
- Open line works (Revenue) covering the cost of unremunerative works for improvement of operational efficiency costing up to Rs.10 lakhs.
- Land and subsidy to subsidized railway companies.
- Dividend payable to General Revenues.

Sanction and provision of funds

27.25 As in the case of lines under construction, before any payment can be made the items of expenditure or work for which the claim is put forward must have been sanctioned by a competent authority and funds must exist in the budget estimates of the year to cover the charge.

27.26 Expenditure of a capital nature on new works and improvements on open lines is incurred against the construction or detailed estimates of works. Works costing Rs.10 lakhs each or more are listed individually in the works programme forming part of budget documents and a lump sum provision is made for other works. Audit against provision of funds is conducted in accordance with the principles described in Chapter 20.

27.27 From the total sum voted by Parliament for expenditure on all the Railways during the financial year, a budget allotment is made by the

Government of India, Ministry of Transport, Department of Railways (Railway Board) to each Railway Administration for ordinary revenue expenditure during the year, against which the General Manager is competent to authorize all outlay subject to the condition that specific sanction of competent authority must be separately obtained to items of expenditure on establishment or on works where under rules such sanction is necessary. The fact that a charge which requires a special sanction has been included and passed in a budget is no authority for its payment.

Payments and accounting

27.28 The system of accounting for expenditure on open lines of railways arises from the fact that departmental officers have no concern with actual payment, which is made in the Account Office after pre-check of the bills. Thus the duties of departmental officers on open lines are as a rule confined to seeing that claims are correctly prepared both as to quantity and quality of the work done, that proper records are kept of the initial transactions and that bills are punctually submitted to the Accounts Officer for check and payment.

27.29 The bills received from departmental officers, which consist of bills for pay and allowances, muster rolls, contract certificates (or bills) for payments to staff, labourers, contractors, etc. are checked in the Railway Accounts Office in much the same manner as such bills in non separated Audit and Accounts Offices are audited.

27.30 Before submission to the Accounts Office, the bills, so far as they relate to revenue charges are posted into departmental allocation registers and so far as they relate to capital expenditure into the detailed works registers maintained in district or divisional engineering offices. The object of these registers is to keep heads of departments informed of the progress of expenditure against the estimates and allotments and they are required to be sent to the Accounts Office once a month for reconciliation with the corresponding Revenue Allocation Register/ works registers maintained in that office which are posted from the checked bills.

27.31 On Railways where the divisional system has been introduced, separate allocation registers are not maintained by the departmental officers.

Workshop expenditure

27.32 The maintenance of all the rolling stock and most of the other equipment of the railways in good repair is undertaken in the various workshop. The “Workshop” is divided into its constituent ‘Shop’ viz, either ‘Process Shop’ such as Foundries, Saw Mills, or ‘Job Shops’ such as finishing shops so as to bring about departmentalisation of the different kinds of work done and of expenditure incurred.

In the case of big Workshops, a Workshop Accounts Officer is in charge of internal check, costing and accounting and the expenditure in Workshops. Workshop expenditure is recorded under suspense heads of the capital account, which are relieved only when actual issues are made to capital and revenue works and services. The primary business of the workshops is to repair locomotives, carriages and wagons; some of the shops also manufacture spare parts, under frames, etc. The actual cost of manufacture is calculated and is transferred to the accounts of the consuming department concerned. The essential functions of Internal check are to ensure the correct calculation of the cost of such job and to watch the recovery of this cost from the department or person for whom the work is done.

27.33 In addition to repair workshops on the Railways, there are some major independent production units which are engaged in the manufacture of locomotives, carriages, etc. such as Chittaranjan Locomotive works at Chittaranjan, the Diesel Locomotive Works at Varanasi and the Integral Coach Factory at Perambur (Madras). The accounts of these units are maintained independently.

27.34 All work done in a workshop except ordinary maintenance and repairs must be carried out against a duly sanctioned estimate such as is required in the case of engineering capital and revenue works. The estimates are,, of course, treated purely as estimates, the actual cost of the work being debited to the departments concerned. When work is undertaken for private parties, the amount of the estimate must be deposited before the work is taken in hand. Estimates for petty jobs are not necessary within certain limits fixed by the General Manager.

27.35 Every requisition for work is accompanied by a workshop order so that the first essential account form is a work order register, showing the work undertaken, the time in the completion of the job, and what the job has cost. The register is maintained by the Accounts Officer attached to the workshop.

27.36 Direct workshop expenditure falls under heads:-

(a) Labour; and

(b) Stores drawn from stock to be used in the process of manufacture.

27.37 The payment to labour in Workshops is governed by the Factories Act and the Payment of Wages Act. The payments are made through daily muster rolls and labour pay sheets.

In the Workshops where Clock Cards are in use, the initial records of attendance viz., Gate Attendance Cards take the place of muster rolls. These Clock Cards are completed on the last day of the wage period in respect of total hours worked and the total wages of each workman. From these cards, labour payments are completed and submitted to Accounts Officer for payment.

With a view to improving the productivity in Railway Workshops a system of payment by results viz., incentive bonus has been introduced in most of the sections of the Workshops.

For the accounting of payments to labour, a daily muster roll, an allocated abstract of labour, and a register of unpaid wages are kept. The muster rolls or labour paysheets are submitted to the Accounts Office for payment, and the amounts due are carried into the allocated abstract of labour which shows the total daily expenditure against each particular job. The stores consumed in the process of manufacture are in a similar manner carried into an allocated abstract of stores used on each particular work.

27.38 The charges against each jobs are collected together in what are known as out-turn statements.

27.39 In addition to the direct charges for labour and stores, there are certain items of expenditure of a general nature, known as on cost, such as share of the cost of administrative offices, wages of apprentice mechanics, mistries, bhisties, sweepers, gate keepers, etc. which cannot be allocated directly to any particular job. Expenditure of this nature distributed proportionately over the several works are entered in the out-turn statement. These are classified as “shop-on-cost”. General-on-cost and “Proforma-on-cost” as laid down in the relevant Departmental Code.

27.40 The statements are then “accepted” by the departments of the Railways, or private parties, as the case may be, and the value of the work done is credited to “Workshop suspense” on the authority of such acceptances.

27.41 The Accounts Officer attached to the workshop submits to the Financial Adviser and the Chief Accounts Officer monthly an account current showing the state of affairs of the workshop, that is , what the shop owes and what is owing to it. In order to carry the entries from the account current to the general books of the Railway, the transactions are passed through journal entries which are known as capital entries and revenue journal entries.

27.42 The balance of this account current represents the cash and stores expended on jobs awaiting adjustments. This balance must be analysed and full details posted in a register to facilitate a regular and systematic clearance of the ‘Work-shop Suspense’ Account. The proof of the balance must be complete at the end of each year and a certificate to this effect given in the Accounts.

27.43 The check of recoveries is comparatively simple, as the vast majority of these are from other departments and the recovery in such a case is made by book adjustment in the Accounts Office. The rule of prepayment for work done for private persons simplifies the check of cash recoveries. (For detailed instructions see Indian Railway Code for Mechanical Department Workshops).

(iv) RAILWAY REVENUES

Sources of revenue

27.44 The revenue of railways is earned mostly from the transport of passengers and goods and is realized through the agency of station where the transactions are brought to account.

27.45 The rates and fares in accordance with which traffic is accepted have to be kept within certain maxima and minima fixed by Government.

27.46 In return for payments received, Railways issue tickets or vouchers, differing in form according to the description of traffic carried which entitle the holders to the services of the Railway for the conveyance of passengers or goods. Those vouchers form the basis of the Railway accounts of receipts. Only one payment voucher is issued by the station even if the services of more than one railway are utilized.

Accounting for revenue

27.47 The Accounts Officers have to see that:

(i) the person to whom the service is rendered pays the proper amount;

(ii) the railway servants receiving payment correctly account for the same; and

(iii) if more than one railway render the service, the amount is properly distributed between them unless otherwise provided for any specific traffic.

Coaching traffic

27.48 In the case of passenger traffic, the first duty is facilitated by having the fare printed on the ticket in most cases. In the Accounts Office a certain percentage of the amounts entered on the blank tickets and on the parcels or luggage vouchers are checked. It is necessary however further to ensure that no passenger travels without a ticket, that he does not travel in a carriage of a class higher than that for which he has paid and that no parcel or luggage is allowed to be removed from the Railway premises until the cost of their carriage has been paid. These have to be checked by ticket/checking staff and by officers inspecting stations.

27.49 The tickets supplied to stations are, as a precaution against fraud, machine numbered in progressive series. The Station Master or booking clerk is held personally responsible for the stock of tickets in his custody, and all missing numbers which cannot be properly accounted for are placed to his debit.

27.50 The most important original record at a station is the Daily trains cash book, from which all other returns are compiled. Payment is made at the station booking office at the time of issue of tickets either in cash or by warrants, mileage coupons etc. the amount so collected is entered in the daily trains cash book of the station, the receipt being classified under the various descriptions of coaching traffic.

27.51 Except in the case of stations which are required to remit their earnings direct to the local treasury/ Bank, the entire collections of the day are sent to the Chief Cashier and Pay Master of the Railways, by the first train passing the station in which a travelling cash safe may be carried after the day's work is finished and no balance of cash may be retained by a station master without special orders. The money is sent under cover of a remittance note and the cashier's acknowledgement is recorded on the station counterfoil of the remittance note.

27.52 In addition to the Daily trains cash book a Parcel Delivery book is maintained for record of all parcels received at a station for delivery, whether they are 'paid' or 'To pay'. The receiving station is responsible for recovery of all under charges on parcels before delivery.

27.53 The most important coaching return submitted to the Accounts Office is the monthly Coaching Balance Sheet, which enables to keep a watch over the prompt accountal of receipts by the stations and realization of outstandings. The debits consist of traffic earnings of the month, undercharges, excess bookings and miscellaneous transactions as detailed in the various returns submitted by the station, and the credits consist of the cash sent to the Cashier and any special credits. The balance represents the amount of outstandings to be collected by the stations, such as freight and demurrage charges on undelivered parcels, etc. All errors discovered in checking and the correct balance are intimated to the station has to open with the 'checked' or correct balance.

Goods Traffic

27.54 Although the forms used and returns prepared in accounting for goods receipts may differ from those used for coaching, the principles remain the same, the money collected for freight is entered in the goods cash book. Goods are despatched under "Invoices" and the station is required to keep up 'Goods Outwards and Inwards ' books is which full particulars of invoices are entered. The traffic accounting had been mechanized from April 1964. The stations booking goods traffic forward the Accounts foils of the invoices along with a covering memo daily, or periodically or once a month as prescribed by the Railway to the Traffic Accounts Office which centrally compiles outward Machine Prepared Abstracts (MPA) through computer and sends to each station this machine prepared abstracts separately for ‘Paid’ to ‘To Pay’ traffic. The destination station takes debit of the amount shown in the machine prepared abstracts in its Balance Sheet and compares the entries in the goods delivery book. From these primary books, returns are prepared and submitted to the Accounts Office together with the monthly ‘Balance Sheet’.

27.55 The internal check of all earnings whether relating to local traffic or foreign traffic is conducted in the Accounts office of the railway concerned.

Traffic Book

27.56 The Traffic Book is a compilation which collects and brings to account under the prescribed heads - coaching, Goods and Sundry other Earnings, the whole of the traffic earnings of a railway both local and Through whether accrued at stations or otherwise. It records the progress of realization of these earnings, the results of apportionment of traffic interchanged with other Railways and Deposit Private Companies (including Out agency/ City Booking Offices), and the progress in the settlement of the balances on these accounts. It shows also the opening and closing balances of the home line stations and of the Accounts office with the various debits and credits of each and it records progress of adjustment of through traffic transactions with the Railway with which it clears traffic. It further shows the unadjusted balances on these accounts, which should be susceptible of verification with the balances in registers of unaccounted invoices and way bills. From the traffic book the figures of receipt under the prescribed heads of account are carried into the journal and finally into the General Books of the Railways.

Travelling Inspectors of Station Accounts

27.57 The check exercised by the Accounts office is limited to an examination and comparison of the returns, etc. sent in by stations. In order that a check may be exercised at stations over the initial accounts which do not come under the scrutiny of the Accounts Office, a special staff of inspectors is maintained. These Inspectors inspect every station at such intervals as may be fixed by the Accounts officer and are required to devote their attention to seeing that the books and records are kept in a proper manner, that the cash arrangements is in order and that irregularities taken up receive proper attention.

(iv) STRUCTURE OF RAILWAY ACCOUNTS

Main Headings of Railways Accounts

27.58 The accounts of Railway comprise:

- (i) Account of net gain or loss on the working of Indian Railways as a whole;
- (ii) Account of Dividend payable to General Revenues;
- (iii) Capital Account;
- (iv) Revenue Account;
- (v) Depreciation Reserve Fund Account;
- (vi) Revenue Reserve Fund Account;
- (vii) Railway Development Fund Account;
- (viii) Pension Fund Account;
- (ix) Account of Miscellaneous Railway Receipts; and
- (x) Account of Miscellaneous Railway Expenditure.

These are explained in the following paragraphs.

27.59 Account of net gain or loss on the working of Indian Railways-This is the main account and all other accounts work up to it. It brings together the capital invested on each Railway which is financed by Government and the net revenue receipts of the year and from these deduces the percentage return on the capital expenditure. The final net gain or loss to Government on the financial results of the year's working is then worked out for each

Railway, after taking into account the dividend payable to General Revenues and also miscellaneous Receipts and Expenditure.

Account of Dividends payable to General Revenue

27.60 This account sets out the amount of dividend payable to General Revenues.

Capital Account

27.61 This account sets out in detail the capital expended on the construction of Railways and on other open line works met from capital as direct Government outlay and to this is added the capital contributed by companies, District Boards etc. working to the total construction expenditure on Railways. Finally, it deduces the capital outlay on each railway, on which the percentage of the return of net revenue receipts is calculated. The account of capital outlay is brought up to date every year by the inclusion of actual expenditure incurred against the year's programme of capital expenditure.

Revenue Account

27.62 This account shows in detail the gross revenue receipt, working expenses and net revenue receipts. The main sources of revenue have already been indicated in this chapter. The working expenses comprise all expenses chargeable to revenue under the allocation rules. The contribution from Railway Revenues to the Depreciation Reserve Fund and Pension Fund and the expenditure incurred from these funds on renewals and replacements and on pensionary charges and exhibited separately under working expenses. The latter as an appropriation from the Depreciation Reserves Fund and Pension Fund is transferred to the Fund Accounts by means of deduct entries.

27.63 The differences between gross revenue and working expenses including miscellaneous expenditure represents the net revenue.

Depreciation Reserve Fund Account

27.64 On the separation of Railway finances from General Finance, a depreciation reserve fund was started with effect from the April 1st, 1924 to provide for the cost of renewing units of all wasting assets with the exception of formation, fencing and ballast and also for meeting the cost of abandonment of assets without replacement. The scope of the Fund has since been altered and subject to certain exceptions mentioned in the departmental codes, it now meets the full cost of replacement including the improvement and inflationary elements in it and the cost of abandonment of assets.

Revenue Reserve Fund Account

27.65 The Railway Reserve Fund constituted under the convention of 1924 has been renamed as Revenue Reserve Fund under the convention of 1949 and the balance in the previous fund has been merged in the newly constituted fund. The account sets out the amounts received into and withdrawn from the Revenue Reserve Fund during the year, and also brings out the balance in the fund at the close of the year. Contributions to this fund are made on an ad hoc basis from the revenue surpluses of the Railways. Amounts may be withdrawn from the fund to secure the payment of the annual dividend to General Revenues and to bridge the budgetary gap, it any, of the undertaking as also for amortization of over capitalization on the Railways.

Railway Development Fund Account

27.66 The balance of the existing Betterment Fund has merged with the railway development fund which has been constituted with effect from April 1, 1950 for financing expenditure on passenger amenities and labour welfare and operating improvements which though unremunerative are necessary. The fund is being fed by appropriation of revenue from surpluses in prosperous years and by obtaining temporary loans from General Revenues in deficit years when the balance in the fund falls short of the anticipated expenditure. The railway development fund account sets forth the amounts received into and withdrawn from the fund during the year and also brings out the balance in the fund at the close of the year.

Railway Pension Fund Account

27.67 The Pension Fund Account was constituted with effect from April 1, 1964 with a view to even out fluctuations in the payment of pensionary charges and to include in the accounts of each year the actual liability accruing in that year. The fund is being credited with annual contributions from revenue determined on acturial calculations. The actual expenditure on pensionary charges is debited to the Fund. The fund account shows the amounts received into and withdrawn therefrom during the year as well as the balance at the close of the year.

Account of Miscellaneous Receipts

27.68This account sets forth miscellaneous receipts which cannot be allocated to coaching or goods receipts.

Account of Miscellaneous Expenditure

27.69 This account sets out the expenditure incurred by Government on certain items such as outlay on surveys which, when the line is constructed at some future date, will be transferred to the capital account of the Railway; and the cost of control exercised by Government through the Railway Board and its attached offices, Research, Designs and Standards Organization, Audit, etc.

Annual Accounts

27.70 After the year’s accounts are closed, Appropriation Accounts are compiled by the Ministry of Transport, Department of Railways, which indicates the authorization made by the Parliament in the Budget grants, including supplementary grants and the amounts spent against the grants. Brief reasons for variations between the grants and actual expenditure are explained in these accounts. Besides, the Railways also compile Capital and Finance Accounts indicating the expenditure incurred under different heads of account on the Capital and Revenue side during the years. The Capital Accounts also bring out the cumulative expenditure incurred up to the end of each financial years.

Statutory Audit

27.71 As a result of the separation of accounts in 1924 the Comptroller and Auditor General is not responsible for the compilation of the Railway accounts. His responsibility for the audit of the accounts of Indian Railways is the same as that of other departments of Government.

27.72 One of the important duties of the Comptroller and Auditor General of India is to carry out check on the accounts compiled by the Railway Administration and to ensure that the money authorized by the Parliament has been faithfully and wisely utilized within the specific parameters in the budget approved by the Parliament. For this purpose. After the year's accounts are closed, Appropriation Accounts are compiled by the Ministry of Transport, Department of Railways (Railway Board) which indicates the authorization made by Parliament in the Budget grants including supplementary grants and the amounts spent against these grants. Variations between the grants and actual expenditure are explained in these accounts in brief. These accounts are audited and certified by the Comptroller and Auditor General.

27.73 The Comptroller and Auditor General also scrutinizes, on behalf of Parliament and the Ministry of Finance of the Government of India, the correctness of the dividend credited annually to General Revenues under the revised convention for the separation of Railway finances from General Finances mentioned in paragraph.

27.74 It may mentioned that so far as railway accounts are concerned audit has no power of directing recovery of sums improperly disbursed but is bound to bring to the notice of the Accounts Officer concerned all payments which are irregular or inadmissible. It is for the latter to effect retrenchment.

27.75 The audit work which is summarized above is entrusted to the Additional Deputy Comptroller and Auditor General of India (Railways) who is, in addition, responsible for the preparation of the Audit Report on the Appropriation Accounts of the Railways as compiled by the Railway Accounts Department for the approval of the Comptroller and Auditor General. The Directors of Audit of the concerned railways assist him in the matter.

27.76 This statutory audit on the railways is a supervisory audit, the main object being to ensure that the system of accounts used by the internal check authority of the railways is correct, that the method of check applied at every stage of the accounts is sufficient, that the accounts are maintained and the checks applied with due accuracy and that arrangements exist in the Accounts Offices to ensure attention to the financial interests of the Railways on the part of all concerned. This object is secured by a percentage check applied to the vouchers and connected accounts records of the Accounts Office and by inspection on the spot on initial records and documents in the offices in which the transactions originate.

Financial and Audit Control

27.77 All receipt and expenditure of Railways owned by Government form part of the revenue and expenditure of the Government of India and are subject to the same principles of financial and audit control as other receipts and expenditure of that Government.

Computers and Audit

27.78 The railway accounts have been computerized in certain fields like stores accounting, revenue accounting and pay roll accounting. There are two ways of conducting audit of the computerized accounts, namely, (i) audit through the computer and (ii) audit around the computer. In the former case, Audit have to check the peripherals, basic data and end results. The accuracy of these documents would satisfy Audit about its acceptability. In the Railway Audit, the process of audit around the computers is being followed.

27.79 Based on the audit conducted as aforesaid, the Appropriation Accounts and capital and revenue accounts are audited by each Zonal Director of Audit and submitted to the Comptroller and Auditor General. The consolidated accounts in respect of the above as compiled by the Ministry of Transport, Department of Railways (Railway Board) are checked with reference to these documents and certified. The observations of the Comptroller and Auditor General arising out of the audit of transactions are presented in the form of reports on the Appropriation Accounts and other matters which are submitted to the President. The reports of the Comptroller and Auditor General along with the Appropriation Accounts and other Accounts compiled by the Ministry of Transport, Department of Railways, Railway Board are submitted to Parliament.

CHAPTER 28

DEFENCE ACCOUNTS AND AUDIT

(A) ACCOUNTS

Relation with the Treasuries

28.1 Defence Service receipts are paid into banks or treasuries through Military Receivable Orders (MROs) comparable to challans used by the civil departments. The MROs should be signed by one of the responsible officers of the department whose names are on the approved list. The banks and the treasuries send the duplicates of the MROs along with the credit scrolls or schedule of receipts to the concerned Controller of Defence Accounts (CDA) for incorporation in accounts. For Defence Services expenditure, funds are placed at the disposal of the disbursing officers of the Defence Services (other than Defence Account Officers) by annual assignment estimates in their favour issued to Bank/Treasury Officers by the Defence Accounts Officers. The probable requirements of each month are specified in these assignments and it is an essential feature of the arrangement that the payments at any stage shall not exceed the proportionate provision to date made in the assignment. Drawings against the assignment are made by cheques which will be forwarded as vouchers in support of the charges in the bank/treasury account. In case of emergent need, funds outside the annual assignment can also be obtained under special arrangements. Defence Account Officers are not placed in funds by assignments, but are authorized to draw cheques on any treasury or sub-treasury in India.

Transactions Adjustable with other Departments

28.2 Adjustments in respect of transactions originating in the books of Defence adjustable with the Posts ad Telegraphs, the Railways, Department of Supply and Ministry of External Affairs (only supply debits and related credits by the latter two) are made periodically by sending advices to the

Central Accounts Section of the Reserve Bank of India, Nagpur. On receipt of clearance memo from the Central Accounts Section of the R.B.I. intimating that the advice has been given effect to, necessary adjusting entries are made in the account.

28.3 The Reserve Bank of India furnishes by the 19th of every month a statement of closing balance to each Controller of Defence Accounts. The Controllers are responsible for reconciling the balance in respect of their offices worked out in their books with the balances intimated by the R.B.I. The Controller General of Defence Accounts reconciles and confirms the monthly figures for the entire Defence Services to the Ministry of Finance to enable the latter to make necessary transfers from the head of account "Reserve Bank Deposits- Defence" to "Cash Balance".

Organization of the Defence Accounts Department

28.4 The Army Administrative and Accounts unit is the "Command". The accounts , internal check, and disbursement of one or more of these units are under an Accounts Officer called a "Controller of Defence Accounts". The actual arrangement is as follows:-

Administrative Headquarters		Accounts Headquarters
1.	Eastern Command Calcutta	Controller of Defence Accounts E.C.Patna.
2.	Western Command Chandimandir	Defence Accounts, W.C., Chandigarh
3.	Southern Command Pune	Controller of Defence Accounts,S.C., Pune
4.	Central Command Lucknow	Controller of Defence Accounts C.C. Meerut
5.	Northern Command Udhampur	Controller of Defence Accounts, N.C., Jammu.

28.5 The Controller of Defence Accounts functions under the immediate control of the Controller General of Defence Accounts and are responsible for the maintenance of the accounts for their respective areas. Each Controller acts as the Financial Adviser to the General Officer Commanding in-chief of the Command, as well as to the Area and Independent Sub-Area Commander unless a Joint Controller of Defence Accounts is posted for the purpose. These Controllers also assist the General Officer Commanding-in-chief and the Area and Independent Sub-Area Commanders in the preparation of all estimates, and furnish them regularly with such statistics relating to accounts as they may require for controlling expenditure against grants placed at their disposal. They are responsible for the preparation of the periodical accounts of their respective areas submitted to the Controller General of Defence Accounts and the Director of Audit, Defence Services. They are also responsible for the payment of bills and the consolidation of accounts in connection with the Military Engineer Services expenditure.

The monthly pay accounts etc., of the civilian establishment are prepared by the establishment of the units, etc. On receipt of claims in the office of the Controller, payments are made by the Controllers after a detailed check. In addition to the detailed check of accounts in his office, the Controller arranges for the periodical local audit and inspection of the cash and stores accounts maintained in units and formations. The duties of a Controller combine the functions of a Civil Treasury Officer and of an Accounts Officer of a State.

28.6 In addition to the Controllers of Defence Accounts specified in paragraph 28.4 above, who are mainly concerned with the stores accounts and the pay of civilians and departmental units in their areas (excepting the Pay Accounts of Officers and other Ranks of the Army, Ordnance and Clothing Factories, the Air Force and Naval Accounts), there are one Controller of Defence Accounts (Air Force), one Controller of Accounts (Factories), one Controller of Defence Accounts (Navy), one Controller of Defence Accounts (Officers), three Controllers of Defence Accounts (other Ranks), South/North/ Central, one Controller of Defence Accounts (Pensions), and one Joint Controller of Defence Accounts (Funds), whose offices are located at Dehra Dun, Calcutta, Bombay, Pune, Madras/Meerut/ Nagpur, Allahabad and Meerut respectively. These Controllers deal with the accounts, disbursement and internal check and compilation of accounts, of their respective services.

28.7 The Controller of Defence Accounts (Air Force) Dehra Dun is responsible for making payments to Air Force, the audit of all cash and store transactions and bringing to account all receipts and charges pertaining to the Air Force. He is also responsible for the audit of Pay Accounts of Air Force personnel. The accounts are maintained by service personnel on the “Individual Running Ledger Accounts System”.

28.8 The Controller of Accounts (Factories), Calcutta is responsible for the disbursement to Factories and the preparation of the consolidated annual accounts of Ordnance and Clothing Factories in India. He is also responsible for the internal audit and compilation of Railway charges and passage other than leave passes concessions.

28.9 The Controller of Defence Accounts (Navy) Bombay is responsible for making payments to Indian Navy, audit of all cash and store transactions and for bringing to account all receipts and charges pertaining to the Indian Navy. He is also responsible for the internal audit of Pay Accounts of Indian Naval personnel. The accounts are maintained by service personnel on the Individual Running Ledger Account System.

28.10 The Controller of Defence Accounts, Navy, Bombay, is also responsible for the maintenance of cost accounts relating to the Indian Naval Dockyard, Bombay and for the audit and payment of wages of the labour working in the Dockyard.

28.11 The Controller of Defence Accounts (Officers), Pune, is responsible for the maintenance of the pay accounts on the Individual Running Ledger Account System of officers holding commission in the Indian Army and Military Nursing Service and for making payment to them as also audit of their accounts.

28.12 The Controllers of Defence Accounts (Other Ranks) South Madras; North, Meerut; and Central, Nagpur are responsible for arranging for the maintenance of the pay accounts by the Pay and Accounts Officers (Other Ranks) functioning under their jurisdiction on the Individual Running Ledger Account System of Junior Commissioned Officers, other Ranks, Non-combatants (enrolled) etc. The ledgers are maintained by the staff of the Defence Accounts Department at Pay Accounts Offices attached to Depots/ Centres. The internal audit of these ledgers is also arranged locally.

28.13 The Controller of Defence Accounts (Pensions) Allahabad is responsible for the sanction of pensions to all personnel below officer rank of Army, Navy and Air Force, Civilians (gazetted and non-gazetted) paid from Defence Estimates. He is also responsible for grant of pensions against sanctions and arranging payments thereagainst. The internal audit of pension payments is centralized, in the office of the Controller of Defence Accounts (Pensions), Allahabad.

28.14 The Joint Controller of Defence Accounts (Funds), Meerut is responsible for the work relating to maintenance and compilation of accounts of most of the provident funds in operation in the Defence Services.

28.15 The accounts of the Ordnance Factories are prepared locally by the Accounts Officers attached to the Factories. The Annual Accounts of each factory are prepared by the Accounts Officer and transmitted to the Controller of Accounts, Factories, Calcutta, for consolidation.

28.16 The Controller of Defence Accounts (Canteen Stores Department) Bombay is responsible to provide funds to Canteen Stores Department (Headquarters), compile the accounts and audit the bills and vouchers pertaining to Canteen Stores Department (Headquarters) and also to audit the Annual Accounts of Canteen Stores Department.

28.17 The Controller of Defence Accounts (Headquarters) is responsible for dealing with Pay and Allowances claims and fund Accounts of the civilian staff of Ministry of Defence, the Army and Naval Headquarters and the Inter Services Organisations located at Delhi, as also claims pertaining to contingent and miscellaneous charges of the said organizations. In addition, C.D.A. (Headquarters) also handles all work relating to payments of Foreign Contracts including contracts entered into by the Department of Defence Supply and the work relating to London Account Current.

28.18 One peculiar feature of the Defence Accounts is that they are maintained mechanically and not manually as in Civil Offices. For this purpose the Controllers of Defence Accounts codify the classification of different vouchers in the form of numbers and record this codified classification in slip known as 'punching media'. These punching media form the basic documents which facilitate sorting, grouping into similar heads and the final detailed compilation of the Defence Accounts by the machines.

28.19 The Controller General of Defence Accounts who is immediately subordinate to the Financial Adviser, Ministry of Defence (Finance) is the head of the Defence Accounts Department. To ensure the maintenance of the work of the Defence Accounts Offices at a high standard of efficiency, the Controller General of Defence Accounts (or an officer deputed by him) periodically visit the various Defence Accounts Offices.

(B) AUDIT

Nature of Audit

28.20 The accounts and financial transactions of the Defence Services are under the control of the Defence Accounts Department. A statutory audit of these accounts is conducted by the Directors of Audit, Defence Services, Air Force and Navy and Ordnance Factories on behalf of the Comptroller and Auditor General of India in order to enable the Comptroller and Auditor General to discharge his statutory responsibilities under the Constitution in regard to the audit of the Defence Services expenditure.

28.21 The statutory audit is a test audit, it is conducted by the Directors of Audit, Defence Services, Air Force and Navy and Ordnance Factories who are assisted by Joint and Deputy Directors. These Directors of Audit, audit all sanctions of the Ministry of Defence and the Ministry of Defence (Finance), scrutinize all Codes and Regulations issued for the use and guidance of the Defence Accounts Department, and prepare annually a Report on the Defence Services, in which observations of the Statutory Audit on the Appropriation Accounts prepared by the Financial Adviser (Defence Services) is also included. The audit in the commands is conducted continuously and it is seen that the accounts of the Defence Services, as included in the Combined Finance and Revenue Accounts, are a correct presentation of facts, and that they represent money that has really been spent in the manner in which it is shown to have been spent.

Central Audit and Local Audit

28.22 The test audit may be broadly divided into (i) Central Audit and (ii) Local Audit.

28.23 In the office of each Controller of Defence Accounts, the audit staff of the office of the Joint/Deputy Directors of Audit tests the work done by the office of the Controller. The detailed procedure for the audit of each section has two stages:

The first stage is the audit of vouchers against rules and orders. These require special study; and the audit staff has, therefore, to know the various Pay and Allowances, Pension Travel and Financial Regulations of the Army/Navy/Air Force, Defence Account and Audit rules, the various Regulations, Act, and Instructions that govern military service and discipline in the armed forces.

The second stage consists of:

(i) the test check of classification of vouchers relating to each section.

(ii) The verification of posting of vouchers into the detailed compilations.

(iii) The check of the posting of totals of detailed heads in to the sectional compilations, and

(iv) A test check for verification that the punching media are correctly posted in the compilation. It is also verified that the checks prescribed to ensure the correctness of the accounts compiled mechanically are adequate and are actually carried out.

28.24 The duty which falls to the test audit staff when conducting audit locally is to visit Military Engineer Service formations, Ordnance Depots, Supply Depots, Remound Depots, E.M.E. Workshops, Military Farms, Hospitals, Ordnance Factories and other formations and similar formations on the Air Force/Navy sides and to test check those of their original accounts records which are not submitted to the Defence Accounts Officer concerned but are checked locally by a staff deputed by him for the purpose. This work resembles that done by the local inspection staff of a civil Accountant General as described in Chapter 18 with this difference that the staff members of the Defence Audit Offices not only review the work of the units and formations themselves, but also conduct a test check of the audit already conducted by the Defence Accounts Department.

CHAPTER 29

AUDIT OF INDIAN EMBASSIES AND MISSIONS ABROAD

(A) FINANCING ARRANGEMENTS

Embassies etc. other than the High Commission of India, London and Embassy of India, Washington

29.1 Foreign exchange requirements of Missions abroad are met by the Ministry of External Affairs (Ministry of Commerce in the case of trade sections not attached to the missions) by means of remittances through the Reserve Bank of India except in the case of High Commission of India, London, which is financed through the Reserve Bank of India's account with the Bank of England. For facilitating payments in rupees, where permitted, the Missions keep a book of Reserve Bank of India drafts for making payments in India to the nominees of the employees etc.

29.2 In regard to these transactions, it is seen in audit that:

(i) the calculations involved in converting the foreign exchange figures into Indian currency at the rate of exchange agreed, are correct; and

(ii) the transactions are properly authorized and accounted for by the Bank and the classification is correct.

High Commission of India, London

29.3 The High Commission of India, London maintains accounts with the State Bank of India, viz. 'Stores Accounts' and 'Chancery Accounts'. The Stores Account which is replenished daily to the required extent from the R.B.I.'s account with the Bank of England, is operated for payment of stores purchased against contracts finalized through the supply wing of the Mission, for the Chancery Account which is operated for making payment of personal claims, establishment charges etc. a cash limit is imposed. Miscellaneous payments on behalf of other Missions/ Departments/State

Governments etc. is financed through the Stores Account against authorizations issued by the Ministry of External Affairs.

Embassy of India, Washington

29.4 The Embassy of India, Washington is financed by (i) funds periodically remitted by the Ministry of External Affairs through the Reserve Bank of India; (ii) interest on term deposits and other short term investments made by the Embassy and (iii) Aid receipts from International Financing Institutions. All the diplomatic offices of the Government of India located in North America, Canada and Latin America are financed through the Chief Accounts Officer, Supply Wing, Embassy of India, Washington. Surplus funds available with the Chief Accounts Officer are invested in term deposit and other securities.

(B) AUDIT ARRANGEMENTS

General

29.5 The Accounts of the High Commissioner for India in London and all Missions/Posts in Europe excepting Missions in Turkey and Cyprus are audited by the Director of Audit, Indian Accounts in U.K., London. The Director of Audit, Indian Accounts in U.S.A., Washington is responsible for the audit of accounts of the Embassy of India, Washington and for the local audit of the accounts of Missions and posts in North and South America and Canada. They are also responsible for (i) concurrent audit of contracts and payments of stores purchased by the Supply wing and (ii) Audit of tenders, contracts and payments when the purchases of foodgrains, fertilizers etc. are made through the Supply wing and the contracts are entered into. In additions they are also responsible for audit of accounts of certain commercial establishments abroad.

29.6 Director of Audit Central Revenues conducts the local audit of all the Missions/Posts in Africa, Asia, Australia and New Zealand, Turkey and Cyprus.

Note 1- The periodicity of the local audit inspections will be regulated according to orders issued by the Comptroller and Auditor General of India from time to time.

Note 2- A gist of important and interesting cases noticed in the local audit of missions abroad are mutually exchanged between the three Audit Officers (Directors of Audit, London and Washington and Director of Audit (Central Revenues) entrusted with the Audit of the Accounts of Indian Missions abroad and Ministry of External Affairs.

Audit arrangements in respect of particular transactions

29.7 (i) The Audit Officer abroad is responsible for the audit of vouchers, i.e. to see that the payments have been made according to the rates authorized or scales laid down by the competent authority, that the vouchers are in proper form and that the amount has been paid to the proper person and duly acknowledged. In respect of stores contracts for which the High Commission of India, London or the Embassy of India, Washington (as the case may be) is the paying authority, it should be seen that the payments are in accordance with the terms of contracts. The Audit Officer in India should ensure that it is a proper charge against the grant concerned and is in conformity with and not in excess of the sanction.

(ii) In respect of payments made in London by High Commissioner for India (a) on behalf of embassies to their staff and for miscellaneous supplies, and (b) on account of expenditure of Indian Delegations to the United Kingdom and elsewhere, the final audit should be conducted by the Audit Officer in India with reference to the amount sanctioned by the Government.

(iii) As regards miscellaneous payments of heterogeneous character such as occasional payments in respect of general average, subscriptions to the U.N.O. etc. the general principle to be adopted in audit of these transactions should be that the items for which payment authorities are issued from India should be audited by the Audit Officer in India and the items, paid by the High Commissioner, London or the Embassy of India, Washington on any scale prescribed by rule or order should be audited by the Director of Audit, Indian Accounts in U.K., or the Director of Audit, Indian Accounts, in U.S.A. as the case may be. There should however be a liaison between the Audit Officers abroad and the Audit Officers in India. If some particulars are wanting, the same should be obtained from the Audit Officer concerned.

(iv) As regards payments made by Indian Missions (other than the High Commissioner for India and Embassy of India, Washington) on behalf of Central and State Governments, final audit of the expenditure with reference to sanctions, vouchers, etc. will rest with the Audit Officers concerned in India.

Audit arrangements in respect of other overseas offices

29.8 The local audit of Tourist Offices of Government of India, foreign branch offices of Autonomous Bodies and Public Sector Enterprises located in Europe is conducted by Director of Audit, London while those located in North and South America by Director of Audit, Washington as sub-Audit Officers on behalf of the concerned Directors of Audit. The audit of such overseas offices located in Africa, Asia, Australia, New Zealand is conducted by Director of Audit, Central Revenues, New Delhi with specific approval of the Comptroller and Auditor General. Local Audit programmes are drawn up in consultation with the concerned Director of Audit. The concerned Directors of Commercial Audit may also conduct local audit of branches of specific Public Sector Enterprises with the approval of the Comptroller and Auditor General.

CHAPTER 30

AUDIT OF AUTONOMOUS BODIES

30.1 Sizeable expenditure is incurred by the Union and State Governments in the form of Grants and Loans to various bodies and authorities which are engaged in developmental and welfare activities. The efficiency, economy and effectiveness with which the development and welfare programmes are implemented and services provided by them are as much a matter of public concern as in the case of Government agencies and directly administered programmes.

30.2 The powers and duties of the Comptroller and Auditor General of India for audit of the autonomous bodies, are derived from Article 149 of the Constitution of India, which, inter-alia, provides that the Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of any authority or body, as may be prescribed by or under any law made by Parliament. The term, "by Law" refers to provisions in the Acts of Parliament and the term 'under law' refers to the provisions in subordinate legislations having the force of law i.e. rules and regulations framed under powers vested by the parent Acts and declared to have been so framed under such powers.

30.3 The words 'body' and 'authority', have not been defined either in the Constitution or in the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. 'Authority' has however been interpreted to mean a person or body exercising power or command vested in it by virtue of provisions in the Constitution or Acts passed by Parliament or the State Legislatures. 'Body' has been interpreted to mean an aggregate of persons, whether incorporated or unincorporated.

Legal basis

30.4 The duties and powers of the Comptroller and Auditor General in relation to the audit of the autonomous bodies are regulated by Sections 14, 15, 19 and 20 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (hereinafter referred to as the Act) framed by Parliament under Article 149 of the Constitution. In addition, there are several other enactments of Parliament, which provide for duties and powers of the Comptroller and Auditor General, in relation to the audit of the accounts of corporations, companies and other autonomous bodies. No law of a State Legislature can cast any duties or confer any powers on the Comptroller and Auditor General or his representatives, Likewise, the duties and powers of the Comptroller and Auditor General prescribed by law made by Parliament cannot be superseded or abridged by or under any law made by any State Legislature.

Audit of bodies and authorities substantially financed

30.5 Section 14 (1) of the Act provides that the Comptroller and Auditor General of India shall audit all receipts and expenditure of any body or authority that is "substantially financed" by grants and loans from the Consolidated Fund of India or of any State or any Union Territory having a Legislative Assembly, to the extent of not less than Rs. 25 lakhs and not less than 75% of the total expenditure of the body or authority in a financial year. Where the latter condition is not fulfilled but grants or loans are not less than Rupees one crore, the Comptroller and Auditor General of India may audit under Section 14 (2) with the previous approval of the President or Governor or Administrator as the case may be. Section 14 (3) provides for continuance of the audit under Sections 14 (1) and (2) for the two subsequent years even if the conditions are not fulfilled in those years. The audit will be subject to the provisions of any law, for the time being in force, applicable to the body or authority. This is to be interpreted to mean that the audit by the Comptroller and Auditor General of India will co-exist with and complement the audit arrangements under the law applicable.

Audit of grants or loans given to other bodies or authorities

30.6 Section 15 of the Act describes the functions of the Comptroller and Auditor General in the case of grants or loans given to any body or authority for specific purpose. This section has two parts. The first imposes a statutory responsibility on the CAG to scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfilment of the conditions subject to which such grants or loans are given. The second part gives him the right of access to the books and accounts of the authority or body in receipt of such grants or loans. These are subject to the following:

(i) the authority or body is not a foreign State or international Organization;

(ii) the President/Governor/Administrator concerned may, in public interest, by order, relieve the Comptroller & Auditor General after consultation with him, from making any such scrutiny in respect of any body or authority;

(iii) the right of access to the books and accounts of any corporation where the law establishing it (or the rules and regulations framed under that law) provides for audit by an agency other that the Comptroller and Auditor General of India is available only if authorized by the President or the Governor or the Administrator, as the case may be. (Such authorization is made after prior consultation with the CAG and after giving the concerned corporation a reasonable opportunity of making representation with regard to the proposal).

Audit of Corporations established by law made by Legislatures

30.7 Section 19 (3) of the Act provides for entrustment of audit of State Corporations established by law to the Comptroller and Auditor General of India in public interest, after prior consultation with him, and after giving a reasonable opportunity to the Corporation to make representations with regard to the proposal for such audit. The audit of Government Companies and Statutory Corporation which are operating on commercial lines is dealt with in Chapter 31.

Audit of other bodies or authorities

30.8 Audit of other bodies or authorities which is not entrusted to the Comptroller and Auditor General of India by or under any law made by Parliament can be entrusted to him in public interest by the President or the Governor or the Administrator, as the case may be, under Section 20 of the Act after prior consultation with him or on his request on such terms and conditions as may be agreed upon between him and the concerned Government and after giving reasonable opportunity to the concerned body or authority to make representation with regard to the proposal for such audit.

30.9 Under the terms and conditions agreed upon the Comptroller & Auditor General may suggest appointment of a primary auditor to conduct the audit on his behalf and on the basis of directions or guidelines issued by him subject to a test check by him. The Comptroller and Auditor General or any other person appointed by him in connection with the audit will have the same rights, privileges and authority as the Comptroller and Auditor General has in connection with the audit of Government Accounts. The results of the audit will be communicated to the Governing Body and to the Government concerned. The Comptroller and Auditor General has also the right to report to the Legislature or the Parliament as the case may be at his discretion.

Super-imposed audits

30.10 Normally Comptroller and Auditor General is the sole-auditor in respect of audits entrusted to him under sections 19 (3) and 20 and in such cases he conducts the audit as an Auditor of the body or authority concerned and on behalf of the Government concerned. However, there are several other bodies or authorities e.g. Societies registered under the Societies Registration Act, 1860 or Co-operative Societies in respect of which the relevant Acts/ Rules provide for their audit by Chartered Accountants. In such cases, where the Government consider it necessary, to safeguard its financial interest, the audit of the concerned bodies or authorities is also entrusted to the Comptroller and Auditor General which is in addition to the audit by the Chartered Accountants who conduct the audit in accordance with the relevant Acts/Rules of the autonomous body. Such audits are called 'super-imposed audit'.

Scope and nature of audit of autonomous bodies

30.11 Audit of an autonomous body in Public interest cannot be considered complete merely by a certification that the accounts present a true and fair picture of the working and state of affairs of the body. It is essential, in all such cases, to go beyond the stage of certification of annual accounts and to probe into aspects relating to propriety, efficiency, performance etc. in relation to the utilization of the resources available to them. The audit by Comptroller and Auditor General is primarily on behalf of the Government and the Legislature concerned. Incidentally it may satisfy the requirements of the law governing the bodies and authorities audited. These include compliance with the bye-laws. The scope of audit is to be determined by the Comptroller and Auditor General. It has been held that inherent in the powers of the Comptroller and Auditor General is his right to have a performance evaluation carrying out examinations into economy, efficiency and effectiveness with which any department, authority or other body has used its resources in discharging its functions. The audit of autonomous bodies is mainly in the nature of this evaluation.

Separate Audit Reports

30.12 Under Article 151 of the Constitution the reports of the Comptroller and Auditor General relating to the accounts of Government are to be submitted to the President or the Governor or the Administrator who causes them to be laid before Parliament or the Legislature as the case may be. Section 14 authorizes the Comptroller and Auditor General to report on the receipts and expenditure of the bodies or authorities audited by him. The reporting has to be viewed in the context of the provisions of Article 151 of the Constitution. Thus no separate report is contemplated. However, under Section 19 (A), the Reports of Comptroller and Auditor General in relation to the accounts of Corporations are to be submitted to Government who causes them to be laid before the Legislature. Thus there has to be a separate report on each Corporation audit under Section 19 whether Comptroller and Auditor General is the sole auditor or not. Section 20 makes no mention of the reports of Comptroller and Auditor General. It is, however, regulated by the terms and conditions whereunder provision has been made for report to Legislature. The issue of separate audit report will be decided by the requirement of the law governing the bodies or authorities audited under this section and by the fact whether Comptroller and Auditor General is sole auditor or not. Further, where Comptroller and Auditor General is the sole auditor and the law requires certification of accounts, the laying of the audit reports before the Legislature will be governed by the law or the directions of the appropriate committee of Legislature concerned. Whether there is a separate Audit or not, Comptroller and Auditor General can include his comments in the Reports presented under Article 151 of the Constitution.

CHAPTER 31

AUDIT OF GOVERNMENT COMPANIES AND CORPORATIONS

31.1 Before independence, Government concerns were few and were, as a rule, departmentally managed. The Posts and Telegraphs department, the Nationalized Railways and the Ordnance factories were the most important; apart from these, there were a number of Central and State concerns (e.g. All India Radio, Light houses and Light Ships, Government Presses, Opium Factories etc.,) which were run largely on the same lines as other Departments of Government and were subject to the same service rules and procedural regulations. Profit making was not their primary object and some of them were deliberately run on a no-profit, no-loss basis e.g. State Trading Schemes in food grains and essential commodities.

31.2 After independence, the national objective of establishing a socialistic pattern of society coupled with the endeavour to have a planned economic development of the country has led to a steady growth of state owned enterprises of diverse nature with huge capital investments.

31.3 During the last two decades the public enterprises in India have penetrated into various industrial activities leading to an unprecedented expansion of the public sector. Some of the socio-economic objectives which the Public sector enterprises in India are called upon to fulfil are:

(i) to promote self-relianance in strategic sectors of the national economy;

(ii) to help in the rapid economic growth and industrialization of the country, there-by creating infrastructural facilities for promoting a balanced and diversified economic structure in development;

(iii) to promote re-distribution of income and wealth and prevent concentration of economic powers;

(iv) to reduce the regional imbalances and to increase employment;

(v) to generate surplus for re-investment;

(vi) to enforce social control on trade and industry by ensuring equitable distribution of goods and services; and

(vii) to promote import substitution to save and earn foreign exchange for the national economy.

Organizational Form

31.4 “Government Companies” are governed by the Companies Act, 1956. Section 617 of the Companies Act defines a Government company as one in which the Central Government or any State Government, or Governments or both together hold not less than 51 percent of the paid up share capital. A subsidiary of a Government company is also a Government company has the power under section 620 of the Companies Act to modify any of the provisions of Companies Act in relation to Government Companies after due intimation to Parliament. In addition, the Article of Association usually reserve certain powers to Government e.g. (i) capital expenditure schemes over a certain amount of money require the prior approval of the President/ Governor. (ii) The President or the Governor as the case may be, has also got over-riding powers to issue directions or instructions to such companies which shall be duly compiled with and given immediate effect to (iii) the Chairman and Directors are appointed by Government and not by election at General meetings, as in private sector companies.

31.5 Government Corporations are governed by respective, Acts of Legislature which contain detailed provisions regarding their scope and functions etc. These corporations usually have the power to make regulations regarding service conditions of their staff and all other matters with the prior approval of Government; however, in certain specified matters of importance, rule making power vests with Government. In practice, there is generally close co-ordination between these Corporations and Government, but Government does not interfere in the day-to day affairs of the

Corporations. The members of the Boards are appointed and are removable by the Central and/ or State Government concerned.

31.6 In general, statutory Corporations and Government Companies are given maximum autonomy (within the ambit of the relevant Act of Parliament or Memorandum and Articles of Associations) consistent with the needs of “Public Accountability”.

Accounts

31.7 The accounts of the Government Companies follow the requirement of the Companies Act, 1956, and the generally accepted principles of commercial accountancy. Orders are issued from time to time by the Department of Company Affairs with a view to making the accounts more informative or to promote uniform practice in all the Government companies.

31.8 Government Corporations generally maintain accounts on commercial lines. The Government determines, in consultation with the Comptroller and Auditor General as necessary, the detailed forms in which the annual accounts and Balance Sheet should be prepared by the Corporation.

Authority

31.9 the Constitution of India recognize the principle of public accountability for all activities of the State including those carried out by the agency of public enterprises. It provides that the Comptroller and Auditor General is to report on, in addition to the accounts of the Union and States, the accounts of authorities and bodies (which term includes public enterprises) as may be prescribed by Parliament. One of the purposes of setting up Company/ Corporation form of public enterprises was ensure to a degree of administrative and financial autonomy that would give them operational flexibility to rum on business principles. Nevertheless, it is accepted that this can not impair their public accountability since the investments in these are from government funds. The companies Act

1956, accordingly, defines government companies as those companies where the State has majority share holding and also provides for their audit by the Comptroller and Auditor General of India. The legislations setting up public corporations, barring a few exceptions, similarly provide for his audit.

31.10 The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 provides that audit of the accounts of government companies shall be conducted by the Comptroller and Auditor General in accordance with the provisions of the respective legislatures. The accounts of corporations established by or under law made by Parliament in accordance with the provisions of the respective legislature. The audit of the accounts of corporations established by or under law made by the legislature of a state or of a Union Territory could also be entrusted to him by the Governor/ Administrator.

31.11 The accounts of government companies are audited by firms of Chartered Accountants as is the case with companies in the private sector. However, there are some important differences. The auditors of government companies are appointed/re-appointed by the Company Law Department on the advice of the Comptroller and Auditor General who makes his recommendations on the basis of their competence and performance. This system of appointment gives them a far greater degree of independence as they are not dependent on company management for their appointment or re-appointment. Further, considering the need for an in-depth examination, the Act gives the Comptroller and Auditor General authority to issue directions to these auditors regarding the manner in which the company's accounts shall be audited; such directions have been issued. In accordance with these directions, the auditors have to submit a supplementary report (i.e. in addition to the report required to be submitted to the share-holders) on the adequacy and efficiency of system of accounts, internal control, cost accounts, inventory management, internal audit etc. This report is intended to ensure that the professional auditor's performance is adequate and that their report throws up useful data and information for a better appreciation of the financial working of the companies. And, finally the Comptroller and Auditor General has the right to comment upon or supplement the report of the auditors. Hence, broad checks are applied to ensure that the companies have followed the generally accepted accounting and reporting standards and that the accounts as certified by statutory auditors represent a true and fair view of the company's financial position and working. The Comptroller and Auditor General also conducts a supplementary or test audit in the nature of efficiency-cum-performance appraisal.

31.12 As regards government corporations established by or under Acts of legislature, he conducts audit either as a sole auditor or super-imposed auditor.

Objectives and Scope of Audit

31.13 Under the Act of 1971, the scope and extent of audit is determined by the Comptroller and Auditor General. Audit of public enterprises in India is not restricted to financial and compliance audits; it extends also to the efficiency, economy and effectiveness with which these operate and fulfil their objectives and goals. Another aspect of audit relates to questions of propriety; this audit is directed towards an examination of the management decisions in the areas of sales, purchases, contracts, etc. to see whether these have been taken in the best interest of the undertaking and conform to accepted principles of financial propriety.

31.14 One of the purposes of setting up company/corporation form of enterprises was to give their managements autonomy and flexibility with in the overall control and accountability system to run on competitive and commercial terms. Audit is accordingly so conducted as not to interfere with their autonomy or to inhibit their decision-making authority. Being an ex-post-facto activity, audit does not affect either the authority to take decisions or the decisions themselves. In examining the decisions of a management, it ensures that these were taken by the competent authority after examination of all aspects on the basis of all the relevant information available at that time and taking into consideration the different alternatives available to the management, and that the decisions were consistent with the aims and objectives of the enterprise. Audit is an instrument of accountability. But an equally important purpose of public enterprises audit in India is to help the government and the enterprise managements to improve their efficiency and effectiveness. This is achieved by bringing out the financial and operational deficiencies, inadequacies or ineffectiveness of systems, shortfalls in performance, etc. and by analysing causes of non-attainment of acceptable standards of performance. Financial performance is linked with the physical performance and issues of efficient and economic operations and management of resources are highlighted.

31.15 The audit of public enterprises in India broadly covers three aspects; financial statements, systems and performance. In addition, a horizontal study of the overall working results of companies/ corporations with reference to important indices of financial performances and that of accounting systems and procedures is also made. The horizontal study provides a bird’s eye view of overall performance of Union/State enterprises.

31.16 The objectives of audit of financial statements and audit techniques are the same as used for auditing private enterprises. For purposes of comments upon or supplement to the Auditor’s Report, the work of professional auditor is reviewed by applying broad checks on the balance sheet, profit and loss accounts, etc. as certified by them. It is aimed at ensuring that the accounts as certified by the Auditors, represent a true and fair view and are in conformity with the provisions of the Companies Act. Any deficiencies noticed in this regard are issued as comments upon or supplement to the Auditor’s Report; which are required to be placed before the Annual General Meeting and the Legislature. The comments ensure, by and large, uniformity in accounting and develop healthy conventions of appropriate disclosure requirement. Additionally, a review of accounts is also prepared by the Audit Department and this review brings out in a summarized form certain key data and financial highlights of company's operations indicating the trend for 3 years. It is published as part of Director's Report by the Government Company.

31.17 Audit of transactions is continuous in the case of major enterprises and annual in the case of others. Increasingly, more attention is being paid to the soundness of the systems and their effective operation. Comprehensive audit appraisals are conducted periodically. A number of public enterprises, both of the Union Government and of the State Governments, are selected each year for comprehensive appraisal.

31.18 Audit is expost-facto and is conducted both in the headquarters of the concerned public enterprise as well as its units. Depending on the size and complexity of the enterprise, it is either conducted through resident audit teams located within the premises of the public enterprises or through audit teams deputed for a certain number of days.

31.19 The results of audit are reported to and discussed with the management before finalizing the audit observations. Only the significant results of these audits along with the views of the management/ government are included in the audit reports.

Comprehensive Audit

31.20 Chartered Accountants conduct what is known as Accountancy Audit, and Regularity Audit. This may be sufficient for a commercial concern in the private sector, but the importance of the accountability of public sector enterprises to the citizen via the Legislature needs no emphasis. Audit conducted by the professional auditors may not be adequate to secure this accountability which differs considerably in quality and content, compared to accountability in a private sector enterprise. It is here that the Comptroller and Auditor General plays an important role and assists the

Legislature in reviewing the performance of public undertakings. The audit conducted by the Comptroller and Auditor General does not really cover again the field which has already been covered by either the internal audit of the individual concerns or by the professional auditors. He conducts an appraisal or an efficiency-cum-performance audit. He sees whether the undertakings have fulfilled the objectives for which they have been established, whether ‘value for the money’ spent has been obtained, whether the targets have been achieved as scheduled, whether avoidable delays either in construction or production have occurred and whether infructuous or extravagant expenditure has been incurred. He locates areas of weakness and extravagance for managements’ information. All this involves a review of the decisions taken by the management, including the Board of Directors, and a comprehensive appraisal of the performance of the undertaking.

31.21 The areas covered by comprehensive audit are those of investment decisions, project formulation and management, organization, delegation of powers and management information systems, organizational effectiveness, capacity utilization, management of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices, development of complementary ancillary small scale industries, materials management, sales and credit control, budgetary and internal control systems, etc. The areas covered in comprehensive audit will naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations.

31.22 Some of the issues which are examined in audit are:

(a) whether overall capital cost of the project compares with the approved planned costs; were there any substantial increases and if so, what are these and whether there was evidence of extravagance or unnecessary costs;

(b) whether the accepted production or operational output have been achieved; whether there has been under-utilization of installed capacity or shortfall in performance and if so, what has caused this;

(c) whether the planned rate of return has been achieved;

(d) whether systems of project formulation and execution are sound; whether there are inadequacies and what has been the effect of the gestation period and capital costs;

(e) whether there is absence of cost control measures and there are inefficiencies, wastages in raw-materials consumption, etc;

(f) whether there are inadequacies in the purchase policies leading to piling up of inventory and redundancy in respect of stores and spares;

(g) whether the enterprise has research and development programme and what has been the performance in adopting new processes, technologies, improving projects and in reducing costs through technological progress;

(h) whether the enterprise has got adequate systems of repairs and maintenance;

(i) whether the procedures are effective and economical;

(j) whether there has been poor planning and insufficient or inefficient project planning;

(k) whether there has been undue waste, unproductive time, for men and machine, wasteful utilization or even non-utilization of resources and the reasons for such a state of affairs.

31.23 The efficiency and effectiveness audit of public enterprises is conducted on the basis of certain standards and criteria. Public enterprises have been set up with certain socio-economic purposes and for fulfilment of certain objectives. The objectives vary from enterprise to enterprise. The audit appraisal analyses the performance of an enterprise to bring out the extent to which the objectives for which the enterprise was set up, have been served. This, is a complex task but basic to effectiveness appraisal. The feasibility/detailed project reports give the basic of investment, capacity, costs and time schedules, gestation period and built up of capacities, parameters and norms of consumption, yields, productivity, costs, rate of return, etc. These provides yardsticks by which the performance is measured. Some of the parameters may change due to external or even internal factors subsequent to the setting up of the enterprise/project. Due account is taken of the changes effected by valid studies, in conducting efficiency audit. Then enterprises are required to have their long and short term capital and operational plans and these provide set of reference points for assessment of the performance. Where appropriate, rated capacity of the unit provides an acceptable benchmark against which physical performance is evaluated. Utilization of the rate capacity, is however, assessed, along with norms for consumption of raw materials and utilities, yields and rejections as well as requirements for proper maintenance and servicing of equipment. Cost efficiency is another important basis for appraising performance. Standard or target costs are determined on the basis of norms of capacity utilization, consumptions, productivity, yields etc. given in the detailed project reports moderated in many cases by expert studies to take care of later constraints and changes. The guidelines issued by the Bureau of Public Enterprises in respect of general management, financial management, materials management, production management and construction management and the standards laid down by internal and external experts in their industrial engineering and other Technical study Reports also provide another basis for appraising enterprise performance and its systems.

31.24 While there are several criteria and sources of criteria for conducting the efficiency and effectiveness audit of public enterprises, the basic task in audit is to carefully identify the acceptable criteria for assessing the efficiency and effectiveness of an individual enterprise so that the appraisal by audit is valid and meaningful.

Audit Board System

31.25 The system of comprehensive appraisal of the companies/ corporations of the Union Government through Audit Board was introduced from April 1969. The composition of the Audit Board differs from enterprise to enterprise. The Chairman, Audit Board is common to all enterprises selected for appraisal. There are four other members of the Audit Board for each such enterprise. Two of them are officers of the Indian Audit and Accounts Department including the Member, Audit Board who has the primary responsibility for the audit and appraisal and two part time members are appointed by the administrative Ministry responsible for the enterprise to be reviewed, in consultation and with the concurrence of the Comptroller and Auditor General. Part-time members of the audit boards are selected having in view the technical knowledge, experience and expertise in the area of operation of the enterprises to be reviewed. They are very closely associated with the appraisals at the various stages and especially help the Audit Board in analysing areas where technical expertise in required.

31.26 The system of appraisal by the Audit Board has two distinct advantages. Firstly, the audit Board has the very valuable help of the expert technical members in understanding and analysing the working of the selected enterprise in all its aspects. Secondly, the appraisal is finalized only after it has been discussed with the Management of the enterprise under appraisal and with the Administrative Ministry, During these discussions, the managements and the ministries give their views on the various issues highlighted in the draft appraisals, explain the problems and circumstances under which certain decisions were taken, the operational and other constraints, their policies, plans and projects, etc. Thus, the appraisal that is finally presented to the Parliament after approval by the

Comptroller and Auditor General of India, becomes an objective, balanced and constructive appraisal of the performance of the enterprise.

31.27 The audit Board is an internal mechanism of the Indian Audit Department for conducting appraisal of the performance of public enterprise. It has no separate legal entity and works under the supervision and control of the Comptroller and Auditor General.

31.28 The proposal of the Comptroller and Auditor General for extension of the Audit Board system to State Government enterprises as well has received a good response and so far, the Governments of Madhya Pradesh, Rajasthan and Tamil Nadu have adopted it. Currently, each Accountant General selects each year some of the State Government's companies/ corporations for an audit appraisal of their performance.

Audit Reports

31.29 The accounts of Government Companies are certified by the statutory Auditors. A copy of their Audit Report and any comments thereon or supplement thereto made by the Comptroller and Auditor General are placed before Parliament/State Legislature along with the annual report under section 619 A of the Companies Act. From the year 1970 the Audit Report (Commercial) of the Central Government is being prepared in separate parts. The first part would contain a brief summary of the overall working of all Government companies and statutory corporations and summarized financial results of these undertakings. Other part would contain the result of comprehensive appraisal of performance conducted by the Audit Board, of the selected undertakings during that year. One part of the report would contain individual irregularities noticed in the undertakings not taken up for comprehensive appraisal by the Audit Board and another part would contain the results of the reports of the company's auditors submitted under the directions issued by the Comptroller and Auditor General of India.

31.30 In the case of Statutory Corporations, certified copies of their annual accounts along with the Audit Reports are required to be placed through the Ministry concerned before Parliament/ State Legislature. The Comptroller and Auditor General may also include a synopsis of the results of their working together with a detailed review of selected units, comments on major irregularities and other matters of importance in his Conventional Audit Report.

31.31 In the case of companies other than Government Companies, in which Government have invested more than 25 per cent but less than 51 per cent of the paid up capital or Rs. 5 lakhs. Whichever is less, the annual report of the concerns together with the balance sheet, trading and profit and loss account and any other subsidiary statements of accounts prepared by the companies and any observations made by the statutory auditors is obtained and examined with a view to draw conclusions about the financial stability of the concern and the adequacy of the return on the money invested by the Government. In cases where the companies are continuously running at a loss for several years, the position is brought to the notice of Government and commented upon in the Audit Report, if necessary.

CHAPTER 32

FINANCE AND APPROPRIATON ACCOUNTS

32.1 Appropriation Acts of the Parliament or the Legislature provide the authority for spending money on the various purposes indicating in the Government budgets as passed. Over a period of time public accountability has "become a comparison of the accounts submitted at the end of the (Budget) cycle, with budget laws made at the beginning , a check of performance against legislature authorization a supervision of the managing power which executed the laws on behalf of the legislature which made them". (Normanton).

Appropriation Accounts

32.2 Appropriation Accounts are accounts of the expenditure, voted and changed, of the Government for each financial year compared with the amounts of the voted grants and charged appropriation for different purposes as specified in the schedules appended to the Appropriation Acts passed by the Parliament or Legislature, to exhibit the excess or savings, as the case may be, over the final grant or appropriation. These accounts are complementary to the accounts of the annual receipts and disbursements of Government otherwise known as Finance Accounts.

32.3 From 1961-62 Appropriation Accounts are compiled by group-heads as to eliminate unimportant matter and to enhance their usefulness. The Appropriation Accounts as at present prepared include:

(i) a consolidated statement titled "Summary of Appropriation Accounts" showing the total amount of funds (original and supplementary) provided by the Parliament/Legislature under each voted grant and charged appropriation, the actual expenditure incurred against each and the saving or excess; and

(ii) Appropriation accounts of each grant/appropriation indicating original grant/appropriation, additional funds provided during the year by supplementary grant/appropriation as a whole and the amount surrendered during the year.

32.4 This followed by “Notes and Comments” which will bring to the notice of the Parliament/Legislature (giving relevant particulars of the group heads) excesses over grants/appropriations requiring regularization, expenditure booked against the grant/appropriation but not really debitable to it, expenditure incurred on a “New Service” without specific authority of the Parliament/Legislature, unjustified or excessive provision of funds leading to large savings and lapses and also cases of defective control over expenditure e.g. excessive, irregular or unjustified reappropriations or surrenders within the grant/appropriation.

32.5 In the summary of Appropriation Accounts provision is made for:

(i) indicating the expenditure met by advances from the contingency Fund which were not reimbursed to the fund during the year by authorization of the Legislature;

(ii) reconciliation of the total expenditure according to Appropriation Accounts with the total expenditure as shown in the Finance Accounts after taking into account recoveries of expenditure; and

(iii) drawing attention to cases of excesses over grants/ appropriations requiring regularization.

32.6 The general rule is that a grant is voted or an appropriation is authorized for the gross expenditure required for each service. The expenditure shown against each grant or appropriation in the Appropriation Accounts thus exclude recoveries of expenditure relating to respective grants or appropriations. The Finance Accounts, on the other hand, show the net expenditure after taking into account the recoveries. A reconciliation statement showing:

(i) total expenditure according to Appropriation Accounts;

(ii) total of recoveries; and

(iii) net total expenditure as shown in the Finance Accounts is therefore included below the summary of Appropriation Accounts. A detailed statement showing recoveries relating to each grant/appropriation is also included as an Appendix to the Appropriation Accounts.

32.7 Appropriation Accounts of each State Government and Union Territory with Legislature are prepared by the Accountant General concerned and submitted to the Comptroller and Auditor General for approval and transmission to the Governor of the State/Administrator of the Union Territory for being laid before the respective Legislature. In respect of the Union Government, Appropriation Accounts are prepared separately for Civil, Railways, Defence, Posts and Telecommunications by the Controller General of Accounts, Railway Board, Controller General of Defence Accounts, Postal Services Board, and Telecommunication Board, respectively and forwarded for vetting to the Principal Audit Officers as indicated below:

Civil	Director of Audit Central Revenues
Railways	Additional Deputy Comptroller and Auditor General (Railways)
Defence	Director of Audit, Defence Services
Posts Telecommunication	Director of Audit, Posts and Telegraphs

After the accounts are vetted they are submitted to the Comptroller and Auditor General for approval and transmission to the President for being laid on the table of Parliament.

Technical Accounts

32.8 The accounts of Government are based in the main, on the Single Entry System. In regard to the maintenance of a set of Technical Accounts called the Journal and Ledger the Double Entry system is applied.

32.9 The main purpose of the journal and ledger is to bring out by a scientific method the balances of accounts in regard to which Government acts as a banker or remitter or borrower or lender. Though such balances are also worked out in the regular accounts, their accuracy can be guaranteed only by a periodical verification with the balances brought out in the double entry accounts.

32.10 As the finances of the State Government are separate from those of the Union Government and as the balances relating to each Government have to be worked out separately, State Accountants General maintain separate journals and ledgers for transactions of State Governments. Similar arrangement exists in the separated accounting organization in Central (Civil), Railways, Defence, Posts and Telecommunications.

Journal

32.11 The journal first sets out all the opening balances of the year, then all the transactions of the year and finally all the closing balances of the year. As the opening entries of a year in the journal are the exact replica of the closing entries of the previous year, the former are posted only by group heads, full details under each being available in the closing entries in the previous years' journal.

32.12 The transactions of each month are posted in the journal by the following entries:

1.	Sundry accounts to Revenue Receipts Sundry Accounts	Dr. (for revenue and receipt of month)
2.	Service expenditure Sundry Accounts to Sundry Accounts	Dr. (for the disbursement of the month)

32.13 The total in the amount columns of the journal are carried forward at the end of the month. They are noted in pencil only, until the opening entries for the year are posted after the closure of the accounts for the previous year. At the end of the year, the balance is struck and the details of the balances as worked out in the ledger are posted in the portion of the journal in which are recorded in closing entries.

Ledger

32.14 The accounts which are opened in the ledger are classified as follows:

1. Opening and closing head viz. Govt. Account balance.
2. Revenue Receipts (Being the total of the transactions under Revenue).
3. Service expenditure (Expenditure and Capital heads with the Revenue Account).
4. Capital expenditure outside the Revenue Account.
5. Debt, Deposit and Remittance heads which are closed to Government.
6. Debt, Deposit and Remittance heads which are closed to balance.
7. Personal Accounts of Collectors or Treasury Officers who are in account with the Accountant General, including Local Remittance in transit and also the following special heads, namely, Departmental Adjusting Accounts, Departmental Accounts, Settlement Account Abstract and Transfer under which the entries in both sides must always be the same.

32.15 The object of the ledger is to bring out the balances under the Debt, Deposit and Remittance heads other than those which are closed to Government. The posting of Revenue, Expenditure and Capital heads is requiring only for the purpose of squaring the ledger. The revenue receipts service expenditure and capital expenditure outside the revenue account are therefore posted by totals only, while such of the Debt, Deposit and Remittance heads as are closed to Government are posted by major heads. The Debt, Deposit and Remittance heads which are closed to balance are posted in detail by ledger heads. Each prescribed minor head under Debt, Deposit and Remittance heads which close to balance and each Collector’s Account is a separate ledger head.

32.16 Under the system of book keeping followed in the Indian Government Accounts all ledger heads are closed either to Government or to Balance. All heads whose balances are not carried forward from year to year are closed to Government. The balance under that head therefore represent the cumulative results of revenue, capital and other transactions in respect of which no separate progressive balanced accounts are kept.

32.17 The heads Revenue Receipts, Service Expenditure and Capital Expenditure outside the Revenue Account are closed to Government.

32.18 The Debt, Deposit and Remittance heads and Personal Accounts are closed to Balance except that the heads under Section “7819- Inter- State Settlement” and the heads “Reserve Bank Deposits”, “Appropriation for Reduction or avoidance of Debt- Other Appropriations”, “Remittances adjusted on the Central Books”, Accounts between Civil and Civil, Accounts between Civil and other Departments, and Accounts between England and India are closed to Government.

32.19 The ledger is opened by transfer from balance accounts to the various Debt, Deposit and Remittance heads and Personal Accounts the balance with which they closed in the preceding year’s ledger. It is then posted month by month from the Abstract of Major Head Totals for transactions under Revenue, Service and Capital heads and from the Consolidated Abstract for transactions under Debt, Deposit and Remittance heads. The accuracy of the postings is tested after the closing of the accounts of the year by the preparation of a Trial Balance Sheet.

Verification of Balances

32.20 The accounts of the year are not complete until the balances in the ledger under the Debt and Deposit heads and the outstandings under the Remittance heads have been reviewed and duly verified. This review and verification of balances is conducted periodically. Cases of unreconciled discrepancies between the ledger balances and those shown in the separate register or other records- Broad sheets generally posted from an independent source maintained in the accounts offices/departmental offices for the purpose, are indicated in the Finance Accounts of the Government concerned where the difference is heavy and the discrepancy is outstanding for a long time. Similarly, cases where the verification and acceptance of balances by the department involving large amounts have been delayed are also brought out in the Finance Accounts.

32.21 The balances of Government are given in the Annual Finance Accounts. These balances however do not in any sense claim to represent a complete statement of the assets and liabilities of Government. Government have valuable assets in the shape of land, buildings, workshops, factories, stock and stores etc., which are not included in these balances whereas a commercial concern would invariably include them in its statement of assets. The great bulk of the assets of Government are of such a nature that it is impossible to place upon them a money value of sufficient accuracy to justify their inclusion in a document of the nature of a balance sheet.

Finance Accounts

32.22 As soon as the accounts of a year are closed, the Finance Accounts of each Government of State or Union Territory with Legislature for the year are prepared by the Accountant General concerned and submitted to the Comptroller and Auditor General for approval and transmission to the Governor of the State/ Administrator of the Union Territory to be laid before the respective Legislature. The Finance Accounts of Union Government which comprise transactions of Civil as well as Railways, Defence, Posts and Telecommunications are prepared by Controller General of Accounts and submitted to the Comptroller and Auditor General for certification and transmission to the President for being laid on the table on the Parliament.

32.23 The Finance Accounts present the accounts of the receipts and outgoings of the Government for the year together with the financial results disclosed by the revenue and Capital accounts, the accounts of the Public Debt and the liability and assets of the Government concerned as worked out from the balances recorded in the accounts.

The Finance Accounts are generally prepared in two parts:

Part I Summarized Statements

Part II Detailed Accounts and other Statements.

32.24 The statements in Part I are intended to give in a summarized form information in regard for:

(i) transactions of the year relating to the Consolidated Fund, Contingency Fund and the Public Accounts.

(ii) (a) Capital outlay outside the Revenue Account and progressive Capital expenditure to end of the year.

(b) Revenue expenditure temporarily capitalized.

(iii) Financial results of irrigation and electricity schemes.

(iv) Debt position of Government including expenditure incurred on the service of debt.

(v) Loans and advances by Government,

(vi) Guarantees given by Government.

(vii) Cash balances and investments of cash balances.

(viii) Summary of balances under Consolidated Fund, Contingency Fund and Public Account.

32.25 The detailed statements included in Part II contain:

(1) accounts of revenue and expenditure during the year by minor heads of accounts.

(2) particulars of capital expenditure outside the Revenue accounts during and to the end of the year.

(3) particulars of investments of the Government in the shares of statutory corporations, Government companies, Joint Stock Companies, Co-operative banks and Societies etc.

(4) information regarding capital and other expenditure (outside the Revenue Accounts) to end of the year and the principal sources from which the funds were provided for the expenditure.

(5) accounts showing receipts, disbursements and balances under heads of accounts relating to Debt (including loans and advances, deposits, remittances and Contingency Fund) and

(6) detailed statement of debt and other interest bearing obligations of Government.

(7) detailed statement of loans and advances made by Government.

(8) particulars of earmarked balances relating to Reserve Fund etc.

(9) statistical information in regard to revenue and expenditure under different heads expressed as a percentage of total revenue/total expenditure and distribution between Charged and Voted expenditure.

Combined Financial and Revenue Accounts of the Central and State Governments in India

32.26 The Combined Finance and Revenue Accounts presents the accounts of all the Governments in India on a common and comparable basis and are prepared by the Comptroller and Auditor General mainly on the basis of the figures continued in the respective Finance Accounts of the Governments concerned. These accounts are in two parts: (i) General Accounts and (ii) Subsidiary Accounts, General Accounts give: (a) a summary of Receipts and Disbursements of all Governments by sectional heads of account; and (b) accounts of Receipts and Disbursements by Major Heads of Accounts of all Governments in the Revenue Account, Capital Account and all other sections. The subsidiary accounts give details, generally by minor heads of all the figures shown in the General Accounts relating to each type of Governmental activity. Each subsidiary account contains separate statements for (i) Receipts; (ii) Expenditure met from Revenue; (iii) Capital outlay showing also the scheme-wise progressive outlay; and (iv) Loan Transaction. Notes giving a brief description of the nature of transactions relating to each Account and in some cases, the accounting procedure thereof are incorporated in the subsidiary accounts wherever necessary.

32.27 The combined Finance and Revenue Accounts are prepared mainly from the following accounts:

	Name of Account	From whom received
i	Finance Accounts of the State	Accountant General of the State concerned
ii	Finance Accounts of Central Government	Controller General of Accounts
iii	Accounts of Postal Department	Director General of Posts
iv	Accounts of Telecommunications Department	Director General of Telecommunications
v	Accounts of Railways	Ministry of Transport (Railway Board)
vi	Accounts of the Defence Services	Controller General of Defence Accounts
vii	Subsidiary returns	Accounting Authorities referred to above.

CHAPTER 33

RESULTS OF AUDIT AND AUDIT REPORTS

33.1 The audit by the Indian Audit and Accounts Department is conducted generally after the events have occurred. In some cases, certain classes of payments are made after the claims have been audited and passed by Audit; but these payments, taken together, comprise a negligible fraction of the whole expenditure of Government. Generally speaking, therefore, the proceedings of the Indian Audit and Accounts Department are conducted ex-post-facto and consequently, audit cannot prevent an overpayment through negligence or non-observance of the financial rules and regulations or the commission of any other irregularity or impropriety by the administrative authorities during the course of transacting business of Government.

33.2 The detailed results of audit are reported by the Audit Officers to the disbursing and controlling authorities, who are responsible for the early settlement of the objections raised in audit by necessary compliance and/or recovery or regularization of excess or irregular payments, if any. Audit Officers are, however, required to keep a constant and careful watch over the objections raised by them and to keep controlling authorities and also the Government where necessary, fully acquainted not only with individual cases of serious disregard of financial rules but also with the progress and clearance of objections. Audit depends for its effective value on its right and duty to report results to the proper authority so that appropriate action may be taken to rectify the irregularity or impropriety, where possible or to prevent a recurrence of it. This authority may be departmental authority, the Government itself or as the last resort, the Legislature.

Authority

33.3 Articles 149 and 151 of the Constitution of India and Sec. 49 of the Government of Union Territories Act, 1963 read with the CAG's (DPC)

Act, 1971 empowers the Comptroller and Auditor General of India to audit the accounts of the Union/State/Union Territory having a Legislative Assembly and submit his reports to the President/ Governor/ Administrator, as the case may be, who causes them to be laid before the respective legislature. The Audit Reports relating to the transactions of State Governments and the Union Territories are, prepared by the respective State Accountants General /Directors of Audit under the directions of the Comptroller and Auditor General. The Audit Reports relating to the transactions of the Union are prepared in six volumes viz, Civil (Relating to expenditure incurred by Civil Ministries and Departments) Civil Revenue Receipts (dealing with revenue receipts of the Union), Commercial (dealing with the results of audit of Government companies and corporations subject to audit by the Comptroller and Auditor General), Posts & Telegraphs, Defence Services and Railways.

Audit Reports

33.4 The Audit Reports contain such comments on the regularity, propriety and effectiveness of expenditure as are deemed necessary and proper as a result of audit investigation. Thus the Audit Reports draw attention to:

(a) matters arising from Appropriation Accounts, the more important being;

(i) cases of excess over grants/appropriations requiring regularization;

(ii) cases where expenditure has been incurred on a 'New Service' 'New Instrument of Service' without specific authority of the Legislature;

(iii) points relating to efficiency of budgeting and control over expenditure;

(b) points of interest arising from Finance Accounts;

(c) points arising from the audit of expenditure (including expenditure on commercial and trading activities carried on by Government departments) and of accounts of stores and stock; the Report indicates important cases of non-observance of rules and standards of financial propriety;

(d) points arising from a review from the financial aspect of the achievements of selected projects and schemes undertaken by Government;

(e) important cases of losses, writes-off and of wasteful or nugatory expenditure;

(f) points arising from the audit of other financial transactions of Government, such as receipts, debt, deposit and remittance transactions;

(g) matters relating to Government companies, statutory corporations and other autonomous bodies, the accounts of which are audited by Indian Audit & Accounts Department;

(h) any other matter of interest from the financial or accounting point of view which the Comptroller and Auditor General considers necessary to bring to the notice of the Legislature.

Audit Report on Revenue Receipts

33.5 The Audit Report on Revenue Receipts presents to the Legislature the revenue position of the Government of India under Tax and Not-Tax sources. Besides, it also bring to their notice the results of test audit in general and contains important irregularities discovered in the course of audit of receipts.

Separate Audit Reports

33.6 Separate Audit Reports are prepared on the accounts of Government corporations and other autonomous bodies audited by the Comptroller and Auditor General, where the certification of the accounts is necessary.

These separate Audit Reports include mainly comments relating to the correctness of the accounts and the conclusions which can be drawn from them.

Dual purpose of Audit Reports

33.7 To the Government concerned, the Reports will show the extent to which (its subordinates are complying with) its rules and orders have been complied with and will often suggest the directions in which those rules and orders can with advantage be amplified or modified. To the Legislature, the Reports will show how far the Government have complied with its expressed policy in matters of importance and in particular how far the moneys placed at the disposal of Government were regularly and prudently spent and how far the tax and non-tax administration has been effective.

33.8 The Audit Reports are signed by the Principal Audit Officers and countersigned by the Comptroller and Auditor General of India. These are submitted to the President/Governor/ Administrator for being laid before the respective Legislature.

33.9 The procedure which Parliament/Legislatures follow in dealing with these Reports is regulated by rules framed or adopted by Parliament/Legislature under Art.118/208 of the Constitution in respect of the Union and the State respectively and Section 33 of the Government of Union Territories Act, 1963. These rules provide for examination of the Accounts and Reports by a Committee of the respective Legislature known as the Public Accounts Committee or the Committee on Public Undertakings.

CHAPTER 34

FINANCIAL COMMITTEES

34.1 The Constitution of India, republican and federal in character, embodies the salient features of Parliamentary system. The scope and manner of functioning of Parliament are dictated by its size. Parliament can and does act only through the agency of the Executive enjoying its confidence.

While the initiative in finance and the formulation of policies and finance is held by the Executive, the complementary function of critical scrutiny of such policies and control of the Executive is performed by Parliament. Though Parliament itself does not govern the country, it exercises supervision over executive action in various ways through the purposive use of Parliamentary procedures and a system of Committees.

There in no Constitutional provision for the Committees of Parliament. It is a matter of Parliamentary procedure and conduct of its business. Under Article 118 (1) of the Constitution, the Rules of Procedure and Conduct of Business of each House of Parliament have been framed and several Parliamentary Committees have been constituted under these Rules. A Parliamentary Committee is a Committee which is appointed or elected by the House or nominated by the Presiding Officer of the House and which works under the direction of the Presiding Officer and the secretariat for which is provided by the Secretariat of the House. Parliamentary Committees may be standing committees or Adhoc Committees. Adhoc Committees become *functus officio* as soon as they have completed their work. Standing Committees are those which are elected or nominated every year and from time to time and are permanent Committees. Important among the Standing Committees are the Financial Committees of the Lok Sabha, viz. the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings.

Public Accounts Committee

34.2 Parliament having approved the proposals of the Executive in regard to resource mobilization and expenditure expects in due course detailed accounts duly audited by the independent Constitutional authority, the Comptroller and Auditor General of India, It is difficult, if not impossible for Parliament to examine the Accounts and Audit Reports which are complex and technical; further it cannot spare the time required for such an examination. The Committee on Public Accounts has been constituted for this purpose.

The scope and functions of the Committee on Public Accounts are set out below:

The Committee examines the accounts showing the appropriation of sums granted by the House for the expenditure of the Government of India, the annual finance accounts of the Government of India and such other accounts laid before the House as the Committee may think fit.

In scrutinising the Appropriation Accounts of the Government of India and the Report of the Comptroller and Auditor General thereon, it is the duty of the Committee to satisfy itself:

(a) that the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged;

(b) that the expenditure conforms to the authority which governs it; and

(c) that every reappropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

It is also the duty of Committee:

(a) to examine the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, concerns and projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading or manufacturing scheme or concern or project and the report of the Comptroller and Auditor General thereon;

(b) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor General of India either under the direction of the President or by a statute of Parliament; and

(c) to consider the report of the Comptroller and Auditor General on audit of receipts and of stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the Committee examines with reference to the facts of each case the circumstances leading to such an excess and makes such recommendation as it may deem fit.

The Committee does not exercise its functions in relation to such public undertakings as are allotted to the Committee on public Undertakings.

The Committee looks into cases of loss, inefficiency, ineffectiveness or extravagance and calls upon the Government to explain what action, disciplinary or otherwise, it has taken to prevent recurrence. The committee may express disapproval of or pass strictures against extravagance or lack of proper control by the Government. The Committee is not concerned with the question of policy in the broad sense. As a rule it expresses no opinion on points of general policy, but it is within its jurisdiction to point out whether there has been extravagance or waste in carrying out that policy, the Committee examines the system of checks and balances obtaining in the Government. It usually concentrates more on general control to secure economy and effectiveness, and leaves the question of internal administration to the Ministry concerned.

Estimates Committee

34.3 The Lok Sabha, even though it discusses the estimates for a sufficiently long period, finds nevertheless that is has neither the time nor the flexibility to discuss the details and the technical aspects of the estimates. A Committee on Estimates was therefore constituted for this purpose in 1950.

The Committee examines such of the estimates as may seem fit to the Committee or are specifically referred to it by the House or the Speaker, with a view:

(a) to report that economies, improvements in organization, efficiency or administrative reforms, consistent with the policy underlying the estimates may be effected;

(b) to suggest alternative policies in order to bring about efficiency and economy in administration;

(c) to examine whether the money is well laid out within the limit of the policy implied in the estimates; and

(d) to suggest the form in which the estimates shall be presented to Parliament.

The Committee does not exercise its functions in relation to such Public Undertakings as are allotted to the Committee on Public Undertakings by the Rules of Procedure or by the Speaker.

The Committee may call for details of expenditure charged on the Consolidated Fund of India and scrutinize whether the classification of items of expenditure between ‘Voted’ and ‘Charged’ has been done strictly in accordance with the provisions of the Constitution and Acts of Parliament.

The Committee does not go into or comment on a policy approved by Parliament, but where it is established on evidence that a particular policy is not leading to the expected or desired results, or is leading to waste, it is the duty of the Committee to bring it to the notice of the House that a change in policy would be desirable. Under a direction of the Speaker, the Committee examines the estimates of Defence Ministry through a sub-Committee.

Committee on Public Undertakings

34.4 Public enterprises are financed from Public funds. It follows that they must function within the confines of public accountability. This is ensured by Parliament through the Committee on Public Undertakings which is the youngest of the Financial Committees and was set up in May 1964. Prior to the Constitution of this Committee, the Public Accounts Committee considered the Reports of the Comptroller and Auditor General on Public Undertakings and the Estimates Committee examined in general the individual undertakings and the different aspects of functioning of all Undertakings.

The functions of the Committee are:

(a) to examine the reports and accounts of the public undertakings specified in Fourth Schedule of the Rules.

(b) to examine the reports, if any, of the Comptroller and Auditor General of India on the public undertakings.

(c) to examine in the context of the autonomy and efficiency of the public undertakings whether the affairs of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices, and

(d) to exercise such other functions vested in the Committee on Public Accounts and the Committee on Estimates in relation to the public undertakings specified in the Fourth Schedule as are not covered by clauses (a), (b) and (c) above and as may be allotted to the Committee by the Speaker from time to time.

The Committee is, however, precluded from examination and investigation of any of the followings:

(i) matters of major government policy as distinct from business or commercial functions of the public undertakings;

(ii) matters of day-to-day administration; and

(iii) matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.

Every government company whose annual report is placed before the Houses of Parliament is within the purview of the Committee. In other words, all government companies incorporated under the Companies Act in which Central Government is a member could be examined by the Committee. This is not the case with the Public Undertakings established by Special Central Acts. Only those undertakings which are specifically allotted could be examined by the Committee.

The emphasis of the Committee is on providing a broad and general review of an enterprise so as to present an overall picture rather than dealing with individual mistakes.

Composition and Tenure of the Financial Committees

34.5 All the three Financial Committees of Parliament are Committees of the Lok Sabha. However, the Members of the Rajya Sabha are also associated with the Committees on Public Accounts and public Undertakings. The estimates Committee consists of 30 members entirely of Lok Sabha elected according to the principle of proportional representation by means of single transferable vote. The Committees on Public Accounts and Public Undertakings have 22 members (15 from Lok Sabha and 7 from Rajya Sabha) elected in like manner . A Minister is not elected to be a Member of a Financial Committee. If a member after his election to the Committee is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment. The Chairman is appointed by the Speaker from amongst the Members of the Committee. If the Chairman is absent from any sitting, the Committee chooses another Member to act as Chairman for that sitting. The tenure of the Committee is not to exceed one year. A convention has been established since 1956-57 that while nominating members for election, parties and groups in the House keep in view that as far as possible nearly one third of the Members retire every year and the rest of the outgoing members are returned. The Committee usually takes office on the 1st of May every year and continues up to 30th April of the following year. The Committee has got power to appoint sub-Committees and working/study groups.

Powers, Privileges and Obligations of the Committees

30.6 The powers, privileges and obligations of the Committees are derived from the Constitution, the Rules of Procedure and Conduct of Business in the Lok Sabha and the directions of the Speaker. Certain conventions have also developed over time. The Committees are empowered to send for persons, papers and records unless it is certified by the Minister concerned that disclosure of document would be prejudicial to the safety and interest of the State. The Chairman finally decides as to whether a particular document or information, which is held to be secret, need be called for from Government and whether such information or document need be made available to all the Members of the Committee. The Committee may, with the approval of the Speaker, undertake tours for on the spot study. The Committees on Public Accounts and Public Undertakings are assisted by the Comptroller and Auditor General and his representatives. Matters under examination of the Committees are not ordinarily raised in the House through questions and motions. No minutes of dissent is allowed in the Reports of the Committee .Government should report only to the Committees the action taken on their Reports. The Reports of the Committee are not generally discussed in the House. A Member of a Committee having personal, pecuniary or direct interest in any matter to be considered by the Committee has to disclose his interest to the Speaker and abide by his decision. Where the Speaker considers it inappropriate that a Member of the Committee should be associated with a Government Committee he should, if so required by the Speaker, resign the membership of the latter Committee. Under Article 105 of the Constitution, no member of a Committee shall be liable to any proceedings in any Court in respect of anything said or any vote given by him in the Committee and no person shall be so liable in respect of publication by or under authority of Parliament of any report, paper or proceedings.

Each of these committees can be described as the parliament in miniature. They function on non party lines and bring to bear on their work an objective examination of issues, uninfluenced by any extraneous consideration.

Sittings of the Committees

34.7 The sittings of the Financial Committees are held within the precincts of the Parliament House. The sittings are held in private. All persons other than Members of the Committees and officers of the Lok Sabha Secretariat withdraw whenever the Committees are deliberating. The quorum to constitute a sitting of a Committee shall be, as near as may be, one-third of the total number of Members of the Committee. As a convention the quorum is not insisted upon at the commencement of a sitting held for taking evidence as no discussions are taken at such sittings. It is necessary, however, that there should be quorum when a sitting is held to consider and adopt a draft Report or select subjects for examination or settle programme of work, tour, etc.

Examination and Reports

34.8 At the beginning of the tenure, the Committee select subjects for examination during the year. Thereafter preliminary information is obtained from the Ministries/ Public Undertakings concerned. The Committees on Public Accounts and Public Undertakings also get Memoranda of Important Points from the Comptroller and Auditor General's office. For examination of the subjects selected, the Committees divide themselves into convenient number of Working/Study Groups. The Committees examination is mainly at their sittings when the officials/non-officials tender evidence. In view of the autonomy of Public Undertakings the Committee on Public Undertakings take the evidence of the Management and the Administrative Ministry separately. The witnesses are expected to observe due decorum and etiquette. A verbatim record of proceedings of each sitting of the Committees/sub-Committee, where evidence is taken, is kept by the Secretariat. The proceedings of the Committee are treated as confidential.

A procedure has been evolved whereby the Committees on Public Accounts and Public Undertakings get a feed back from the Ministries regarding the action taken on all the Audit Reports irrespective of the fact that the Committees have not considered all the issues raised in the Audit Reports in detail.

After the Committees complete the examination of a subject, conclusions and recommendations are formulated. The draft Report, after approval of the Chairman, is placed before the Committee concerned for adoption with such modification as it may make. The draft Report is also factually verified by the Audit in the case of Public Accounts Committee Reports and by the Ministry or the Public Undertaking in the case of Committees on Estimates and Public Undertakings. The Chairman authenticates the Report and presents to Lok Sabha. The Reports of the Committee on Public Accounts and Public Undertakings are also laid before Rajya

Sabha by a Member of the respective Committee as authorized by the Committee/ Chairman. The Ministries concerned are required to inform Lok Sabha Secretariat of the action taken by them on the recommendations of the Committees contained in each Report within a period of six months. After considering the Action Taken Notes of the Ministries, the Committees further report to the House. Any area of divergence of views between the Committees and Government could then be raised in the House.

Committees of State/Union Territory Legislatures

34.9 The legislatures of States and Union Territories have similar committees system. There are generally separate committees on Public Accounts and Public Undertakings where there is no separate committee on Public Undertakings the committee on Public Accounts examines the accounts and consider reports relating to Public Undertakings also.

Relationship with the Comptroller and Auditor General of India

34.10 The Comptroller and Auditor General of India is regarded as a 'friend, philosopher and guide' of the Committees on Public Accounts and Public Undertakings. His Reports laid before the Parliament and Legislatures stand remitted to the Committee concerned. He attends the sittings of the committees of Parliament and assists them in the examination of accounts and audit reports by providing the background information and data on the basis of which audit comments were framed and included in his Reports. He is allowed by the Committees to intervene in the discussions to clarify any point. Similar assistance is given by the respective Accountants General to the State and Union Territory Committees.

There is no bar to the Committees examining matters not specifically covered by the Reports of the Comptroller and Auditor General of India. However, it is the convention that the Comptroller and Auditor General and his officers assist the Committees only when matters arising out of the Audit Reports are examined by them and for the rest they proceed on their own. Whenever the Committees desire a matter to be investigated by the Comptroller and Auditor General, they route their requests through Government and the Comptroller and Auditor General in his discretion includes the results of such investigation in his reports submitted to the President, Governor or Administrator and laid before Parliament or the Legislature as the case may be.