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# PUBLIC ACCOUNTS COMMITTEE

1952-53

## THIRD REPORT

[ EXCHEQUER CONTROL OVER PUBLIC EXPENDITURE ]

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PARLIAMENT SECRETARIAT

NEW DELHI

*December, 1952*

## Composition of the Public Accounts Committee, 1952-53

Shri B. Das—*Chairman*

MEMBERS

2. Pandit Munishwar Dutt Upadhyay.
3. Shri M. L. Dwivedi.
4. Shri Shree Narayan Das.
5. Shri Tribhuan Narayan Singh.
6. *Shri H. V. Pataskar.
7. Shri Ranbir Singh Chaudhuri.
8. Acharya Shriman Narayan Agarwal.
9. Dr. Mono Mohon Das.
10. Pandit Krishna Chandra Sharma.
11. Shri Uma Charan Patnaik.
12. Shri V. P. Nayar.
13. Shri B. Ramachandra Reddi.
14. Shri G. D. Somani.
15. Shri K. M. Vallatharas.

SECRETARIAT

Shri M. N. Kaul—*Secretary*.

Shri S. L. Shakdher—*Deputy Secretary*.

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*Elected on the 11th December, 1952 *vice* Shri Balwant Nagesh Datar resigned.



1050 P.S.

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# INTRODUCTION

I, the Chairman of the Public Accounts Committee, having been authorised by the Committee, to submit the Report on their behalf, present this Third Report on the 'Exchequer Control over Public Expenditure'.

2. At the meeting of the Public Accounts Committee held on the 12th November, 1952, a sub-Committee consisting of the following Members of the Committee was appointed to enquire into the introduction of the system of Exchequer Control over Public Expenditure from the Consolidated Fund of India in consonance with the provisions of the Constitution:

Acharya Shriman Narayan Agarwal—*Chairman.*

Pandit Munishwar Dutt Upadhyay—*Member.*

Shri B. Ramachandra Reddi—*Member.*

3. The sub-Committee held two sittings. Their Report (appended herewith) was considered and approved by the whole Committee at their meetings held on the 17th and 19th December, 1952.

4. A brief record of the proceedings of each meeting of the sub-Committee and the whole Committee has been maintained and forms part of the Report. A statement showing the summary of the principal recommendations of the Committee is appended to the Report.

5. While dealing with this question of Exchequer Control, the Committee would also like to refer to the existing arrangement in certain places where the offices of the Indian Audit Department have been saddled with the responsibilities of conducting pre-audit and actually making payments. The function of payment of monies, and maintenance of initial accounts is that of the Executive authorities, and it is well-known and universally accepted that the agency which has to audit payments should be separate from and independent of the agency which has to make disbursements, as a combination of these functions is likely to facilitate frauds and embezzlements and prevent their coming to light. This places the Comptroller and Auditor-General in a most embarrassing and anomalous position. It is fundamentally wrong in principle, therefore, to make the Indian Audit Department responsible for making payments. The Comptroller and Auditor-General has informed the Committee that he as well as his predecessors have been protesting to Government from time to time against the impropriety of his Department being made responsible for pre-audit and treasury payment work and pressed for its

being relieved of pre-audit and payment work. This work is constitutionally entirely outside the duties of his Department. But unfortunately the various Governments have not realized this impropriety nor the risks involved in the arrangement and, therefore, have not implemented the proposal of the Comptroller and Auditor-General, except in the recent instance of the establishment of the New Delhi Treasury during this month. The Committee endorse the views of the Comptroller and Auditor-General that his department should be relieved of this work with the least possible delay, and recommend that urgent steps should be taken to that end by the Governments concerned. In this connection the Committee would like to draw attention to para. 39 of the First Report of the Public Accounts Committee, 1951-52.

6. The Committee also place on record their great appreciation of the valuable assistance rendered to them in their task by the Comptroller and Auditor-General of India and his Officers and the Secretary and Deputy Secretary, Parliament Secretariat.

B. DAS,
CHAIRMAN,
PUBLIC ACCOUNTS COMMITTEE.

NEW DELHI;
*20th December*, 1952.

**Report of the Sub-Committee of the Public Accounts Committee on the 'Exchequer Control over Public Expenditure'.**

The sub-Committee held meetings on the 28th November and 13th December, 1952 in order to ascertain the machinery available at present and to recommend the steps that should be taken for the introduction of a system of control over expenditure from the Consolidated Fund of India in the manner envisaged under the Constitution *vide* Articles 114 (3) and 266 (3) which is commonly known as 'Exchequer Control'. The sub-Committee requested the Comptroller and Auditor-General to attend all their meetings, and to give them his expert advice on this subject. The Comptroller and Auditor-General has also had the advantage of making a special study in the U.K. of the system which had been evolved there over a long period of time. He accordingly gave the sub-Committee a detailed exposition of the system of Exchequer Control as it existed in the U.K. and also the procedure in vogue in India in regard to the receipt of moneys on account of the Consolidated Fund, its custody, disbursements therefrom, and the existing system of and responsibility for the maintenance of accounts as well as the organisational and other changes which would be necessary before a system of effective 'Exchequer Control' could be introduced in the country. The sub-Committee cannot do better than to reproduce as an Appendix to this Report, a comprehensive statement made by the Comptroller and Auditor-General at the meeting held on 13th December, 1952 (*Appendix I*).

2. The sub-Committee accept the views of the Comptroller and Auditor-General. They are convinced that there are no insuperable obstacles in the way of the introduction of a satisfactory system of Exchequer Control with a view to ensuring that the Grants voted and Appropriations made by Parliament are not exceeded. The reform is urgently needed, apart from the necessity of obedience to the Constitution, in view of the expansion of the activities of Government which have resulted in enormous increase of expenditure not only on the normal administration of the country but also on account of State Trading Schemes, Community Projects, the Rehabilitation Schemes, and the Multipurpose River Valley Schemes and various other schemes included in the Five Year Plan. The Five Year Plan itself involves a further enormous commitment. The ensuing years will, therefore, progressively go beyond the already very high level of Governmental expenditure during the last decade. In these circumstances, strict economy in and control over expenditure is essential. For this purpose, Parliament. which is the sole authority under the

Constitution empowered to sanction funds to the Executive Government for all this expenditure, should ensure that an adequate machinery exists to see that no money is spent out of the Consolidated Fund by the Executive Government beyond the appropriation provided by law by the Parliament. The present arrangements under which the spending authorities are not responsible for the maintenance of a complete and up-to-date account relating to the transactions for which they are responsible and the duty of compiling and maintaining the complete accounts rests upon an outside authority, namely, Indian Audit Department, is wholly inconsistent with the various responsibilities of the spending departments, namely, effective control over their financial transactions and the discharge of their responsibilities to Parliament to keep within the budget grants and appropriations. Indeed the existing arrangements blur the responsibilities and are highly defective. The sub-Committee wholly agree with Comptroller and Auditor-General that it is improper that he should be saddled with the responsibilities of compiling accounts of the Union and the State Governments and also of auditing the same. Such a system does not exist in any of the great democracies or in the Commonwealth Countries. The Comptroller and Auditor-General has informed the sub-Committee that the Conference of Commonwealth Auditors-General held in the U.K. in October 1951 came to the unanimous conclusion that an Auditor-General should not make payments or keep Accounts. The separation of Audit from Accounts and the organisation of the necessary accounting machinery under the administrative departments with a view to removing these serious defects and the enforcements of effective Exchequer Control to which the Comptroller and Auditor-General attaches great importance has the strongest support of the sub-Committee. The sub-Committee accordingly, recommend that for this purpose separate Accounts Offices for the various Ministries and the major spending departments, proposed by the Comptroller and Auditor-General should be set up as soon as possible. These Offices will also make payments. This involves automatically the separation of Audit from Accounts, which the Government of India had begun to introduce in 1924, and which was unfortunately abandoned in 1931 in spite of the strong views expressed by the Simon Commission in its Report. In implementing this recommendation, the sub-Committee feel that false considerations of economy should not be allowed to stand in the way.

3. The sub-Committee have understood from the Comptroller and Auditor-General that it would be possible to effect the reforms without much delay for the following reasons:—

(1) A scheme had already been in operation in two States and some of the Central Departments before 1931 but was unfortunately abandoned.

(2) The Comptroller and Auditor-General hopes that it should be possible to provide a considerable part of the organisation required by the Union and State Governments from his own present organisation, retaining for himself a comparatively small portion for purposes of audit functions. This is precisely what was done during 1925 to 1931. Some additional cost will doubtless become necessary but this is obviously inevitable. The resulting improvements in financial and audit control will, in the opinion of the sub-Committee and the Comptroller and Auditor-General, more than compensate for the extra cost.

(3) Maintenance of Accounts of the State is not a Union subject and, therefore, it is not the function of the Union Government or the Comptroller and Auditor-General. Under Entry No. 76 of List I of the Seventh Schedule to the Constitution, only Audit of the Accounts of the Union and States is a Union subject. The acceptance of responsibilities for the maintenance of State Accounts by the States themselves is constitutionally right and proper. The States should be made to accept this responsibility although it may involve in the beginning some additional expenditure. It should be even worthwhile to compensate them though for a limited period of time if necessary. The sub-Committee strongly recommend that immediate preparatory steps be taken in consultation with the Comptroller and Auditor-General to implement their recommendations, both at the Centre and the States, the pace being limited strictly by the time required to bring about the necessary changes of organisation.

4. It is not out of place in this connection to refer to certain features of Governmental activities since Independence. Governments (both Central and the State) are increasingly adopting at present the functions of a Welfare State. In order to implement the various schemes undertaken by them, the Central Government is making large annual grants to the States. There will be considerable augmentation of these under the Five Year Plan. The Comptroller and Auditor-General being responsible for the audit of expenditure of the State Governments also the expenditure incurred by them out of the Grants made from the Centre will automatically come under the audit scrutiny of his officers. It is nevertheless important to emphasise that the Central Government, while making the Grants to the States, should clearly specify the conditions under and the purposes for which these Grants should be utilised, so that there is no risk of these funds being diverted to unintended purposes, and the Audit authorities have no difficulty in judging whether the expenditure is in conformity with the conditions and purposes of the Grant.

5. The sub-Committee share the anxiety expressed by the Comptroller and Auditor-General in regard to the new practice of Government forming Private Limited Companies for the management of

Government industrial undertakings. The Public Accounts Committee have already had occasions to refer to this matter in their Reports to the Provisional Parliament *vide* paragraph 8 of the Report for 1950-51 and paragraph 21 of the First Report for 1951-52. The sub-Committee doubt the constitutional propriety of Government converting State industrial undertakings into Private Limited Companies, of which the President and one or more Officers become the shareholders. Such a course not only detracts from parliamentary control, but also affects the audit control of the Comptroller and Auditor-General which the sub-Committee regard as essential on behalf of Parliament. The Comptroller and Auditor-General should have the unquestioned right to audit the expenditure of these concerns, by whatever name they may be called, because they are financed from the Consolidated Fund. While recognising that the management of industrial and business concerns differs from normal day to day activities of Administration, and that special organisation and delegation of authority more in accordance with the speedier business practices may be necessary, it is also the considered opinion of the sub-Committee that Government should have the backing of suitable Parliamentary enactments for the setting up of Corporations.

S. N. AGARWAL,
CHAIRMAN,
SUB-COMMITTEE.

*Dated the 17th December,* 1952.

## APPENDIX I

**Statement made by the Comptroller and Auditor-General of India at the meeting of the sub-Committee on the 'Exchequer Control over Public Expenditure' held on the 13th December, 1952.**

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In every well-governed country the Government, whether democratic or not, and particularly the Treasury regard the limitation of expenditure to the Budget and the efficient realisation of Government revenues as extremely important matters for maintaining the solvency and credit of the State. Under a Parliamentary system of Government, which has been evolved as a result of centuries of conflict between Kings and their subjects, the supreme right of Parliament, as the elected representative of the people, to determine the sums to be voted for expenditure and to tax themselves has been finally established. The limiting of expenditure to the amounts voted by the Legislature, obtaining a supplementary vote as soon as an excess over a Grant is anticipated, and the imposition of an effective check against excess over grants being incurred, are, therefore, matters of paramount importance. In India, the provisions of the Constitution namely, Articles 114 (3) and 266 (3) have made it unconstitutional for the Executive Government to incur expenditure in excess of the Appropriations made by law of the Parliament through the relevant Appropriation Acts. But before these provisions could be made fully operative, certain changes in the existing payment and accounting systems will become necessary.

2. The existing system is as follows:—

*Treasuries.*—There are some 300 treasuries in the country, one in each district which is the main administrative unit in the country. These treasuries are the units of the fiscal system of the country and the points at which public accounts start. Each treasury has under it one or more sub-treasuries, one in each sub-division of the district. Receipts and disbursements of moneys take place daily in the treasuries and sub-treasuries in respect of transactions connected with both the Union Government and the Government of the State in which the treasuries and sub-treasuries are situated and the initial accounts connected therewith, are maintained separately for the Union and State Governments. The sub-treasuries render daily accounts to the treasuries, where they are classified and listed, and then forwarded, along with the accounts of the head Treasury, to the Accountant

General of the State twice a month, together with the supporting vouchers. These treasuries also make payments sometimes on behalf of other State Governments and foreign Governments with whom India has Exchange Accounts. This organisation of the treasury work is a feature of the Indian administrative system and is very different from that of the United Kingdom where the public payments are all made through the Bank of England in London and there are no outlying State treasuries. The reason for this is partly the vastness of this country, but mainly the fact that at the time the administrative system was introduced, banking facilities were very poor. Gradually, Government entered into agreements with the Imperial Bank for treasury work in some places. With the establishment of the Reserve Bank of India, a great part of the Treasury balances is now deposited with the Reserve Bank of India who utilise the Imperial Bank extensively as their agents. This has now made it possible to introduce money reforms as in the U.K. in the matter of payment of money and accounting.

3. *Accounting.*—The Accounts received from the various treasuries and other departmental officers are compiled and consolidated by the Accountants General on a monthly and annual basis. In respect of the payments and receipts arising at the treasuries situated in one State on behalf of another State or Government of India, adjustments have to be made in the Accounts between the Governments concerned before an up-to-date Account can be got ready. Similar adjustments become necessary also between two Departments of the same Government, specially when one of these is a Commercial Department. Considerable time is required for effecting these necessary adjustments and arriving at a precise account at any point of time of the financial transactions booked against different Grants and Appropriations. There are, it is true, separate financial rules and orders making disbursing and controlling officers responsible for watching the progress of expenditure, and the controlling authorities responsible for taking timely action for obtaining supplementary grants and appropriations or to surrender savings. These authorities are expected to maintain certain departmental accounts for the purpose and reconcile them with those of the Accounts Officers. The initial responsibility for control of expenditure rests on the various departmental controlling authorities at whose disposal the Grants and Appropriations are placed. This improvised method had never worked very satisfactorily and it completely broke down during and after the War.

4. The Constituent Assembly became alive to the serious dangers involved in the Executive Government being able to spend in excess of the Grants and Appropriations, and, therefore, provided in the Constitution the legal restrictions contained in Article 114 (3) and 266 (3) of the Constitution whereby no money shall be withdrawn from

the Consolidated Fund of India or any State except under Appropriations made by law and except in accordance with law and for the purposes and in the manner provided in the Constitution. Suitable changes in the administrative machinery are, however, necessary, before these provisions can be rigidly enforced in practice.

5. At this stage, a brief explanation of the British system of Exchequer Control will, perhaps, be useful. Up to the stage of voting of Grants and passing of the Appropriation Acts, the procedure in the U.K. is the same as that in India. Indeed, the provisions in our Constitution relating to Appropriation Acts etc. are broadly modelled on the U.K. system.

6. The control of expenditure starts in the U.K. soon after the Appropriation Act is passed by the Parliament. To understand how this control is exercised, it is necessary briefly to describe the Government banking and payment systems in the U.K. Unlike India, in the U.K., there is only one source of issue of public moneys namely, the Bank of England, London, and all payments are concentrated there. Departmental Officers of Government with headquarters outside London are given adequate imprests which are recouped from time to time against bills submitted by them to the Ministries to which they are attached.

Each Ministry has got its own Accounting Officer. This Accounting Officer passes all bills payable by the Ministry, and issues "payable orders" on the Paymaster-General. The Paymaster-General was originally a high officer of the State but now operates almost entirely through the Assistant Paymaster-General, a permanent Civil Servant. The Accounting Officer maintains suitable registers to watch that the "payable orders" issued by him against any Vote does not result in an excess over that Vote. The primary responsibility for not exceeding the Vote is that of the Accounting Officer.

7. The Government of the U.K. keeps its cash at the Bank of England and the general control is exercised by the Treasury and by the Comptroller and Auditor-General. Expenditure in detail is a matter for individual Departments. Nevertheless, with certain exceptions there is no direct connection between individual Departments and the Bank of England. Between them stands the Paymaster-General.

The Paymaster-General, who banks with the Bank of England, does not keep separate balances there for each Vote, but one balance, from which all Departmental demands presented to him through "payable orders" *vide* para. 6 are paid. After payment, he sends a periodical statement of orders paid to the respective Accounting Officers issuing them and receives acknowledgments from the latter. As

regards Voted moneys, it is to the credit of the Paymaster-General, and it is on his application that issues are made from the Exchequer Account *i.e.*, the Account of the U.K. Government with the Bank of England. Similarly, all moneys received by Departments are paid over to the Paymaster-General.

8. Before the Paymaster-General can encash the payable orders issued by the Accounting Officers of the Ministries, however, he should have the necessary funds in his account with the Bank. These are arranged in the manner explained below after the Appropriation Act is passed:—

(i) A Royal Order under the Sign Manual authorises the Treasury with the concurrence of the Comptroller and Auditor-General to issue from the Exchequer the amounts authorised by the Appropriation Act;

(ii) The Treasury, from time to time, requires the Comptroller and Auditor-General to grant "Credits on the account of His Majesty's Exchequer" for amounts within these limits (without specifying for what particular supply services the money is required);

(iii) The Comptroller and Auditor-General writes to the Bank of England and "grants a credit to the Treasury on the account of His Majesty's Exchequer.....to the amount of £————";

(iv) The Treasury requests the Bank to transfer sums (being within the amount of the credit granted by the Comptroller and Auditor-General) "from the Exchequer to the Supply Account of His Majesty's Paymaster-General in the books of the Bank, specifying the services in respect of which the issues are to be made"; and

(v) The Bank executes the Treasury order and transmits it to the Comptroller and Auditor-General in support of the (daily) account of the Exchequer. These daily accounts received from the Bank of England and the various Treasury orders referred to above enable the Comptroller and Auditor-General to watch the progress of expenditure against the different Votes of the Parliament.

These credits authorised by the Comptroller and Auditor-General and the Treasury Orders in favour of the various Departments issued by the Treasury are required at frequent intervals throughout the year. It is important to repeat at this stage that the Treasury does not require the Comptroller and Auditor-General to write to the Bank of England to issue in favour of the Treasury the entire sum voted by the Parliament for the whole financial year.

9. This system in the U.K. thus ensures a direct control over withdrawals from the Consolidated Fund. The only excesses over a Vote which can take place under it will be as a result of issue of 'payable orders' by an Accounting Officer in excess of the balance in a Vote, due to mistakes in accounting in his Office. Such cases are, however, very rare and viewed by the Public Accounts Committee and the Parliament as grave lapses.

10. If a satisfactory system of Exchequer Control is to be introduced in India, I consider that we will have to resort, as the first step, to the system of having separate Accounts Officers for each of the Ministries and major spending departments as in the United Kingdom, with whom all payments will be centralised in respect of such Ministry or Department. A corollary to this will be that the State Governments will have to take over the maintenance of the Accounts which under the transitional provisions of the Constitution, is at present, the responsibility of the Comptroller and Auditor-General. The present position of making the same agency responsible for the maintenance of Accounts and also the Audit of the Accounts compiled by itself is not only anomalous, but highly improper and defective. Under the Constitution, Accounts is not a Union subject, and is, therefore, not the responsibility of the Union or Comptroller and Auditor-General. Indeed this constitutional objection was also brought to notice by the Inchcape Committee on Retrenchment—1922-23 which stated as below:—

> "In view of the constitutional difficulties arising under the Reforms Scheme from the fact that a Provincial Government can require the audit and accounts department to maintain an account for which the Central Government pay, it is desirable to reopen the question of the separation of the audit and accounts."

The impropriety of the existing arrangement was also recognised by the Simon Commission which gave a clear analysis of the defects in the existing arrangement and stated as below:—

> "A peculiar feature of the Indian financial system imposes on him (the Auditor-General) a third function. The compilation of accounts and their audit are, except in provinces in which the Secretary of State in Council has declared otherwise, entrusted to the same agency, the Indian Audit Department. The Auditor-General is, therefore, responsible not only for audit, but also for the preparation of the accounts he audits. He is in fact, the officer who is statutorily responsible for the compilation of the accounts which the Secretary of State is required to lay before both Houses

of Parliament every year. The explanation of this anomalous combination of duties (a relic of the highly centralised system of administration which obtained in India before 1920) lies in the transitional nature of India's constitutional and administrative arrangements. Audit and accounts have already been separated in several departments of the Government of India and in the United Provinces, and the extension of this financial form to other provinces, which was strongly recommended by the Muddiman Committee of 1924, has been hindered only by consideration of the cost involved."

The Simon Commission also realised that the existing arrangement of the State Governments not maintaining their own accounts prevented their developing adequate sense of financial responsibility. The Commission remarked as follows:—

"* * * * , the provincialising of accounts should have the effect of strengthening the sense of financial responsibility and is in keeping with the tendency towards greater fiscal autonomy. This change has, hitherto, been deferred for reasons of economy for it would admittedly involve some additional expenditure which would fall on the provinces. The present situation, however, requires reconsideration, for the accounts of the provinces will increase and become more complicated as their functions develop. It is not reasonable that they should be in a position to place this indefinite and growing expense on the Central Government."

These remarks have gained greater force in the present conditions with the vastly increasing activities and expenditure of the State Governments which, along with the Centre, are undertaking more and more activities as welfare States. If the State Governments are reluctant to undertake the maintenance of accounts on considerations of cost, it would, in my opinion, be even worthwhile to give them some financial aid, if necessary, for a limited period.

11. The reference to the separation of Accounts from Audit in the concluding portion of the first quotation given above from the Simon Commission Report, relates to the experiments begun by the Government of India in 1924 for the separation of Accounts from Audit in the U.P., N.W.F.P. and the Railways and certain other Departments of the Central Government. The experiment was not new, since the Accounts have been separate from Audit in respect of Defence expenditure for a long time before 1924. Apart from its remedying the impropriety of making the same agency responsible for the maintenance of accounts compiled by itself, one of the objects aimed at in this separation was the exercise of stricter control over expenditure, so

that the spending departments would not be allowed to exceed the Grants and Appropriations placed at their disposal. This was achieved by the creation of separate Accounting Offices accounting with one or a few major spending departments, and all payments made on behalf of these departments had to be authorised by the Accounting Officers attached to them. Under this system all payments were centralised with the various Accounting Officers, and the latter issued cheques payable all over India. This diminished to a large extent Exchange Accounts and made the watching of the progress of expenditure against a Grant easier.

12. During the year 1930-31 in the wake of the depression that had spread over all countries, Government of India decided to give up this experiment in U.P. and other places and restore the system of combined Audit and Accounts. The considerations which influenced this decision were supposedly financial, since this retrograde step was expected to yield a saving of about Rs. 3½ lakhs per annum in the U.P. The Secretary of State in sanctioning the abandonment of the experiment wanted it to be made clear in any announcement the Government of India may make that this was dictated by economy and did not indicate Government's disapproval of the principle of separation. The system of separated Accounts for Defence and Railways has, however, continued.

13. The present arrangements under which the spending authorities are not responsible for the maintenance of a complete and up-to-date account relating to the transactions for which they are responsible and the duty of compiling and maintaining the complete accounts rests upon an outside authority, namely, Indian Audit Department, is wholly inconsistent with the various responsibilities of the spending departments, namely, effective control over their financial transactions and the discharge of their responsibilities to Parliament to keep within the budget grants and appropriations. Indeed existing arrangements blur the responsibilities and are highly defective. Such a system does not exist in any of the great democracies or in the Commonwealth countries. The separation of Audit from Accounts and the organisation of the necessary accounting machinery under the administrative departments with a view to removing these serious defects and the enforcement of effective Exchequer control are essential and overdue, and I, as Comptroller and Auditor-General, attach the greatest importance to these reforms being carried out after the minimum interval required to introduce the necessary organisational changes. I consider that it would be possible to effect these reforms without much delay for the following reasons—

(i) As already stated above, a scheme had been in operation in two of the States and some of the Central Government Departments before 1931 but was unfortunately abandoned.

(ii) I hope to be able to provide a considerable part of the Accounts Organisation required by the Union and State Governments from my present Organisation retaining for myself a comparatively small portion for purposes of Audit functions. This will result in some additional cost, but the resulting improvement in financial and audit control will more than compensate for the extra cost.

14. In considering the setting up of a suitable machinery for Exchequer control, it will not be irrelevant to mention certain recent developments which have the effect of whittling away Parliamentary control over public monies. I refer to the formation of Private Companies under the Indian Companies Act for management of Governmental Industrial Undertakings financed from the Consolidated Fund. These 'Private Ltd.' Companies are, in my opinion, a fraud on the Companies Act and also on the Constitution, because money cannot be taken away from the Consolidated Fund for the establishment and transformation of certain concerns into Private Companies in the name of the President and Secretary to Government. Under the Companies Act, a Company can be formed by a group of persons. The President or the Secretary to Government is not a person. These officers do not have any personal financial interest in the Company, and their joining together cannot constitute a Company in the correct sense of the term. Further to convert a Government concern into a Private Company solely by executive action is unconstitutional. While recognising that the management of industrial and business concerns differs from normal day to day activities of administration and that special organisation and delegation of authority more in accordance with the speedier business practices may be necessary, the Government should have the backing of suitable Parliamentary enactment for the setting up of Corporations.

There is another important point involved in this procedure of creating a Private Company under the Indian Companies Act, Private Companies are to be audited by Auditors nominated by the Board of Directors. The Comptroller and Auditor-General will not, therefore, have any automatic right to audit such a Company. It is likely to be argued that his audit control is thus ousted. It is true that the Company may request him to be the Auditor if necessary by incorporating suitable provisions in its Articles of Association, but this would be neither proper nor binding as the Comptroller and Auditor-General's duties and functions are prescribed by Parliament, and cannot be regulated by the Articles of Association of a Company. Furthermore, even if he undertakes audit on a 'consent' basis, on payment of fees, he can only submit his Audit Report to the Company, and not to Parliament through the President. Parliament cannot watch through the Public Accounts Committee the regularity of the operations and the

financial results of any such Company. These observations also apply to concerns in the form of Private Companies in which Government take substantial share capital or guarantee against losses.

I regard the entire procedure adopted in these cases as unconstitutional and invalid, and hold that I have a right to exercise audit on the accounts of the Company on the basis that by an improper diversion of funds they should not escape my audit scrutiny. I may mention that the creation of such Companies through executive action is expressly prohibited in the U.S.A., and the Congress has specifically to legislate in the matter.

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## APPENDIX II

**Minutes of the First Meeting of the sub-Committee on the 'Exchequer Control over the Public Expenditure' held on Friday, the 28th November, 1952.**

The sub-Committee met from 5 P.M. to 5-45 P.M.

PRESENT

Acharya Shriman Narayan Agarwal—*Chairman.*

Pandit Munishwar Dutt Upadhyay } *Members*
Shri B. Ramachandra Reddi. }

(Shri B. Das, Chairman, Public Accounts Committee and Shri Tribhuan Narayan Singh, Member, Public Accounts Committee were present by special invitation).

Shri V. Narahari Rao, Comptroller and Auditor-General of India, New Delhi.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

The Comptroller and Auditor-General explained in some detail the control exercised by the House of Commons in the U.K. over the finances of that country. He also drew the attention of the sub-Committee to the provisions of the U.K. Exchequer and Audit Departments Act, 1866 which provided for the regulation of Receipt, Custody and Issue of Public Moneys and for the audit of the Accounts thereof. He stated that under the British system the Treasury, the Bank of England and the Comptroller and Auditor-General had complete control over the total amount under each Vote that was granted by Parliament. He also mentioned the working of the Civil Contingencies Fund in the U.K. which was operated upon only when the Civil Departments were in urgent need of extra funds on an existing service or when a new service for which Parliament had not voted any amount was so urgent that its execution brooked no delay. All the amounts spent out of the Civil Contingencies Fund had to be recouped before the end of the financial year.

2. The Comptroller and Auditor-General then stated broadly the procedure regarding initial compilation of Accounts in India which started from the Treasury Officer who vouched for payments made by the Government and the role of the Accountants-General in the check and audit of payments made by the Treasury Officers and the classification of Accounts.

3. He also described the experiments made by the Government of India for the separation of Accounts from Audit since 1924. He felt

that the existing Treasury System had become out-moded as mostly the money transactions took place through the Imperial Bank of India. He expressed the view that the time was ripe for taking steps without any further delay in regard to the separation of Audit, Accounts and Treasury functions on the U.K. System with suitable modifications to fit in with the conditions in India.

## APPENDIX III

**Minutes of the Second Meeting of the sub-Committee on the 'Exchequer Control over Public Expenditure' held on the 13th December, 1952.**

The sub-Committee met from 4 P.M. to 5-10 P.M.

PRESENT

Acharya S. N. Agarwal—*Chairman.*

Shri B. Ramachandra Reddy—*Member.*

(Shri B. Das, Chairman, Public Accounts Committee and Shri T. N. Singh, Member, Public Accounts Committee were present by special invitation).

Shri V. Narahari Rao, Comptroller and Auditor-General of India.

Shri G. S. Rao, Accountant-General on Special Duty, Office of the Comptroller and Auditor-General of India.

Shri M. S. Ramayyar, Accountant-General on Special Duty, Office of the Comptroller and Auditor-General of India.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

At the outset, the Comptroller and Auditor-General made a comprehensive statement outlining the treasury and accounting system as it existed in the U.K. *vis-a-vis* India in regard to the receipt of moneys from the Consolidated Fund, its custody, disbursements therefrom as well as the organisational and other changes that would be necessary before a system of effective 'Exchequer Control' could be introduced in this country (*vide* Appendix II).

2. The sub-Committee then proceeded to consider the draft report and approved it subject to minor additions and alterations.

3. The sub-Committee authorized the Chairman to submit the Report to the whole Committee for their approval.

## APPENDIX IV

### Minutes of the Meeting of the Public Accounts Committee held on the 17th December, 1952

The Committee met from 4 P.M. to 5-30 P.M.

PRESENT

Shri B. Das—*Chairman.*

Pandit Munishwar Dutt Upadhyay
Shri M. L. Dwivedi
Shri Shree Narayan Das
Shri Tribhuan Narayan Singh
Shri H. V. Pataskar
Shri Ranbir Singh Chaudhuri
Acharya Shriman Narayan Agarwal
Dr. Mono Mohon Das
Shri B. Ramachandra Reddi
} *Members*

Shri V. Narahari Rao, Comptroller and Auditor-General of India.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

The Committee took up consideration of the Report of the sub-Committee on the 'Exchequer Control over Public Expenditure'.

2. It was decided to take up further consideration of the Report at the meeting of the Committee on Friday, the 19th December, 1952.

## APPENDIX V

### Minutes of the Meeting of the Public Accounts Committee held on Friday, the 19th December, 1952

The Committee met from 5 P.M. to 5-50 P.M.

PRESENT

Shri B. Das—*Chairman.*

Pandit Munishwar Dutt Upadhyay
Shri H. V. Pataskar
Shri Ranbir Singh Chaudhuri
Pandit Krishna Chandra Sharma
Shri Uma Charan Patnaik
Shri B. Ramachandra Reddi
Shri G. D. Somani
Shri K. M. Vallatharas
} *Members*

Shri V. Narahari Rao, Comptroller and Auditor General of India.

SECRETARIAT

Shri S. L. Shakdher—*Deputy Secretary.*

The Committee resumed further consideration of the Report of the sub-Committee on the 'Exchequer Control over Public Expenditure'. After a brief discussion, the Committee approved the Report subject to the following being inserted as Para. 5 under the Chapter 'Introduction':

"While dealing with this question of Exchequer Control, the Committee would also like to refer to the existing arrangement in certain places where the offices of the Indian Audit Department have been saddled with the responsibilities of conducting preaudit and actually making payments. The function of payment of monies, and maintenance of initial accounts is that of the Executive authorities, and it is well-known and universally accepted that the agency which has to audit payments should be separate from and independent of the agency which has to make disbursements, as a combination of these functions is likely to facilitate frauds and embezzlements and prevent their coming to light. This places the Auditor-General in a most embarrassing and anomalous position. It is fundamentally wrong in principle, therefore, to make the Indian Audit Department responsible for making payments. The Comptroller and Auditor-General has informed the Committee that he as well as his predecessors have been protesting to Government from time to time against the impropriety of his Department being

made responsible for pre-audit and treasury payment work and pressed for its being relieved of pre-audit and payment work. This work is constitutionally entirely outside the duties of his Department. But unfortunately the various Governments have not realized this impropriety nor the risks involved in the arrangement and, therefore, have not implemented the proposal of the Comptroller and Auditor General, except in the recent instance of the establishment of the New Delhi Treasury during this month. The Committee endorse the views of the Comptroller and Auditor-General that his Department should be relieved of this work with the least possible delay, and recommend that urgent steps should be taken to that end by the Governments concerned. In this connection the Committee would like to draw attention to para 39 of the First Report of the Public Accounts Committee, 1951-52".

2. The Committee authorised the Chairman to present the Report to the House on the 20th December, 1952.

3. The Committee also decided to meet again for a few days from the 2nd February, 1953 to consider the unfinished Appropriation Accounts (Civil), 1949-50 and the Audit Report, 1951.

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# APPENDIX VI

## Summary of the recommendations of the Third Report of the Public Accounts Committee

| Serial No. | Paragraph of the Report | Ministry concerned | Recommendations |
|---|---|---|---|
| 1 | 2 | Finance | The introduction of a satisfactory system of Exchequer Control with a view to ensuring that the Grants voted and Appropriations made by Parliament are not exceeded is urgently needed. |
| 2 | 2 | Do. | It is improper that the Comptroller and Auditor-General should be saddled with the responsibilities of compiling Accounts of the Union and the State Governments and also of auditing the same. |
| 3 | 2 | Do. | Separate Accounts Offices for the various Ministries and the major spending Departments should be set up as soon as possible. |
| 4 | 3(3) | Do. | Immediate preparatory steps should be taken in consultation with the Comptroller and Auditor-General to separate Audit from Accounts, both at the Centre and in the States, the pace being limited by the time required to bring about the necessary changes of organisation. |
| 5 | 4 | Do. | The Central Government, while making the Annual Grants to the States, should clearly specify the conditions under and the purpose for which these Grants should be utilised, so that there is no risk of the Grants being diverted to unintended purposes, and the Audit authorities have no difficulty in judging whether the expenditure is in conformity with the conditions and purposes of the Grant. |
| 6 | 5 | Do. | The Comptroller and Auditor-General should have the right to audit the expenditure of the State-sponsored concerns by whatever name they may be called, because they are financed from the Consolidated Fund. |
| 7 | 5 | Do.<br>All other Ministries | Corporations for the management of Government industrial undertakings should be set up under the authority of Acts passed by Parliament. |
| 8 | Para. 5 of the Introduction to the Report of the Public Accounts Committee. | Finance | Urgent steps should be taken by the Governments concerned to relieve the Audit Department of pre-audit and payment work. |

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