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Epitome of the Reports of the
Central Committees of Public
Accounts from 1947-48 (Post-
partition) to 1956-57 (First Lok
Sabha) and of the Government
orders thereon with an Index

PREFACE

An epitome of the Reports from the Central Committee of Public Accounts from 1923-27 was published in 1929. This epitome was brought up-to-date in 1954 to include the more important recommendations of the Public Accounts Committee made in its reports up to 1950 based on the scrutiny of the Appropriation Accounts for the years ending with the period April 1 to August 14, 1947. It covered the entire accounts of the undivided India.

The present volume deals with the period subsequent to transfer of power and incorporates the major recommendations of the Public Accounts Committee in its reports up to and including the twenty-fifth of the series covering the accounting period up to March 31, 1954. The principles of selection and arrangement adopted for the first volume have been retained in the present compilation. For facility of reference, a combined index, embracing the contents of both this and the earlier volume, has been included.

A. K. CHANDA,

*Comptroller and Auditor General
of India.*

New Delhi,

THE 21ST MAY, 1959.

**REPORT OF THE CENTRAL PUBLIC ACCOUNTS
COMMITTEE 1950-51 ON THE ACCOUNTS OF 1947-48
(POST-PARTITION)**

Budgeting and control of expenditure

R4. We did not notice any appreciable improvement in the standards of budgeting and control over expenditure during the period under review. While we recognise that many cataclysmic changes followed in the wake of the partition of the country and uncertain conditions prevailed during the post-partition period, we cannot regard the overall budgetary control as satisfactory.***** While we appreciate that considerable dislocation was caused as a result of Kashmir operations, we regret to express our dissatisfaction over the lack of foresight and proper control and laxity of perception on the part of the Defence Ministry in not having surrendered such a huge amount which naturally has had serious repercussion on the overall ways and means position of the Government of India. Our predecessors have on many occasions in the past emphasized the need for correct budgeting. We would urge that the question of control over expenditure should be regarded as something 'very sacred' and the spending departments should exercise due vigilance in order to ensure that no expenditure in excess of the sum voted is incurred nor large savings are kept in hand and not surrendered in time.

During the examination of the Ministry of Finance, we pursued the question of the control of expenditure by that Ministry. It must be remembered that under the provisions of the Constitution of India no expenditure can be incurred unless it is voted by Parliament and, therefore, we asked what measures had been taken to devise suitable machinery to enforce this stipulation. We were told that this matter which involved a thorough overhauling of the existing machinery for the control of expenditure was being studied in all its implications both in the Ministry of Finance and by the Comptroller and Auditor-General. We emphasize that the need for the tightening up of the budgetary and appropriation control by the various Ministries is paramount. In cases where one grant was operated upon by more than one Ministry, the Ministry in control of the grant should exercise strict vigilance to check the tendency of over or under-budgeting on the part of the other Ministries. An overall obligation is cast on the Ministry of Finance to see that the spending Ministries exercise proper checks and show complete responsibility in the matter of budgeting and keeping control over expenditure and in cases of laxity it should be the duty of the Ministry of Finance to pull up the erring parties in a suitable manner. We should be glad if necessary rules and regulations are made for the purpose and their compliance secured (see also P.A.C. First Report 1951-52, R-14, 15 (iii) and 17).

ANNEXURE VI TO APPENDIX II OF THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT VOLUME II 1954-55

Copy of Shri K. R. K. Menon's D.O. Letter No. F. 2(11)Co./51, dated the 7th December 1951, from the Government of India, Ministry of Finance, New Delhi

In July last the Public Accounts Committee drew the attention of this Ministry to the criticism made by the Comptroller and Auditor-General that Ministries do not take adequate steps to ensure that the expenditure figures as recorded in the Departmental registers etc., are reconciled with those compiled by the Accounts Offices. It is obvious that without such reconciliation it is not possible for the Ministries or for the Heads of Departments subordinate to them to control expenditure against grants voted by Parliament as ultimately it is the figures compiled by the Accounts Offices (and not the Departmental figures) that are incorporated in the Appropriation Accounts. The procedure for the control of expenditure and reconciliation between the Departmental and Accounts figures is laid down in General Financial Rules Vol. I, Rules 88—92 and Annexure B to Chapter 5. Instructions have also been issued from time to time in the past emphasising the need and importance of such a reconciliation.****

2. Apart from the periodical reconciliation of the departmental with the Accounts figures it is also necessary for each Ministry to have currently reported to it the departmental figures of expenditure to enable it to watch the flow of expenditure against the sanctioned grant for which it is accountable to Parliament. Under the existing orders, the Heads of Departments outside the headquarters of the Government of India have to prepare returns of the monthly progress of expenditure in Form G.F.R. 7 as indicated in para 89(4) (vi) of the Central Government Compilation of the General Financial Rules. A similar return in Form G.F.R. 11 has to be prepared by the controlling officers in the Ministries of the Central Government and their attached and subordinate offices at the headquarters of the Government of India, vide Annexure B referred to in para 90 of the General Financial Rules. In both cases though expenditure figures are available either with the Heads of Departments or the controlling officer no procedure has been prescribed for making these figures available to the Ministries to facilitate the latter's control over the expenditure against the grant as a whole. In the absence of this information most Ministries are not in a position to know at any given time the progress of expenditure in respect of the various grants controlled by them. It is accordingly necessary that the returns in Form G.F.R. 7 or 11 as the case may be, referred to above, should be forwarded in future to the administrative Ministry by the Headquarters of the Departments in offices outside the headquarters of the Government of India, and by the concerned officers in the attached and subordinate offices of the Ministry at the headquarters. These should be obtained by the 15th of the month following the month to which the returns relate. The information so obtained should be suitably posted by each Ministry in the Register or Registers kept for the purpose with a view to enable the sanctioned grant and the progressive total of expenditure incurred from month to month being ascertained at a glance. Heads of Departments and

Controlling officers should be instructed that if the departmental figures submitted to the Ministry require correction in a subsequent month, such correction should be made by making *plus* or *minus* entries in the progressive totals. It should, however, be understood that if in any case the accounts office figures which subsequently become available, are higher than the departmental figures, the former should be assumed to be the correct figures as appropriation accounts are prepared on the basis of the figures booked in the accounts. *****If there are any practical difficulties in giving effect to these suggestions or figures do not become available for any sector of expenditure, the matter should be reported to the Ministry of Finance.

3. I need hardly emphasize that the responsibility for the control of expenditure against the sanctioned grant is *entirely* that of the administrative Ministry concerned, and all that the Finance Ministry can do is to arrange for assistance being made available to the Secretary of the administrative Ministry to apprise him of any defect in the system and machinery of control that comes to our notice. H. M. Finance has had under consideration the question of the nature and extent of the assistance that the Finance Ministry might render in this connection and I am directed to make the following suggestion which it is hoped will be acceptable to your Ministry.

4. The Joint Secretary of the Finance Ministry accredited to each Ministry will hold periodical (say, quarterly) meetings at which his own Deputy and Under Secretaries and also the concerned officers of the administrative Ministry will be present. At these meetings, officers of the administrative Ministry will explain if the expenditure returns are coming in regularly and are consolidated regularly by the Ministry, and they will also indicate the grant in respect of which they expect an excess or saving on the trend of actuals or other information available with them. The Joint Secretary, Finance will offer his advice on any points that might arise from the statements made by the administrative Ministry's representatives. He will also go through the Registers and if he feels that the action proposed is not adequate or any further action is necessary, he will indicate this at the meeting and if his advice is not taken he will informally bring the matter to the notice of the Secretary of the administrative Ministry concerned so that the final decision on the points of difference is taken at the highest level.

5. It is hoped that you will now take such action as is considered necessary to improve the machinery for the control of expenditure in your Ministry in the light of what I have said above and also impress on the officers of your Ministry and the departmental heads under your control the Public Account; Committee's insistence on the need for exercising the greatest possible vigilance in this matter.

NOTE.—See P. A. C. 1921-22, R-20 ; 1923-24 R-21 and 1945-46, R-6—7 and P—61 (Epitome Volume I).

Debits for supplies and Services

R5. During our examination of the Appropriation Accounts we came across a very large number of cases in which huge amounts of final savings were attributed to the non-receipt of debits for supplies

made by other Departments. The Public Accounts Committee of the year 1944-45 also commented on the apparent lack of co-ordination between the receiving departments and the departments rendering the services or supplies which resulted in large lapses of funds due to non-receipt of debits for supplies and suggested that if a close liaison between the two departments was maintained such lapses could be eliminated. We suggest that the Ministry of Finance should once again draw the attention of all the Ministries to this vital aspect of the matter, and a procedure should be devised in consultation with the Comptroller and Auditor-General whereby the indenting Department should ascertain telegraphically the precise position in regard to supplies within the year and estimate as accurately as possible the total expenditure against its appropriations.

Surrender of funds

R15. (i) During our examination of the Appropriation Accounts and the Railway Audit Report, we noticed that there had been a lapse of Rs. 9·62 crores and 12·84 crores under Revenue and Capital respectively, during the period under review. The previous Committees too drew attention to a number of instances of inadequate or injudicious surrenders by the Railway Administrations. We would emphasize that some rational methods should be evolved whereby closer co-ordination is maintained between the two important aspects of public expenditure viz., budgeting and control of expenditure and timely steps should be taken to surrender savings in the final modification or re-appropriation statements to avoid lapses. One of the major factors responsible for the lapse of funds was attributed to the delay in the non-receipt or non-adjustment of debits for supplies actually made or services rendered. This vital question had also engaged the attention of the previous Committees and in spite of the suggestions made by them from time to time that where supplying departments failed to raise debits in time, the receiving departments should adopt the procedure of affording anticipatory credits to the supplying departments with a view to obviate lapse of the grants, the state of affairs had not shown any improvement. To remedy the situation, we endorse the suggestion of the Comptroller and Auditor-General that there should be closer co-operation between the supplying agencies and the receiving departments and the latter should be informed by the end of March as to what supplies for which orders had been placed were likely to be made available so as to enable a review of the budget position. We hope that our suggestion will be acted upon by the Ministry of Railways as well as other Ministries and Departments and cases of lapse of grants on account of non-adjustment of debits in time do not occur in future.

(See also P.A.C. Seventeenth Report, 1955-56 R-7).

APPENDIX XXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

**Copy of the Ministry of Finance O.M. No. F. 10(1)-B/51, dated the
14th June, 1951 to all Ministries etc.**

SUBJECT.—Debits for Supplies and Services

In para. 5 of their Report on the Accounts of 1947-48 (post-partition) the Public Accounts Committee commented on the very large

number of cases in which huge amounts of final savings were attributed to the non-receipt of debits for supplies made by other departments. In this connection, a reference is invited to the late Finance Department Office Memorandum No. F. 1(155)-B/46, dated the 18th December, 1946, drawing the attention of all Departments of the Government of India and of Controlling Authorities to the observations on this point contained in para. 7 of the Report of the Public Accounts Committee on the Accounts for 1944-45.

2. It is important that a close liaison is maintained between the supplying and receiving Departments to ensure correct estimating of funds required. It is equally necessary that the Controlling Officers keep a watch over the receipt of debits for supplies received and remind the supplying Departments if there is any delay.

3. Ministries are accordingly requested again to follow the observations of the Committee carefully and to arrange that both at the Headquarters and at the Subordinate Offices the progress of supplies as also of the debits for those supplies is watched continuously.

NOTE.—See P. A. C. 1943-44, R-21 and 1944-45, R-7 (Epitome Volume I).

APPENDIX IV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTH REPORT 1952-53 VOLUME I

Memorandum on the question of lapse of funds resulting from the non-adjustment of debits for supplies and services rendered during a financial year.

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2. For all overseas purchases, other than those received through I.S.M., Washington, provisions in the Budget, Revised Estimates and the Final Grants are made on the basis of the advice received from the D.G., I.S.D., London. As regards the Indian purchases made through the Ministry of Works, Housing and Supply, which, in fact, constitute the major portion of the Stores Budget of the Railways, ****it has been arranged that weekly reports of the actual payments made during the last month of each financial year and also probable debits as known at the time of report will be passed on by the Accountant-General, Food, Rehabilitation & Supply, so that the Railways may have a better appreciation of the position and make more accurate estimation of their requirements in the Final Modification Estimate.

3.*****Government have since decided to transfer the procurement of specialised railway stores to the Railway Board. It is hoped that budgeting relating to the transactions of these stores will henceforward be considerably improved inasmuch as the delay now occasioned under the existing arrangements in the adjustment of inter-Departmental debits will be done away with.

Defective contracts

R6(i). We came across a number of instances in which the contracts entered into by the Ministry of Defence were defective and did not contain adequate provision to safeguard the interests of Government. To remedy this state of affairs, we suggest that a Committee consisting of representatives of the Ministries of Finance, Defence and Law should be constituted to go into the existing contract forms in use by the Defence Services with a view to drawing

up standardised contract forms which should be strictly adhered to and no deviation therefrom made except under the express orders of the Government of India. At all events every contract should be entered into only after competent legal and technical advice has been taken.

R17. We came across a number of instances where the Railway Administrations had to undergo huge financial losses due to defective drafting of agreements. We would urge that it should be impressed on the Railway Administrations to draw up standard forms of agreement with the approval of the Railway Board in order to avoid defective language being used therein. Even so each agreement should be vetted carefully with a view to ensuring that it is suitable and adequate for the particular business and the requisite legal and financial advice should be taken. (See also P.A.C. Ninth Report 1953-54, P167.)

APPENDIX XXXV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

MINISTRY OF WORKS, PRODUCTION AND SUPPLY

Memorandum regarding standardization of contract forms

So far as the standardization of the contract forms in the Central Public Works Department is concerned, that Department already has standard contract forms viz., P.W.D. 6, 7, 8, 9, 10, 11, 11-A and 12 of the 'Book of Forms' referred to in Paragraph 17 of the Central Public Works Department Code, and contract agreements are invariably entered into on these Forms. The contracts are signed by the competent authority (a technical officer) after due technical advice has been obtained.

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Arbitration

R6(2). We also noted that in the matter of arbitration between the Government and the other contracting parties, it was generally the practice to refer cases to one-man-arbitration for settlement. This is unsatisfactory. We feel that in the matter of arbitration and appointment of arbitrators, the arbitration clause should provide for arbitration by a tribunal of not less than three persons one of whom should be a high ranking judicial officer. In certain cases, however, if it is necessary to associate Departmental Officers, with the arbitration in order that the facts of the case might be properly appreciated by the tribunal, we have no objection to one of the members of the tribunal being a departmental official.

We also suggest that similar action should be taken in respect of other Ministries of the Government of India. (See also R-102 of Nineteenth Report 1955-56).

State Trading and Manufacturing Schemes

R7. We reviewed the accounts of the various State Trading Schemes started during the war to facilitate production of war supplies, control over internal production, import and distribution of certain essential commodities, for maintaining the national economy:

The working of the various schemes launched upon by the Ministry of Agriculture viz., the scheme for the purchase of Fertilisers and the Rehabilitation and Utilisation of used Tractors etc., engaged our particular attention. We regret to note that the accounts relating to the import and distribution of fertilisers which involved an expenditure of about Rs. 22 crores were not being maintained on a commercial basis. Our attention was also drawn by the Comptroller and Auditor-General to the chaotic state of affairs that prevailed in the Central Tractor Organisation in so far as the maintenance of Accounts was concerned. We are constrained to observe that in the absence of any methodical and proper accounting system having been followed by the Central Tractor Organisation, it is not possible to assess whether this State enterprise in which a sum of Rs. 5 crores had been invested was being run at a loss or profit. There also did not exist any safeguard to ensure that the cost of each tractor had been properly fixed. We express our dissatisfaction over the working of the State Trading Schemes in the manner described above.

We also considered in general terms the policy followed by the Government in regard to the State Trading and Manufacturing Schemes. We feel that there has been a tendency on the part of the Government to start all sorts of schemes without adequate planning or even ensuring the initial or regular supply of the requisite technical staff whether on the administrative or on the accounts side and it consequently gave rise to confusion. The lack of proper appraisal of commercial accounting principles made the confusion worse founded. We suggest that the Government of India should review the existing State Trading Schemes under their control with a view to seeing that they were not sustaining any loss and that an adequate return commensurate with the capital invested in the scheme was forthcoming. We also urge that before starting any big projects in future, they should be properly planned and appropriate arrangements should be made in good time for accounting and audit in consultation with the Comptroller and Auditor-General.

P78. *****The Committee desired that a co-ordinated plan should be evolved in consultation with the Audit authorities in fixing the prices of tractors, the recovery thereof from the State Government and its proper accountal.*****The Committee desired that Government should consider immediately whether such State Trading schemes would prove useful and result in returning the borrowed capital and, if not, the question of their early winding up should be examined. The Committee further suggested that the desirability of including the accounts of this Organisation in the Commercial Appendix should be considered.

APPENDIX IV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

MINISTRY OF FOOD AND AGRICULTURE (AGRICULTURE)

(i) Selling of tractors is not the normal function of the Central Tractor Organisation. The function of this organisation is to undertake reclamation operations on behalf of the State Governments on a 'no profit no loss basis' and the cost of operations is recovered from them. The rates for the various items of work have been worked out

and recoveries are being effected at these provisional rates subject to re-adjustments when the final rates are worked out. *Pro forma* accounts of the receipts and expenditure are maintained by the Central Tractor Organisation and audited by the Accountant-General, Central Revenues.

(ii) *****.

(iii) It has already been decided that the accounts of the Central Tractor Organisation will be included in the Commercial Appendix by the Accountant General, Central Revenues.

Audit of Statutory Corporations

R8. During the examination of the Accounts, we raised the question of the scope of audit control to be exercised by the Comptroller and Auditor-General over the accounts of the two Corporations set up by the Ministry of Finance viz., the Rehabilitation Finance Administration and the Industrial Finance Corporation. Although the provisions made for their day-to-day audit appeared to be satisfactory, we suggest that in order to enable the Comptroller and Auditor-General to bring to the notice of Parliament certain important matters relating to their working, he should be empowered to conduct a test-audit of their accounts. As regards the audit of other Corporations either financed entirely or partly by the Central Government, we share the views held by the Comptroller and Auditor-General that his functions and responsibilities should be defined in explicit terms in the Statute itself providing for the setting up of a Corporation. We would also recommend that before statutory Corporations involving financial commitments by Government are created, the Comptroller and Auditor-General should be consulted in regard to the provisions for accounting and audit control. In this connection we also attach considerable importance to the necessity of safeguarding against any whittling away of Parliamentary control by the participation of Government in private Companies.

P76. The Comptroller and Auditor-General informed the Committee that the audit of the State undertakings, not formally constituted as Corporations, came automatically under his control. But in the case of undertakings constituted statutorily as Corporations the audit had to be regulated under the provisions of the Company Law, unless the Act framed by Parliament in respect of a Corporation contained a specific provision to the effect that the audit of the Corporation should be carried out by the Comptroller and Auditor-General. He further stated that the establishment of private Companies involved diversion of large sums of money to be spent in a manner different from the ordinary procedure of spending public money and that they do not come within the control of Parliament. He had already taken up all these issues with the Government in connection with the Telephone Factory at Bangalore. He added that he would arrange that necessary information in regard to this matter is included in audit reports in future.

P104. As regards the provisions made in the Memorandum and Articles of Association of the Corporations financed entirely by the Central Government as also in the case of those financed partly by

the Government of India and partly by State Governments authorising the Comptroller and Auditor-General to conduct their audit, the Comptroller and Auditor-General stated that he did not regard it as in conformity with his constitutional position to be empowered to perform audit functions by virtue of the powers vested in him by the Articles of a private Company. The Comptroller and Auditor-General pointed out in this connection that the present policy of Government appeared to be to establish independent corporations for the management of concerns more or less on business lines untrammelled by day-to-day Government interference and routine. He suggested that it would be more appropriate if such corporations were set up under statutes of Parliament rather than under the executive action of Government and the extent to which he should be made responsible for their audit should be defined in such statutes. The Committee shared the views held by the Comptroller and Auditor-General and recommended that his functions and responsibilities should be defined in specific terms in the statute itself providing for the setting up of a Corporation.

P103. ***** As regards the audit of the Reserve Bank, the Comptroller and Auditor-General informed the Committee that it would be a colossal business and he had not got the requisite machinery to undertake this job at present. In this connection, he added that it would be necessary to examine to what extent the Comptroller and Auditor-General in the United Kingdom audits the accounts of the Bank of England.*****

P6. (Pages 118-119 of the Report) The Comptroller and Auditor-General brought to the notice of the Committee that the state of accounting and auditing arrangements, as revealed in the report under consideration and as also found by him from the report of one of his officers whom he had deputed to take up examination of the Accounts of the various multi-purpose projects and State Trading Corporations, was far from satisfactory and some measures should be adopted to tighten up the Audit control over the spending of money by these autonomous bodies or the Government Departments managing and executing the projects. The Central Tractor Organization was cited as an instance in this connection. He suggested that to remedy this state of affairs, an enabling measure should be enacted by Parliament whereby it should be laid down that the power of audit control of all Corporations set up by Government or undertakings financed by Government should vest in the Comptroller and Auditor-General of India. In the latter case the investment of money by Government should be made subject to the express provision that the accounts are audited by the Comptroller and Auditor-General. (See also P. A. C. First Report 1951-52 R.-24 and Third Report 1952-53 R-5.)

Prompt disposal of audit objections

R9. It was brought to our notice that there had been a tendency on the part of the various Executive Departments to delay the disposal of audit objections. In one case reported in Para. 21 of the Audit Report on the P. & T. Accounts 1945-46, the alleged non-accounting of amounts collected as Customs Duty on Foreign Inward Parcels, which was facilitated by dodging the disposal of audit objections, had resulted in a loss of Rs. 16,562 to Government. We desire

that the Government of India should impress upon the Heads of Departments that replies to Audit objections should be sent with the utmost promptitude and that immediate steps should be taken to remove defects in the administrative system existing in their departments which may be brought to their notice through the Audit Notes (See also P. A. C. First Report 1951-52, R-38.)

APPENDIX XXII TO THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

Copy of Ministry of Finance O.M. No. F. 10(2)-B/51, dated the 14th June, 1951 to all Ministries.

SUBJECT.—*Disposal of Audit Objections*

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Attention of all Ministries of the Government of India and of Controlling Authorities is invited to the Committee's observations and to request that immediate steps be taken to ensure that prompt action is taken on all audit objections and that any defects that may be brought to notice by audit are rectified where necessary, without delay.

NOTE.—See P. A. C. 1926-27, R-33 (Epitome Volume I).

Administrative Audit

R10. While discussing the case mentioned in Para 21(i) (3) of the Audit Report on Civil Accounts, we accepted the suggestion of the Comptroller and Auditor-General that in order to obviate such cases in future a system on the pattern of an administrative audit in vogue in the M. E. S. should, in addition to the audit exercised by his Officers, be introduced in all the large spending Departments such as the C. P. W. D. We suggest that the Ministry of Finance should formulate comprehensive rules and regulations in this respect in consultation with the Comptroller and Auditor-General and incorporate them in the existing Codes etc. We should like to know in due course the action taken in the matter. (See also P. A. C. Seventh Report, 1952-53, P-134 and Eleventh Report 1953-54, P-57.)

Separation of Treasury Functions

R11. ***** Ministry of Finance had accepted the principle enunciated in Para 27 of the Audit Report on Civil Accounts that Treasury functions should be separated from audit functions and that necessary preliminaries to implement the scheme at the Centre were being worked out. We desire that a beginning in this direction should be made as early as possible and the efficiency of audit enhanced. We consider it bad enough that the Comptroller and Auditor-General of India is responsible not only for audit but also for the compilation of final accounts from the initial accounts rendered by the executive, except in the case of Defence and Railways, and we wholly agree with the Comptroller and Auditor-General that it is extremely improper to continue any longer the practice under which

his officers also pass bills and make payments at the headquarters of certain State Governments. From every point of view this practice is objectionable and should be terminated without delay. (See also P. A. C. Third Report 1952-53, paragraph 5 (Introduction), R-2 and R-3.)

NOTE.—Sec P. A. C. 1923-24, R-23 ; 1924-25, R-23—24 and 1925-26, R-24 (Epitome Volume I).

Excess expenditure over estimates

R14(4).***** Our predecessors have had occasion to comment more than once at the lack of correlation between the amount of the original estimate and the expenditure actually incurred on works and exhibited through the Completion Reports. We would again urge that the general principle that executive officers should not incur expenditure or accept liabilities on a work in excess of the sanctioned estimates without the prior sanction of the competent authority should, as far as possible, be strictly adhered to and in cases where in the course of execution of a work it became apparent that there was likely to be an excess over the sanctioned estimate of the work, revised estimates should be prepared and sanction of the competent authority obtained prior to the additional work being undertaken.

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Correlation of Budgeting and Inter-Railway Adjustments

R15(2). In the case of Railway Budget, we wish to reiterate the recommendations made in para 20 of the Report of the Public Accounts Committee of 1943-44 and emphasize that while consolidating the budget estimates submitted to them by the Railway concerned, the Railway Board should ensure that the provision of credits anticipated by an individual railway is set off by *contra* debits to be raised by the other railway concerned.

P60.*****It was pointed out that in spite of the recommendation made by the previous Committee in para 20 of its Report on the Accounts for 1943-44 to the effect that a railway should not make any entry in its estimates relating to payments to or receipts from another railway till the other railway had agreed to make a corresponding reverse entry in its own estimates, that procedure was not being followed. The Committee stressed the need for maintaining adequate correlation between the different railways in regard to the adjustment of debits and desired that it should be impressed on the Railways to follow rigidly the procedure recommended by the Committee to avoid lapses of funds.*****

APPENDIX X TO THE PUBLIC ACCOUNTS COMMITTEE'S SECOND REPORT 1951-52

Copy of Railway Board's Letter No. 50 Ac. I/71, dated the 5th July 1951 to All General Managers and Chief Administrative Officers,

2—5 Compt. A. G./58

Indian Railways and Chittaranjan Locomotive Works, The Superintendent, Cutch State Railway, The Director, Railway Clearing Accounts Offices, and the Controller of Coal Accounts.

SUBJECT.—*Inter-Railway Adjustments.*

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2. A few instances disclosing inadequate correlation between the railways in this regard were also brought to notice by the Director of Railway Audit, *vide paras*, 12(iv) and 19(xi) of the Railway Audit Report, 1949.

3. In this connection attention is invited to Railway Board's letter No. 45-B-4109, dated 17th September 1945 (copy enclosed), drawing attention to the comments of the Public Accounts Committee on the accounts for 1943-44 and the Railway Board's instructions thereon. The procedure regarding inter-railway adjustments has already been laid down in the Code (*vide para*. 1410-A, read with para. 1414-A) whereby one railway cannot debit or credit itself till the other railway accepts the corresponding credit or debit : thus ensuring correlation in the accounts of the two railways. Instructions were also issued in Railway Board's letters No. 51 Ac. I/TT/2, dated 23rd January 1951 and 23rd May 1951, in which attention of the Railways was drawn to the existing instructions laid down in the Code and the necessity for taking prompt action in the matter of acceptance and final account of the transfer transactions in the accounts of the year concerned was emphasised. If these instructions had been strictly followed, lapse of funds would have been avoided.

4. The Railway Board once again emphasise the need for maintaining close correlation between the Railways and desire that the rules and extant orders on the subject issued from time to time should be strictly adhered to and all-round attempts made to ensure timely adjustment of inter-railway transactions to avoid lapse of funds so that there should be no adverse comments from the Public Accounts Committee on the subject in future.

Copy of Railway Board's Letter No. 45-B-4109, dated the 17th September 1945 to the General Managers, B. & A., B.N., B.B. & C.I., E.I., G.I.P., M.S.M., N.W., O.T. and S.I. Railways.

SUBJECT.—*Estimates of Payments to other Railways.*

The Public Accounts Committee, have again commented on the unsatisfactory position of budgeting by Railways under the head 'Payments to other Railways', and have observed that 'at the stage of making budget estimates, a railway should not make any entry in its estimates relating to payments to or receipts from another railway till the other railway had agreed to make a corresponding reverse entry in its own estimates'. In this connection, attention is invited to Railway Board's letter No. 44/B/4109, dated 5th March 1945, which should be strictly followed, so that there may not be any occasion hereafter for the Public Accounts Committee to make any adverse comment on this subject.

Note.—See P. A. C. 1940-41, R-15 (3rd sub para) and 1943-44, R-20 (Epitome Volume F).

Recoupment of shortages in imported machinery

R16. Our attention was drawn to para 24 of the Railway Audit Report 1949. It is rather unfortunate that no action could be taken by the Railway Board to enforce recoupment of shortages in spare parts of American Diesel Electric Locos., which involved a loss of about 26,000 dollars. We should like to know the result of the action taken by the Railway Board to obtain a refund from the U. S. A. suppliers. It was admittedly a bad case where the officers concerned had violated the well-known 'canons of financial propriety'. In order, therefore, to avoid the recurrence of such cases and to safeguard the interests of the State, we would suggest that a suitable procedure should be laid down in consultation with the Indian Purchase Missions abroad whereby shortages are recouped soon after the delivery of the Locos., plants, fixtures and other appurtenances etc., imported from foreign countries.

**APPENDIX VII TO THE PUBLIC ACCOUNTS COMMITTEE'S
SECOND REPORT 1951-52**

Memorandum on Public Accounts Committee's suggestion for evolving a suitable procedure for recoupment of shortages after delivery of locos., plant, etc., imported from foreign countries.

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The matter has been examined in detail in consultation with the Directorate-General of Supplies and Disposals. According to the Directorate-General the instructions laid down in 1946 fully deal with the procedure to be followed by the controlling officers in lodging claims in respect of short landed or damaged stores. In fact, it has been observed in practice that some shortages were discovered by the consignees on receipt of the consignments where the packages were in an outwardly sound condition and when the matter was brought to the notice of that Directorate, it was immediately taken up with the I.S.M., Washington with a view to get the loss made good by the suppliers. In many cases, they succeeded in getting replacements free of cost or getting some compensation. In the particular case of the Railway Ministry, the loss appears to have resulted due to the lapse in not pursuing the matter at all in time with the suppliers to get replacements. To avoid any further loss in future, it has been agreed that in such cases the matter should be reported immediately, in any case not later than three months of the receipt of the stores, with the following full particulars.

- (i) Name of vessel.
- (ii) Date and Port of sailing of the vessel.
- (iii) B/L and invoice number and date.
- (iv) Nature of discrepancy. Full details together with sufficient evidence documentary and/or photographic.
- (v) Whether the case was received in a sound condition or damaged condition at the Port and in the latter event whether it was surveyed.
- (vi) Copy of survey report if any.

It is hoped that as a result of the tightening up of the procedure no further losses will occur.

Compensation paid by Railways for goods lost or damaged

R18. We noted with great concern that during the year 1949-50, the amount settled for payment on account of compensation paid by the Railways for goods lost or damaged amounted to Rs. 4.54 crores and that 61,809 claims were left outstanding at the end of the year. We recommend that in order to check this deterioration in the standards of working of the Railways, the existing rules relating to the discipline and conduct of railway servants should be reviewed to see that adequate action is taken against the Railway staff who are found wantonly indifferent or careless in the handling or despatch of goods or bad transshipment and thus putting the Railway Administration to such a huge loss.

The Public Accounts Committee, 1951-52 (Second Report, 1951-52, page 65) were informed that the Railway Administrations had been instructed to bring to the notice of the staff concerned that any wanton indifference or carelessness on their part in the handling or despatch of goods or transshipment will be regarded as misconduct and will be liable to disciplinary action.

Training of Accounts Staff on the Railways

R21. During the course of our examination of the Appropriation Accounts, we found that a very large number of cases of important misclassifications and other mistakes had been detected during the period under review. These mistakes, we were told, were due to the negligence on the part of the Accounts staff as also due to their lack of knowledge of rules and regulations. To remedy this state of affairs, we endorse the suggestion of the Comptroller and Auditor-General that adequate steps should be taken by the Railway Administration to impart proper training to the staff in the Railway Accounts Offices and to conduct regular courses so that specialised knowledge of the different branches of the Railways is acquired by the staff. We suggest also the introduction of a departmental examination the passing of which should be obligatory before an Upper Division Clerk is confirmed.

P50. The Committee**took up the examination of Annexure 'J' of the Accounts showing the statement of important misclassifications and other mistakes.*****It was stated in this connection that railways being a commercial organisation should have specialised Accounts staff. It was of greatest importance that a system of cost accounting should be introduced if locomotives were to be produced at an economical cost at Chittaranjan. The administration should be in a position to know whether the different processes of manufacturing were being carried out economically. There should, therefore, be a very detailed and efficient cost accounting. The Financial Commissioner, Railways stated that this matter was already under his consideration and a few men called the 'rate fixers' who go into the manufacturing process and calculate raw-material requirements of each process had been imported and these men together with a Cost Accountant would evolve a system of accounting which should make control easier and more efficient. He also stated that he was in touch with the Chairman of the Board of Transport Commission in the U.K.

and the question of bringing one or two top men to advise the Railway Administration in the whole matter was under his consideration. The Financial Commissioner also stated that in smaller offices also, for example, in Goods Traffic and Passenger Traffic Sections, where specialised Accounts staff was necessary, men having specialised experience of these sections are usually kept there and not frequently transferred to other sections.*****The committee desired that a detailed memorandum showing the steps taken to improve this aspect of the matter should be furnished to them in due course.

APPENDIX IX TO THE PUBLIC ACCOUNTS COMMITTEE'S SECOND REPORT 1951-52

Memorandum on the Training of clerks in the Railway Accounts Offices.

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2. Instructions were issued to the Railways for taking immediate steps for the implementation of the Committee's recommendations and as a result, training classes have since been started on the B. N., G.I.P., O.T., E.I., E.P., and Southern (M. & S. M. and S. I.) Railways and the Railway Clearing Accounts Office. The Chittaranjan Locomotive Works are expected to start classes by the middle of July 1951. On each of these Railways, two experienced Accountants have been deputed for taking the training classes.

3. The programme of training consists of lectures by the training Accountants, followed by intensive training in the practical working of the various branches of railway accounting. The course of training for each clerk will extend to about 2 months and about 100 clerks are expected to be trained on each Railway at a time.

4. As regards the suggestion of the Committee regarding the introduction of a departmental examination for confirmation in the Upper Division of Clerks, the Railway Board consider that as all posts of Upper Division Clerks on the Railways are filled by Promotion of Class II Clerks, who have passed the qualifying examination prescribed for the purpose, it is not necessary to lay down another examination which they must pass before confirmation. They are, however, required to pass a stiff test before crossing the efficiency bar at the stage of Rs. 120 in the scale Rs. 80—5—120—E.B.—8—200—10/2—220 and instructions have been issued that confidential reports on these clerks should be written up with proper care and due weightage should be given to adverse remarks in the reports at the time of confirmation.

Separation of Finance from Accounts Functions on the Railways

R22. We were informed by the Financial Commissioner, Railways that the existing set-up on the Railways where the accounts and financial functions were coalesced in one authority viz., the Financial Adviser and Chief Accounts Officer who worked under the control of the General Manager of the Railways was not conducive to better organisation and did not ensure strict financial control. We were told that a scheme for the bifurcation of these two functions on the

Railways was under consideration of the Railway Board. We attach importance to the tightening of financial control over the expenditure and share the views held by the Financial Commissioner that an integrated system is not sound in principle. We shall be glad to know of the progress made in the matter.

P51. The Committee were informed that*****at present the Chief Accounts Officer was also the Financial Adviser of the General Manager of a Railway and in the opinion of the Financial Commissioner this procedure was not conducive to better organisation and efficiency of the service. When an Accounts Officer is also to function as Financial Adviser, he is a little more rigid than he need be. The Accounts Officer finds it rather difficult to get away from the accounts back-ground and as he is not generally aware of the intentions behind the rules and regulations, he is not in a position to tender a better financial advice to the Administration. The Committee were informed that parent services, namely the Indian Audit and Railway Accounts Services would continue to be the sources of supply of the Financial Service, but there would be altogether a separate branch of officers which would deal with financial problems only. The Committee desired to know in due course the progress made in the scheme. (See also P.A.C. Tenth Report 1953-54, R-32.)

APPENDIX XVI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTH REPORT VOLUME I 1952-53

Memorandum on the separation of financial and accounts functions on the Railways.

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2. The question of separating the financial and accounts functions on the railways with a view to ensuring strict financial control over expenditure has been carefully considered. Since familiarity with the processes of internal check and the detailed knowledge of use of accounts data are essential for conducting proper financial scrutiny, Finance has necessarily to work in close collaboration with Accounts. Further, a complete separation of the two functions is also not possible at regional or divisional levels. Government have, therefore, come to the conclusion that a complete separation of Finance and Accounts functions under two independent heads of departments would not be to the best advantage of either the Finance organisation or the administrative side. At the same time it is admitted that a closer and more specialised attention to the financial problems relating to railway operation and administration would not be possible unless the officers entrusted with the financial functions were relieved of the burden on the regular accounts work. This was recognised as early as 1948, when a separate Finance wing was set up on the ex-B.B. & C.I. Railway which was later on extended to the ex-G.I.P. and E. I. Railways. With the completion of the integration of all the Indian Railways into six zones, a separate and distinct Finance wing has been set up in each of the Zonal Railways under the administrative charge of a Deputy Financial Adviser working under the over-all supervision of the Financial Adviser and Chief Accounts Officer.

Under this arrangement, the close liaison between Finance and Accounts which is essential for the proper exercise of the financial functions will be maintained under a single head of department, viz., the Financial Adviser and Chief Accounts Offices.

NOTE.—See P.A.C. 1930-31, RII-22 and 1946-47, P24 (Epitome Vol. 1).

Financial control over Defence Expenditure

P3. The Committee desired to know from the Financial Adviser, Defence Services the nature of the financial control exercised over the Defence expenditure. The Financial Adviser briefly explained that every measure which had a financial implication had to be referred by the Defence Services to the Defence Wing of the Finance Ministry. A Deputy Financial Adviser was attached to each Branch of the Army Headquarters, viz., Q.M.G., M.G.O., E-in-C. etc. The measures initiated by the various Branches of the Defence Services were examined in considerable detail both by the Administrative Department and the Finance Department. The Finance Ministry do suggest modifications to the various proposals coming to them and sometimes advise that particular schemes might not be pursued. In this way there was a close day to day control over the Defence expenditure. The Financial Adviser further explained that during the war there were certain relaxations of financial control. Now, they were gradually reverting to the pre-1939 form of control. He said that the Ministry of Defence were themselves concerned that the Finance Ministry exercised strict control over the Defence expenditure and did not proceed with any schemes without consulting the Ministry of Finance. The Committee desired that a Memorandum outlining in detail the various aspects of the financial control exercised by the Finance Ministry over Defence expenditure should be submitted to them.

APPENDIX XII TO THE PUBLIC ACCOUNTS COMMITTEE'S SECOND REPORT 1951-52

MINISTRY OF FINANCE (DEFENCE)

Memorandum on the Financial Control exercised by the Ministry of Finance over Defence Expenditure.

The organisation and functions of the Ministry of Finance (Defence) and the procedure followed in regard to the budgetary control over Defence expenditure have been described in Appendices B and C to "Defence Services Estimates 1951-52" (page 23 to 30).

2. This Memorandum gives in some greater detail an account of the general principles of Financial administration and the main processes of control as they are actually carried out.

General Principles of Financial Administration

3. The Demands for Grants required to meet the expenditure on Defence Services are voted by Parliament each year and within the sums so voted, the Ministry of Defence has to arrange for financing of services for which that Ministry is responsible. The total

sum placed at the disposal of the Ministry to meet expenditure on the Defence Services is based on an estimate of requirements but is limited by the total resources at the disposal of Government and other demands made on those resources.

4. When the grants for Defence Services are voted by Parliament, sub-allotments are made to various administrative and executive authorities in respect of items of expenditure susceptible to local control and these authorities are responsible for the correct and economical expenditure of the grants allotted to them. Expenditure falling into categories which represent mostly obligatory charges (such as pay and allowances, etc.) dependent on strength and composition of Defence forces and various other factors which are governed by policy decisions of the Government of India, is controlled centrally by the Ministry of Defence and the Services Headquarters. Although this Memorandum deals primarily with the duties and the methods of the Defence Division of the Ministry of Finance, it has to be remembered throughout that the financial control is a joint responsibility of the administrative and financial authorities and that their functions are complementary and inseparable.

5. The head of the Defence Division of the Ministry of Finance has three distinct functions. He is—

- (i) the Principal representative of the Finance Ministry charged with the responsibility of scrutinising and according sanction to proposals involving expenditure of Defence Services.
- (ii) the Financial Adviser to the Ministry of Defence and the three Services Headquarters.
- (iii) the Chief Accounting Officer for Defence expenditure.

6. The status of the head of the Division as the Principal representative of the Finance Ministry in the field of Defence expenditure marks the character of his office. It is in virtue of this character that he and his officers exercise their powers of effective criticism on proposals for expenditure. It is also in virtue of this character that the head of the Branch, in any case in which there is a sustained difference of opinion between the administrative and the financial authorities, can require that any proposal involving expenditure shall be submitted to the Hon'ble the Minister for Defence and to the Hon'ble the Minister for Finance.

7. The designation of the Financial Adviser emphasises the advisory, as distinct from the restrictive, functions of the Branch. It is in this capacity that the head of the Branch is a member of the Defence Minister's Committee as well as a member of the other Committees at Defence Headquarters. It is in this capacity that he and his officers co-operate with the branches of Defence Headquarters in preparing the Budget and other estimates, supply the Services Headquarters with all information to enable them to discharge their financial responsibilities and advise them in regard to the preparation of proposals for expenditure and in the disposal of financial business generally.

8. In his capacity as Chief Accounting Officer for Defence expenditure he has an individual and personal responsibility for the internal audit (as distinct from the statutory audit of the Comptroller and Auditor-General) and accounting of Defence expenditure and this responsibility is discharged through the Military Accountant General. In this capacity, the Financial Adviser also prepares the Appropriation Accounts, which is a review of the financial administration of the year based on the accounts of that year.

The method of control

9. The main processes of the methods of financial control, as they are actually carried out, are :—

- (a) the preparation of the Budget estimates;
- (b) the watch over expenditure against Budget grants;
- (c) the re-appropriation of savings;
- (d) the disposal of the day-to-day business of administration.

The preparation of the Budget Estimates

10. It is needless to emphasize the importance of a correct initial estimate of the sums required to finance the Defence Services for any particular year. On the correctness of this initial Budget estimate depends the whole financial administration of the year. The amount required for the year is built up from a mass of detailed estimates under different heads. The estimate under each detailed head is prepared in the first instance by the administrative Branch concerned in co-operation with the Deputy Financial Adviser [see organisation of the Ministry of Finance (Defence) described in Appendix B to the "Defence Services Estimates 1951-52"] attached to it and the Ministry of Defence. The actual method of preparation varies in accordance with the data available for estimating the requirements under each head, but in all cases account is taken of factors such as the expenditure in previous years, changes of policy, the probable trend of prices, etc. The estimates prepared by the Branches of Services Headquarters in consultation with their Deputy Financial Advisers and the Joint/Deputy Secretaries of the Ministry of Defence are then submitted to the Central Budget Section under the Financial Adviser where they are subjected to a general critical examination and checked with references to statistics maintained in that Section. They are then examined by the Financial Adviser and the Secretary to the Government of India in the Ministry of Defence. All differences of opinion between the administrative and financial authorities are generally settled at (or prior to) this stage. It will be noticed that at all stages in the preparation of estimates there is a close collaboration between the administrative and financial authorities, the object being to arrive at a figure which will make sufficient but not more than sufficient provision to cover the charges likely to be incurred during the year. The

total figures of the estimates, thus worked out, are submitted to the Defence Committee of the Cabinet, who consider the demand for Defence in relation to the resources of the country and fix a ceiling for Defence expenditure. Thereafter the figures are communicated to the main Finance Ministry.

The watch over expenditure against the Budget Grants

11. The main material for watching expenditure against the Budget Grants is provided by the Military Accounts Department. The actual expenditure under each detailed head of account is recorded by the Controllers of Accounts all over India and reported to the Military Accountant General at Headquarters in whose office the figures are consolidated. The consolidated figures are available in the third week after the end of the month to which they relate. These figures are reported both to the administrative branches and to the sections of the Ministry of Finance (Defence) to enable them to watch the progress of expenditure against the Grants. At intervals throughout the year stock is taken of the general progress of expenditure. The first of these reviews is made about the last week of August when figures are available of the actual expenditure during the first four months of the year. By that time, indents for stores have, for the most part, been got out, building works are in progress and orders have been issued for the introduction of any new measures which were included in the Budget estimates. On the basis of this information as well as the periodical reports on supply prospects furnished by authorities who are responsible for procuring stores for Defence Services whether in India or abroad, the original budget estimates are reviewed. This review gives a general idea of the likelihood of the provision under each of the main heads being overspent or underspent. A summary of the review is sent to the Ministry of Defence by the Financial Adviser with a note drawing attention to points of importance and it is then considered whether any special action is necessary e.g., the issue of orders requiring the restriction of expenditure under any particular head during the remainder of the year or the submission of supplementary demands for grants to Parliament if it is apparent that the expenditure during the year is likely to exceed the grant originally sanctioned by Parliament.

12. The second general review is made about the end of November on the basis of 7 months' actual expenditure. In the interval between August and November, monthly returns of actual expenditure continue to be received and progress is watched under the individual heads, particular attention being paid to those heads under which the previous review disclosed substantial variation from the original Budget estimates. Towards the end of December, a formal revised estimate is prepared and if this revised estimate shows an unavoidable increase over the sanctioned grant (including the supplementary grant, if any) under any of the Demands for Grants, further action is taken by the Ministry of Defence to obtain additional grant from the Parliament.

The reappropriation of savings

13. The authorities exercising the powers of re-appropriations *i.e.*, the utilisation of savings in the Budget provision under one head to meet excess expenditure under another head, within each demand for grant, and the extent to which such re-appropriations are permissible by each sanctioning authority has been described in paragraph 4 of Appendix 'C' to the "Defence Services Estimates, 1951-52". Reappropriations are permissible only between the 'expenditure' heads. Thus, excess receipts and recoveries which are required to be accounted for as *bona fide* Receipts cannot be utilised to meet expenditure in excess of the sanctioned grant. Also the savings from the provision made under a head cannot be utilised for expenditure on any new service. A clear definition as to what exactly constitutes a 'new service' has not been laid down nor is it possible to lay it down. Throughout the year some unit or another will be reorganised, certain new units may be raised and certain others disbanded, large bodies of troops may be moved from one area to another for tactical or security reasons and these involve considerable expenditure. Again, the problem of improving and developing arms and equipment is more or less a continuous one and new types and patterns are introduced as and when the trials of these prove successful. It is obvious that the expenditure on such items as are described above cannot be treated as expenditure on any 'new service', and therefore reappropriation of savings which might come to light in the course of the year are made towards, remedying defects in organisation and equipment. It is only measures such as the construction of new works projects (other than those of operational necessity), the opening of new factories and other installations, grant of new concessions (*e.g.*, increase in rates of pay and allowances, scales of rations and clothing), purchase of vessels are treated as new measures. In respect of such new measures prior approval of the Standing Finance Committee is called for even if they could be financed from savings under other heads within the grant. If no savings are available the expenditure is not incurred before obtaining the sanction of Parliament (if it is in session) or obtaining an advance from the Contingency Fund (in urgent cases). The financial concurrence to reappropriation of funds within the grant is accorded keeping in view the broad principle described above. While this gives a greater elasticity to the Defence administration, it imposes additional responsibilities on the controlling authorities, both administrative and financial. The primary restriction remains that the total budget provision must on no account be exceeded without the necessary sanction from Parliament, but since the specific object of reappropriation within the grant as a whole is to enable progress to be made in the right direction, it is incumbent on the controlling authorities to take measures to ensure that the grant is either spent, provided this can be done economically, or the unspendable portion of the grant surrendered in time.

14. Mention has already been made in the preceding paragraph of the periodical review of the financial position. When financial sanction is given to apply savings to measures not strictly falling under the category of "new service" but at the same time not specially included in the original estimates, reappropriations are notified and their effect taken into account in the estimates. Towards the end of the year in March, a formal statement known as the Modified

Appropriation is prepared. This contains the latest estimates of the amounts which will be expended under each sub-head of the Demand and it is in this form that the variations from the original grant together with any supplementary grant that may have been voted by Parliament are formally sanctioned by the Ministry of Finance (Defence).

The closeness with which the modified appropriation corresponds, in total and in detail to the actual expenditure of the year has always been regarded by the Finance Ministry and the Public Accounts Committee as a test of the efficiency of budgetary control.

The disposal of the day-to-day business of administration

15. In the disposal of the day-to-day business of administration the functions of the Defence Division are those of the Ministry of Finance in general, though its organisation and distribution in sections attached to the main spending Branches is designed to make its association closer than is possible in the case of the civil administration. All proposals involving expenditure from the Defence Services estimates have to be referred to this Division before orders are issued. It is impossible to specify here in detail how each class of cases is dealt with in the Ministry of Finance (Defence), but the following general description will convey an idea of the variety of work coming up for financial scrutiny. Generally speaking, every field of activity on the Defence side is subjected to critical examination from the financial point of view. Some of the important items of work carried out by the Ministry of Finance (Defence) throughout the year in respect of all the three Services are—

- (i) Scrutiny of all proposals for the fixation or re-fixation of the establishments of units and formations within the overall strength and composition of the Defence forces laid down by Government from time to time.
- (ii) Review of funds required for the employment of Industrial Labour.
- (iii) Scrutiny of changes in rates of pay and conditions of service.
- (iv) Review of scales of equipment.
- (v) Review of reserves.
- (vi) Scrutiny of indents in respect of "central purchase" articles of stores keeping in view the stock position and other relevant factors.
- (vii) Scrutiny of scales, specifications and estimates of costs in respect of works projects.
- (viii) Review of the activities of the manufacturing Establishments.

Proposal for "new" expenditure are dealt with in much the same way, but in addition, this Division is required to estimate the cost of the new services or to check any estimate that may already have been made by the administrative Branch.

16. The financial scrutiny of proposals mentioned in the preceding paragraph is intended to secure that they are in accordance both with general financial principles and with any particular regulations that may be applicable or that they are not open to criticism on the ground of extravagance. It is open to the Finance Ministry to suggest modifications which will reduce cost. The scrutiny will also ensure that the cost can be met from the budget grant.

Orders of the Government of India on proposals referred to in the preceding paragraph, when they are finally accepted, are issued by the Ministry of Defence. Copies thereof are communicated to the Controllers of Military Accounts by the Ministry of Finance (Defence) so that they know that the orders have received financial concurrence. The Controllers of Military Accounts are the officials responsible for the internal audit of Defence expenditure.

17. The attachment of sections of the Ministry of Finance (Defence) to the main spending departments allows of their being brought into the preparation of new schemes at an early stage. Where this is done they can save time and labour by pointing out at an early stage that a particular scheme is open to objections on financial principles and is therefore not worth proceeding with or more frequently, by assisting the Service Headquarters in giving the scheme a form in which it is not open to financial objections.

18. Apart from the above, the Ministry of Finance (Defence) considers and puts forward proposals on its own initiative for reduction in expenditure whenever such reduction appears practicable. For instance, if the circumstances under which a concession or an allowance had been granted change subsequently and warrant modification or withdrawal of the concession, the matter is promptly taken up with the administrative authorities for effecting the necessary change. Similarly, if the working of a rule or a system leads to abuse or extravagance, the administrative authorities are asked to consider the question of amending the rule or modifying the system as deemed appropriate.

19. The above is a brief description of the formal handling of financial matters by the Defence Division of the Ministry of Finance. The organisation, as constituted, ensures a close, continuous and effective financial control over Defence expenditure.

APPENDICES B AND C TO DEFENCE SERVICES ESTIMATES 1951-52

APPENDIX B

Organisation and Functions of the Ministry of Finance (Defence)

This is a Division of the Ministry of Finance of the Government of India dealing with all Defence matters requiring financial sanction. The head of this Division is the Financial Adviser, who ranks

as Additional Secretary to the Government of India in the Ministry of Finance and is responsible to the Finance Minister. The organisation of this Division has been designed to ensure adequate financial control over Defence expenditure and at the same time to make available to Defence authorities financial advice from officers who are familiar with the organisation and the problems and requirements of Defence Services. This Division is in close and continuous personal touch with the Defence Ministry and with the various Branches of the Armed Forces Headquarters but as it is under the Finance Minister and forms part of the Ministry of Finance it retains its essential independence. The designation of the Financial Adviser emphasizes the advisory as distinct from the restrictive function of treasury control and it is in this capacity that the Financial Adviser or his representative is a member of the various Defence Committees in the Defence Ministry. The Financial Adviser also normally attends all high level Committees dealing with defence matters whenever proposals having a financial bearing are discussed.

2. The financial control exercised by the Financial Adviser and his officers is really a careful and intelligent scrutiny of all proposals for expenditure from the public funds, the objective being the safeguarding of economy, efficiency and propriety in public finance. Before according financial concurrence to any new proposal involving fresh expenditure, it is the duty of the Finance Officer to seek justification for the proposal. He may even challenge the necessity for spending so much money or on such a scale to secure a given object. He asks whether the proposal is really necessary; whether the same results could not be obtained otherwise with greater economy; whether the expenditure involved is justified in the circumstances; whether individual items are in furtherance of the general Government policy; whether the canons* of financial propriety have been observed. In fact he asks every question that might be expected from an intelligent tax-payer bent on getting the best value for his money.

The rules provide that no proposals for fresh expenditure on the Defence side which has not been provided for in the Budget or which, having been provided, has not been duly sanctioned shall

*These canons are—

- (i) Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.
- (ii) No authority should exercise its power of sanctioning expenditure to pass an order which will be indirectly or directly to its own advantage.
- (iii) The amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type, should be so regulated that an allowance is not on the whole a source of profit to the recipient.
- (iv) Government revenues should not be utilised for the benefit of a particular person or section of the community unless—
 - (a) the amount of expenditure involved is insignificant, or
 - (b) a claim for the amount could be enforced in a court of law, or
 - (c) the expenditure is in pursuance of a recognised policy or custom.

be authorized without the concurrence of the Financial Adviser or his representative. The strict observance of this rule is automatically ensured as the Controllers of Accounts will not make any disbursements in respect of charges not covered by regulations or Government orders or in respect of proposals involving fresh expenditure unless a duly authenticated copy of the order has been forwarded to them by the Ministry of Finance (Defence).

The according of financial concurrence by the Ministry of Finance (Defence) falls generally in three more or less well defined stages—

- (1) the examination of the proposal on its merits;
- (2) the assessment of the financial effect;
- (3) if the proposal is accepted, the careful examination and vetting of the final orders before issue.

Sometimes two or more of these stages are combined, but all proposals having a financial bearing inevitably follow through this process. This procedure ensures not only close and adequate control by Finance, but also enables them to give constructive suggestion and advice from the financial point of view at a fairly early stage of the consideration of a proposal.

3. The Financial Adviser prepares the budget and other estimates for the Defence Services and also furnishes the heads of the Branches of the Armed Forces Headquarters with all information at his disposal to enable them to discharge their financial responsibilities in respect of the grants allotted to them and advises them in regard to the preparation of proposals and the disposal of financial business generally.

In addition to these functions, the Financial Adviser is also the Chief Accounting Officer for Defence Services. It is in this capacity that he prepares the Appropriation Accounts for the Defence Services. The Financial Adviser is also ultimately responsible for the internal audit and accounting of Defence expenditure, but this is discharged through the Military Accountant General.

4. *Military Accounts Department.*—The Military Accountant General is the head of the Military Accounts Department and functions under the administrative control of the Ministry of Finance (Defence). The functions of the Military Accounts Department are broadly the maintenance of the pay accounts of commissioned officers and other ranks, audit*, payment and accounting of all charges pertaining to the Armed Forces including bills for supplies and services rendered, pay and allowances, miscellaneous charges, pensions etc. This Department is also responsible for the audit of store accounts kept by the various units and formations (including Arsenals, Workshops, Storage Depots) in the three Services. In the

*The word "audit" in this paragraph refers to the internal audit exercised by the Military Accounts Department and not to statutory "audit" exercised by the Comptroller and Auditor General. Over and above the internal audit exercised by the Military Accounts Department, Defence expenditure is also susceptible to "audit" (mainly a 'test audit') on behalf of the Comptroller and the Auditor General, which is done by the Director of Audit, Defence Services and his staff

case of the Ordnance Factories and the Dockyard, the store and manufacturing accounts are actually kept by the Military Accounts Department. They also maintain certain accounts relating to the Military Engineer Services and audit the construction and other accounts regarding works projects kept by the M.E.S. In addition to these duties, the Controllers of Military Accounts function as local financial advisers to the General Officers Commanding-in-Chief, Commands, Area Commanders, etc.

The organisation of the Military Accounts Department corresponds broadly to the organisation of the three Services. Thus in the case of the Army, we have got a Command Controller of Military Accounts for each of the Commands. In addition, there is one Controller dealing with all military pensions and another dealing with all Ordnance and Clothing Factories. Besides these, there are also two Field Controllers of Military Accounts, one at Poona for dealing with the pay and allowances of Commissioned Officers of the Indian Army and maintaining their accounts, and the other with headquarters at Secunderabad for dealing with the pay and allowances of the Other Ranks of the Army. The latter has local field pay offices all over India, working in close association with Regimental Centres and Depot offices. All these Controllers deal mainly with expenditure, incurred by the Army. For dealing with Air Forces and Navy expenditure, respectively, the Military Accounts Department has a Controller of Air Forces Accounts and a Controller of Naval Accounts.

APPENDIX C

SUBJECT.—*Procedure followed in regard to the Budgetary Control over Defence Expenditure*

The expenditure for which provision has been made in the Defence Services budget estimates falls broadly into following categories—

- (1) Pay and allowances of personnel of the Armed Forces (excluding payments to temporary labour).
- (2) Payments to temporary labour employed in store depots, factories, etc.
- (3) Transportation charges.
- (4) Miscellaneous expenses.
- (5) Payment for stores.
- (6) Works expenditure, and
- (7) Non-effective expenditure.

Expenditure falling into category (1) represents for the most part obligatory charges dependent upon the strength and composition of the armed forces employed by India. These factors are controlled by policy decisions of the Government of India and the responsibility for seeing that those decisions, in so far as they involve changes in the strength and composition of the personnel of the defence services, are promptly carried into effect will be undertaken

by the central headquarters authorities; subordinate authorities will not be required (or in fact be in a position) to exercise any control over this category of expenditure. Accordingly no distribution of the provision for such expenditure will be made for purposes of budgetary control.

Similarly, as regards non-effective-charges—category (7) — it will be clear that these represent unavoidable commitments which are not susceptible to control against budget allotment by local authorities, and no distribution will be made of the total provision for this class of expenditure either.

Expenditure falling into categories (2) to (6), however, will in general be susceptible to control against budget provision by various administrative and executive authorities subordinate to the Government of India and the following paragraphs indicate how this control is to be exercised. For this purpose it will be convenient to deal with the following aspects of this matter—

- (1) Initial distribution of budget grants,
- (2) Watching expenditure against allotments, and
- (3) Re-appropriation.

Initial Distribution of Budget Grants

2. The ultimate responsibility for seeing that expenditure does not exceed the corresponding budget allotment rests on the senior officer at central headquarters within whose general administrative control the relative activities fall. This responsibility is usually undertaken on his behalf by the Director or other officer of corresponding status who directly administers the activities concerned. Thus the Director of Military Training is responsible, under the Chief of General Staff, for controlling expenditure on specialised training institutions and schools, Director, Medical Services under the Director General, Armed Forces Medical Services, for controlling that on hospitals and so on. It is for these officers to see that the amounts provided in the defence estimates for expenditure falling into categories (2) to (6) mentioned in the preceding paragraph and subject to their respective controls are allotted to Commands and lower formations.

The authorities at Armed Forces Headquarters responsible for allotting funds to lower formations will, in the first instance, keep back a certain amount as a reserve to meet any unforeseen calls from formations. But the actual amount so withheld initially in each particular case will be settled by the central headquarters controlling officer concerned in consultation with his Deputy Financial Adviser.

It is left to authorities at lower stages in the chain of control to decide whether they in their turn should also hold in reserve portions of the allotments placed at their disposal.

All communications of allotments from Armed Forces Headquarters issue with the concurrence of the respective Deputy Financial Advisers and these orders are endorsed to the Military Accountant

General and Controllers of Accounts. Sub-allotments by Command or formation Headquarters are also notified to the Controllers of Accounts.

Watching expenditure against allotments

3. It is the responsibility of the authorities to whom allotments are made to watch progress of expenditure and to see that the expenditure does not exceed allotment. In order to help the Controlling authorities at Headquarters of Commands, Groups, Areas, etc., and unit or formation Commanders (in cases where allotment is made in respect of each unit or formation) to exercise proper control over expenditure against allotments, the Controllers of Accounts render to the allottees monthly statements showing the serial numbers of claims admitted in audit and the amounts debited against the allotment. Bills, etc., sent to Controllers of Accounts for payment or adjustment against a particular allotment are therefore serially numbered for easy reference. The Controllers of Accounts have also been entrusted with the duty of keeping a watch on the progress of expenditure against sanctioned allotments and to bring to the notice of the allottees and the immediate higher authorities, cases in which the progress of expenditure is, in the opinion of the Accounts authorities, abnormally heavy or unusually low. When such cases are brought to the notice of the Controlling authorities they take action (1) where expenditure in the past has been heavy to regulate their future expenditure so as to be within the allotment or to obtain from the higher authorities additional allotment explaining fully their reasons for asking for an additional allotment. Where additional allotment is required, action to obtain it, is taken sufficiently early in order to avoid delay in the settlement of claims, as Controllers of Accounts may have to refuse payments in excess of the sanctioned allotment save in exceptional cases where, in the opinion of the Controller, provisional payment in excess of the allotment is justified and (2) where savings can be foreseen, to surrender such portion of the allotment as is not likely to be necessary for the rest of the year.

Where additional allotment is asked for the authorities competent to sanction this additional allotment do so either from the reserve held by them or from the surrenders reported to them. In cases where the reserve is not sufficient for the purpose and no surrenders have been reported to them by the lower authorities, the additional allotment may be sanctioned with the concurrence of the Controllers of Accounts concerned in anticipation of provision of funds. All such sanctions are reported to their next higher authorities. When additional allotments are required to be sanctioned by the Central Headquarters such sanctions issue with the concurrence of the Deputy Financial Adviser concerned. Applications for additional allotments and reports of surrenders required to be sent to the Central Controlling authorities are routed through the Controllers of Accounts.

Reappropriations

4. In the case of the defence estimates the existing rules governing reappropriation, that is the utilization of savings in the budget provision under one head to meet excess expenditure under

an other head, are contained in Financial Regulations, Defence Services, India. An authority can of course only reappropriate in respect of savings arising out of allotments placed at his disposal. These rules are subject to the following modifications for the present.

(1) Powers of reappropriation are exercised only by the Government of India and by officers of—

- (a) Armed Forces Headquarters;
- (b) Command Headquarters;
- (c) Independent Area Headquarters; and
- (d) Group Headquarters.

(2) In the case of direct controlling officers of these headquarters, reappropriations are permissible only between control heads falling under the same sub-head.

(3) The powers of reappropriation between different sub-heads falling under the same main head will be confined to Principal Staff Officers except in the case of Military Engineer Services which are governed by separate orders on the subject.

(4) Reappropriations between different main heads, and between different sub-heads where no main heads exist under a major head or in cases in which more than one Principal Staff Officer is concerned, will be made by the Government of India, Ministry of Defence.

(5) All reappropriations are formally sanctioned and copies endorsed to the accounts authorities. Re-appropriations are sanctioned by the Principal Staff Officers and the Ministry of Defence with the concurrence of the financial authorities at Central Headquarters.

NOTE.—No formal reappropriation is sanctioned for transferring funds under the same control head between Commands, Areas, sub-areas, institutions, depots, etc. Such transfers are effected by first withdrawing savings surrendered by one Command, etc. and then re-allotting as required.

Periodical estimates in respect of locally controlled heads

5. Headquarters of Commands and Independent Areas and Commanders of Units and Formations which are directly administered by the Central Headquarters furnish, through the Controllers of Accounts concerned, periodical estimates in respect of heads under which budgetary control is exercised locally and these estimates are sent so as to reach the respective Branches at the Central Headquarters by the dates shown below :—

Preliminary Report for the current year.—15th August.

Preliminary Revised estimates for the current year.—5th November.

Revised estimates for the current year.—15th December.

Forecast estimates for the ensuing year.—5th November.

Budget estimates for the ensuing year.—15th December.

NOTE.—Important corrections, if any, to the Revised estimates for the current year and the Budget estimates for the ensuing year are estimated as early as possible but not later than 15th January.

6. The fundamental rule on which the whole system of budgetary control may be said to rest is that no item of public expenditure may be incurred unless provision exists to meet it in the sanctioned budget estimate of the year concerned. This rule applies to the nature of expenditure as well as the amount; in other words, the provision in the budget must have been made for the purpose of meeting the particular kind of expenditure involved. Certain authorities are invested with limited powers of "re-appropriation"—i.e., transfer of funds from one budget head to another—as explained in paragraph 4 but with this exception, the rule referred to above is absolute. It follows that each individual officer to whom any portion of a grant provided in the budget to meet a specified class of expenditure is allotted, is responsible for seeing that the allotment is utilised solely for that class of expenditure and is not overspent.

Equalisation Fund

P 5. The Committee enquired the reasons for the decisions to eliminate the provision made in the Budget for Equalisation Fund referred to in paras. 6 and 7 of the Financial Adviser's General Review of the Appropriation Accounts. The Committee were informed that the object of the Equalisation Fund was to see that there was no violent change in the level of defence expenditure from year to year. Before the war, the Defence Ministry was operating upon certain equalisation funds for the replacement of vehicles, aircraft and naval stores. During the war these funds proved totally inadequate for all the mechanisation that had to be undertaken and the stores that had to be procured. Due to the abnormality of the conditions during the war, the budgeting procedure also underwent a radical change. After the war, the Committee were told, the Defence Ministry had a plan to revise these funds. They proposed to ask for a capital grant each year for a period of five or six years, so that they might be in a position to equip the Air Force and the Navy up to the contemplated strength. As the reorganisation of these two Services was still underway and conditions were not stable as yet, it was considered neither practical nor worthwhile to create these funds at present although the idea had not been abandoned. The Committee desired to be informed in due course about the progress made in the matter.

APPENDIX XIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SECOND REPORT 1951-52

Revival of equalisation funds in the Defence Services

The object of an Equalization Fund is to ensure that there are no violent changes in the level of Defence expenditure from year to year, on account of periodical replacement of major items of equipment like aircraft, naval vessels and vehicles. This object is normally

achieved by making an annual provision in the Defence budget, as contribution to this Fund, for utilisation as and when funds are actually required for replacement of those major items. These annual contributions are based on the cost of the average lives of vehicles, aircraft, etc.

2. This method of financing expenditure on replacement of major items of equipment is a natural corollary to a contract system of budgeting, which in turn can work satisfactorily only under stable conditions and when no major changes in organisation or equipment are contemplated. As the Committee is aware the three Services are still in the process of reorganisation, with a view to maintaining a balanced force for the defence of the country and it will take some years before their ultimate composition, strength and types of equipment are finally determined. Moreover, a large amount of expenditure is already being incurred in initially equipping the two expanding Services, viz., Air Force and Navy, and in replacing the war time vehicle fleet of the Army. In the circumstances, it is considered that it is premature to consider the revival of these Funds at this stage, and that the further examination of the question will necessarily have to be postponed for the next two or three years.

Allocation of Defence works expenditure to 'Maintenance' or 'Capital'

P 6. The Committee considered the revised works procedure referred to in para. 12 of the Financial Adviser's Review on the Appropriation Accounts. One important change mentioned in this para, was that alterations necessitated by technical or engineering reasons, as distinct from administrative reasons, were to be treated as repairs debitable to Maintenance. The Committee were informed that the present procedure followed in relation to Defence works was that any original work involving abnormal repairs was treated as a capital expenditure. It was stated that the question as to whether such works should be treated as capital works or as 'Maintenance' was under consideration with the Finance Ministry. The Committee desired that the question of allocation of such expenditure to 'maintenance' or 'capital' should be further examined in consultation with Audit authorities also and a report submitted to them in due course. (See also P. A. C. Second Report 1951-52, R 3).

**APPENDIX XV TO THE PUBLIC ACCOUNTS COMMITTEE'S
SECOND REPORT 1951-52**

Under the current M.E.S. works procedure the cost of abnormal repairs to buildings necessitated by technical reasons is being charged to 'maintenance' even if these repairs enhanced the capital value of the buildings. This practice is slightly different from the Central Public Works Department rule according to which any work which resulted in a genuine increase in the permanent value of a

building is treated as an 'original work'. This rule is appropriate for the C.P.W.D. to follow as they are concerned mainly with permanent buildings. In the case of the M.E.S. however it will not be reasonable to follow the same definition as they deal with altogether different types of structures in these days.

2. As is well known Defence Services buildings were constructed to temporary specifications during the period of war and their life was expected to be about three years in respect of Hutted types, and about one year for Basha type. The Basha type of structures has in general been declared unserviceable and has been either demolished or destroyed by weathering action, except for an odd few where the *chattai* matting walls over dwarf walls have been replaced by full brick walling. The Hutted type of buildings although built for a life of 3 years, has served for more than double that period already and will still be required to be maintained for a good many years until replaced by permanent construction. The Hutted type usually consists of brick walling with squared timber or bully trusses, purlins, ratters, manglore tiles or A.C. or C.G.I. sheets thatch or country tile roof, cement or stone fellors, and unseasoned hard wood joinery in doors and windows.

The timber that was available was usually unseasoned and borer beetle infested and straight from the forest, and we had to make the best use of it by improvisation. Most of the Roof Trusses had to be built up of short lengths with wooden pins, instead of normal solid lengths and correct sections. The timber being unseasoned and inferior in quality and borer beetle infested, distortion by warping and breakages after short period was a common occurrence. Joinery in doors and windows being also of raw timber, warping was most severe.

3. It may be stated that a major portion of M.E.S. estimates for abnormal repairs pertains to replacement of such timber in roof trusses, purlins, common rafters, battens, verandah posts and bressummers. Repairs to such types of structures could hardly be covered by the normal maintenance allowance laid down in the Regulations. As already pointed out, most of the Hutted accommodation has to be kept in a full state of repair until permanent accommodation is built. The work is a normal repair but as the same feature appears in a series of buildings and simultaneously, it must be treated as an abnormal repair work. Since abnormal repairs of this kind are essentially repair work, the cost should follow the incidence of normal repair, even though in some cases the capital cost of the buildings might appreciate on account of the superior quality of the material used or superior specifications adopted for carrying out these repairs.

4. This question has been re-examined in consultation with Audit as suggested by the Committee and for the reasons stated above it has been decided to adhere to the practice hitherto followed. As suggested by Audit, instructions will issue shortly asking the engineering authorities to suitably enhance the rental value of buildings which have been improved as a result of these abnormal repairs.

Verification of Ground Balances of Military Stores

P. 11. The Committee observed that the certificate of the Military Accountant General reproduced at page 11 of the Appropriation Accounts of the Defence Services for the period from 15th August, 1947, to 31st March, 1948, indicated that in some cases store accounts were incomplete or not maintained at all, and the existence of stocks was not verified by physical count by the executive authorities in due time. There were also instances which disclosed considerable difference between the counted ground stock and the ledger balance. The Committee felt that once the paper balance and the ground balance did not tally, there was a great danger of any kind of irregularity including fraud taking place any time. It was explained that a correct account was kept of the incoming receipts and the new issues but the Committee felt that so long as the book balance of any commodity was different from the ground balance, it would not be possible to find out whether the mistake took place in a later period or at any earlier period. In the result, even though the current procedure was fairly settled the door would still be open for irregularities taking place. The Committee were informed that soon after the termination of war an authority was given by the Government of India to draw a line across existing ledger balances and to draw up fresh ledger balances corresponding with the ground balances by actual count. That letter of authority, however, contained various provisos that if there was any fraud or irregularity, it would be gone into, but otherwise the matter would be regularised on the spot. The letter, however, conceived that the whole thing should be completed quickly. In many cases, therefore, the ground balances were put down on paper without making complete check of them. Although there was a general feeling that all was well and that the troubles were being got rid off, the position was that the ground balances which were certified as existent somewhere were in fact not in existence. In certain depots things were being set right quicker, but in others the job was so difficult and so big that it had not been possible to put them right fully. * * * * The Committee thought that a target date should be fixed by which all the ground balances of the entire military stores should be verified and correct balances under each category of stores entered in registers so that there was no room for any irregularity or fraud thereafter. The Committee impressed upon the Ministry the urgency of the completion of this work as it was a matter of great importance and every care should be taken to put the matter on a satisfactory footing. The Committee desired to be apprised in due course of the progress made in this respect. The Committee also wanted to know the total value of stores under each category on hand on the 15th August 1947 and 31st March 1948.

**APPENDIX XVI TO THE PUBLIC ACCOUNTS COMMITTEE'S
SECOND REPORT 1951-52**

MINISTRY OF DEFENCE

Verification of Ground Balances of Military Stores

In para. 11 of the Proceedings of the Public Accounts Committee on the accounts of 1947-48 (post-partition), the Committee desired that they should be informed of the progress made in regard to the fixation of a target date by which all the ground balances of the

Military Stores should be verified and correct balances under each category of store entered in registers so that there was no room for any irregularity or fraud thereafter. The position in respect of each category of stores is as follows :—

Army Service Corps Stores

Stock verification is carried out by the Supply Depots every month and any balance not accounted for is entered in the ledgers after investigating the cause for the discrepancy. The fact that monthly verifications are carried out regularly by Officers Commanding, Supply Depots, is verified by the local audit authorities quarterly. The need for fixing a particular date for verification of ground balances does not, therefore, arise.

Ordnance Stores

Large quantities of Ordnance stores at present held in the various Depots were procured during the period of the war in packages of all sorts and in a large number of cases the markings outside these packages bear no relation either in type or in quantity to their contents. It will therefore be appreciated that before a thorough stock verification is carried out, it is necessary in the first place to examine systematically all the packages for their contents. With this end in view; a re-organisation programme is in progress in the various Ordnance Depots, under which all doubtful boxes are to be checked and re-packed. The number of doubtful packages is very large and the check entails :—

- (a) opening of the packages;
- (b) checking of contents in regard to quantity and condition:
and
- (c) preservation and re-packing of the contents.

As at present planned, 31st March 1954 has been provisionally fixed as the target date for complete stock verification in this manner. On account of the enormous magnitude of the task involved, it is not possible to fix an earlier date, considering the rather limited trained manpower and financial resources that can be made available for the purpose.

Engineer Stores

Under the existing rules, all stores are required to be checked 100 per cent, annually. This is now being done in the case of all Engineer Stores Depots except in one which holds a considerable proportion of stores back-loaded from Engineer Stores/Parks and other Store Holding Formations, on their closure. In view of the magnitude of the task involved, this Depot has been re-organised and 1st April 1952 has been fixed as the target date for the completion of physical verification of stores.

Naval Stores

According to the existing instructions, a complete cycle of stock verification of all stores is carried out in Naval Stores Depots, Ships and Establishments once every 12 months and the balance in the ledgers is adjusted as necessary from the stock taking reports.

Air Force Stores

The stock holding formations of the Air Force are faced with difficulties similar to those in Ordnance Depots. A thorough examination of the stocks held is necessary, and on account of lack of trained staff, 100 per cent. verification will take a number of years. Necessary statistics are, however, being collected to assess the magnitude of the work involved. On examination of the statistics, a target date will be fixed and the conclusion reached by Government will be communicated to the Public Accounts Committee in due course.

Medical Stores

At present, receipts and issues are properly accounted for and relevant registers and supporting documents are being maintained accurately. Stock verification is carried out periodically in medical store holding units. Final figures arrived at, after completion of the cycles of stock verification each year, are treated as firm opening balances for the succeeding year. The question of fixing a target date for the verification of ground balances does not arise.

Factories

There are 1,191 items of which physical verification was not completed by the due date, viz., 31st March, 1948. All these items except 5 were subsequently checked. These five are items of scrap of which large stocks exist and are widely scattered, making physical verification impracticable as such scrap is difficult to handle and 100 per cent. weightment would require considerable labour, occupied over very long periods. In addition, verification would involve disorganising labour and transport used for production. It is, however, the intention to verify these 5 items as soon as stocks drop to a level making it economical to do so.

2. The Public Accounts Committee also desired that they should be furnished with a statement showing the total value of stores under each category on hand on the 15th August 1947 and 31st March 1948. In this connection it may be stated that in the Defence Services all store accounts are maintained on a quantitative basis and no priced stock accounts are kept except in the case of Factories. In order therefore to determine the value of stores held on a particular date, the stocks held on that date in the various Depots will have to be ascertained and then priced. The magnitude of this task may be visualised from the fact that the number of items involved is over five lakhs in the case of Ordnance stores, 3 lakhs in respect of Air Force and nearly 76,000 in the case of Navy and all these stores are held in Depots situated all over the country. Some of the depots (in existence on 31st March, 1948) have since closed down and the information relating to the stock held by them at the time may not now be forthcoming. In addition prices are not available in respect of a substantial portion of the stores obtained during the war from abroad. Even if some special arrangements are made to collect the necessary data—which incidentally will involve considerable time and labour and appreciable extra expenditure—it may not be physically possible to get the work completed within a reasonable period of time. It is therefore regretted that it is not possible to furnish the information asked for by the Committee.

Disposal of surplus or unserviceable Defence Stores

P13. The Committee proceeded to consider the question of disposal of surplus stores. It was explained that the term 'surplus' did not necessarily mean 'excessive to requirement', but implied in the technical sense that the stores had outlived their normal life of serviceability and were no longer required for further use.

Over-estimating of Defence Works Expenditure

P16. The Committee referred to Appendix F to the Appropriation Accounts showing cases in which actual expenditure on works estimated to cost more than Rs. 50,000 had varied from the original estimates by more than 20%. It was noted that almost all cases mentioned therein reflected over-estimating of works expenditure. It was stated that most of the works referred to were war-time jobs and had to be abandoned owing to the termination of war. Nevertheless the Committee urged that effective machinery should be set up to ensure the preparation of estimates of expenditure on works as accurately as possible and the schedule of rates which should be in conformity with the rates agreed to by other Departments, namely the C.P.W.D. and the Railways should be strictly adhered to. The Committee wished to be informed how the authorities were planning to avoid recurrence of such instances of over-estimating in future.

Instructions had been issued to all Chief Engineers, to ensure that estimates are prepared more realistically, anticipating market trends as accurately as possible, on the basis of prevailing contractors, percentages in the area, prices of materials and labour and any other known factors affecting the estimates.

Fixation of the amount of imprest of Military Officers

P20. The Committee considered para 20 of the Audit Report regarding imprest-holders' account. The Committee wanted to know whether Government had accepted the suggestion of the Audit authorities for the restriction of the amount of imprest on the basis of actual immediate requirements and the periodical verification of balance being made by the officers of the Military Accounts Department. (See also P. A. C. Ninth Report 1954 Volume I. R. 57 and P 85.)

**APPENDIX XXII TO THE PUBLIC ACCOUNTS COMMITTEE'S
SECOND REPORT 1951-52**

MINISTRY OF DEFENCE

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It has been agreed that the following procedure should be adopted :

- (a) The maximum amount of cash balance that can normally be held at any time by an Imprest Holder should be fixed by Brigade or equivalent Commander in consultation with the F.C.M.A. (O. & C.H.), Clearing House, Poona.
- (b) Should the circumstances warrant a change in the amount of Imprest, such increase or decrease will be subject to the approval of the sanctioning authority.

- (c) The amount in the hand of an Imprest Holder will be restricted by the sanctioning authority to actual and immediate requirements, and will not normally exceed ten days' requirements. Cash for payment of normal pay and allowances in the first week of a month may, however, be obtained on required basis.
- (d) Use of Emergency Cash Requisitions^{*} should be resorted to in emergency only when time does NOT permit of funds being obtained from the normal source.

The above procedure will be modified, as follows, for units and formations located in the J. & K. area and elsewhere which have no banking facilities :—

- (a) Divisional/Area Commanders may authorise units to keep cash reserve up to a maximum period of 15 days' requirements.
- (b) Where it is not possible to anticipate demands, HQ Commands may authorise units to keep cash reserve up to a maximum period of 1 month's requirements.
- (c) Demands for cash reserve for period exceeding 1 month's requirements, should be forwarded to Army HQ through F.C.M.A. (O. & C.H.), Clearing House, Poona, for sanction. (This will include any heavy cash reserve for winter months.)

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Land Compensation

P24. The Committee dealt with para. 6 of the Audit Report regarding overpayment of compensation for de-requisitioned land. The Committee observed that there was a lack of co-ordination between the Defence and Civil Authorities which had resulted in the overpayment of a sum of Rs. 2 lakhs to the owners of the plots requisitioned by the Civil authorities. It was pointed out that this overpayment could have been avoided had either the R. A. F. authorities brought to the notice of the Collector that the entire area covered by the two requisitions originally placed by them was not required for their use or alternatively the Collector had himself verified on the spot that the entire area requisitioned by him had not been taken possession of by the R. A. F. authorities. The Committee suggested that in order to obviate such losses being caused to Government in future, a procedure should be evolved in collaboration with the Civil authorities and the Audit to ensure that no payments on account of compensation are authorized unless the certificate of compensation is granted by the Military authorities requisitioning the land.

APPENDIX XXIV TO THE PUBLIC ACCOUNTS COMMITTEE'S SECOND REPORT 1951-52

MINISTRY OF DEFENCE

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3. With a view to avoiding a recurrence of such instances, suitable instructions are being issued to the Deputy Directors of Military Lands and Cantonments not to authorise payment of compensation

to the owners unless it has been certified by the competent officer of the unit for which the lands or buildings have been requisitioned that the possession of the lands or buildings for which the compensation is payable, has been assumed by him and that the same has remained under his occupation for the period the compensation has been assessed. It is also being made clear that in the event of any overpayment or other incorrect payment being made, the officer signing the certificate will be held personally responsible for any loss caused to Government thereby.

Accounting of overhead expenses in Ordnance Factories

P30. The Committee dealt with para 2 of the Audit Report and desired that in the matter of accounting of 'overhead expenses' inasmuch as the charging of idle facilities to production cost was concerned, certain commercial principles in regard to cost-accounting should be borne in mind. The Committee wanted that this aspect of the matter should be examined in consultation with Audit and a report submitted to them in due course.

The matter is still under the consideration of the Ministry of Defence.

Provisioning and accounting of food supply for the Defence Services.

P31. The Committee discussed the procurement of food supply for the Defence Services. It was explained that every year in the month of November the estimated requirements for the next financial year duly approved by the Ministry of Finance on the Defence side were sent to the Ministry of Food for approval. The estimate was reviewed by the Ministry of Food in consultation with the Ministry of Finance on the Food side and acceptance sent to the Defence Ministry. The Ministry of Defence decides about the quantity required by the Defence Services and also the standard of food articles. The Ministry of Food, on the other hand, makes arrangements for the supply of the required quantity and also advises on the substitutes, if necessary. The Defence Services also maintain certain reserves and have arrangements for storage and safe custody of these reserves and steps are taken to guard against deterioration in the stocks. The Committee desired to know in detail the procedure regarding supply of food articles to the Defence personnel and to their families. As regards the food budget of the Defence Services, it was stated that the Accountant-General, Food makes the payment in the first instance and recovers it later from the Military Accountant-General. The figures, therefore, ultimately appear in the budget of the Defence Services.

**APPENDIX XXVIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
SECOND REPORT 1951-52**

MINISTRY OF DEFENCE

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The issue of rations to Defence Service personnel may be classified into two categories :—

- (a) Free issues.
- (b) Payment issues.

2. *Free issues.*—Free issue of rations is made to the service personnel (rank and file) but NOT to their families or to civilians paid from the Defence Services Estimates (except those in J. and K.). Free rations are issued at the scales laid down by the Government. The rations are drawn by units for their men from Supply Depots established in various military stations. Units then arrange cooking of the meals for their men in unit cook houses. Men do NOT draw rations direct from the Depots.

3. *Payment issues.*—Payment issues are made to the following:—

- (a) Officers (other than in J. & K.) and officer cadets.
- (b) Other serving personnel living with their families who prefer to draw the ration allowance in lieu of free issue.
- (c) Serving personnel who draw ration allowance when it will NOT be administratively convenient for Government to arrange free issue.
- (d) Families of serving personnel.
- (e) Military pensioners and their household.
- (f) Civilians paid from Defence Services Estimates and their household who may be permitted by Government to draw rations on payment.
- (g) Servants of officers, officer cadets and JCOs.

4. All payment issues will be strictly on pre-payment *i.e.*, the purchaser will pay in cash on the counter for the articles before receiving them. NO cheques are accepted in lieu of cash. Rations on payment are drawn from Retail Shops ASC/Unit ration stands. Monetary limits for the various categories of personnel have been prescribed.

5. The scale of issue to service personnel will be the troops scale. Issue of rationed articles on payment to their families and entitled civilians will be restricted to the civil scale obtaining in the station concerned.

6. The officer in charge Retail Shop ASC/Unit ration stand is personally responsible for seeing that NO payment issues of ASC stores are made except on pre-payment to an individual irrespective of his status and financial position.

Agreement with Air India International Ltd.

P34. The Committee considered Grant No. 92—sub-head D under which a sum of Rs. 98,00,000 representing the Government of India's share in the paid up capital of the Air India International Ltd., set up for the purpose of operating an air transport service between India and the United Kingdom was provided for during the year 1947-48, and desired to know about the working of and the Government's share of profit in this Company. The Committee were told that during the first year of operations there was a loss of about Rs. 20 lakhs, which Government had to make good in accordance with the

terms of the agreement with the Company. Apart from this, the Government of India were paying a commission on bookings in India because the Air India International had no independent office of its own for making bookings here. Secondly they had got a right to get a certain percentage of a few annas per mile for the actual flights of the aircraft. The Committee were further told that during the calendar year 1949, the Company had made profit and refunded to Government a sum of Rs. 3½ lakhs in part payment towards the initial loss of about Rs. 20 lakhs. In reply to a question whether the freight rates for the carriage of mail that were being paid to this Company were excessive, it was stated that the Government was paying on the basis of the rates fixed by the International Air Transport Association on which all the Air-lines were represented. The Committee was anxious to know whether under terms of the existing agreement, the interests of Government were protected against any losses, and to what extent, any modification therein was necessary. It was explained that under the agreement, the Air India International was to be subsidized during the first five years and all their losses were to be met by Government. Thereafter the subsidy was repayable to Government out of the subsequent profits. Another point was raised about the exemption of this Company from the payment of income-tax. The Committee wanted to know whether such an agreement had been entered into by Government with any other company whereby exemption from the payment of income-tax had been granted.

APPENDIX XXI TO THE PUBLIC ACCOUNTS COMMITTEE'S REPORT FOR 1947-48 (POST-PARTITION)

Memorandum No. 23-A/2-51, dated the 15th January, 1951 from the Ministry of Communications re: Agreement with Air India International.

The Ministry of Railways has offered the following remarks :—

“There is only one such case in the Railway Ministry. According to clause 11 of the agreement with Messrs. Schlieren, a Swiss firm, for the Manufacture in India of all metal light weight coaching stock, the Government of India would be liable to reimburse to them to the extent of the Indian taxes that may be levied on all payments made to them”.

Lapse of provision for works expenditure

P37. The Committee drew attention to the provision made for major works above Rs. 50,000 for which specific provision was made in the budget under Grant No. 92—Capital Outlay on Civil Aviation, but the works had not at all commenced. It was stated that the non-commencement of the works was due to the non-conclusion of codal formalities, non-availability of material in full or due to difficulties in their transport and the delay caused in the payment of compensation for land acquired and some other reasons. The Committee again observed that in this case also lack of foresight coupled with unsatisfactory control over expenditure had resulted in huge surrender of funds and desired that in future before making provision in respect of major works, it should invariably be ascertained from the C.P.W. D. whether they were capable of finishing the job within the target date in order to avoid lapse of funds.

Contributions to the Renewal Reserve Fund (Posts and Telegraphs)

P40. The Committee took up para. 8 of the Accounts relating to the Renewals Reserve Fund and wanted to know as to why the rate of annual contribution to the Fund was not fixed on the basis of average lives of assets. The Committee were told that at present an *ad hoc* contribution was being made to this fund in consultation with the A. G. P. & T. It was added that in view of the urgent need for economy and the fact that they had got over Rs. 5 crores at the credit of the Renewals Reserve Fund, the Department did not consider it necessary at present to appoint a Committee for looking into this question. The Comptroller and Auditor-General drew attention of the Committee to a Memorandum submitted by the Posts and Telegraphs Department stating that the A. G. P. & T. had suggested that a stock-taking of all assets should be conducted for assessing the exact value of assets of the Department existing in the Indian Dominion after partition as well as those taken over from the ex-Indian States and that the present method of contribution to the Fund should be reviewed on the completion of this valuation. The Comptroller, and Auditor-General further stated that according to his reading of the situation, it appeared that the Government was not keen on proceeding in the matter on a scientific basis as it might involve setting apart bigger sums of money for the fund. He, however, did not regard the position as 'satisfactory'. The Committee desired that a uniform policy should be evolved by all Ministries for allocating contributions to such funds constituted by them and that this matter should be regarded as urgent and gone into thoroughly by a Committee of experts. A detailed examination of the matter should be undertaken as already recommended by the previous Committee in para. 75 of their Report relating to the year 1945-46. (See also P. A. C. First Report 1951-52, R65.)

**APPENDIX XX TO THE PUBLIC ACCOUNTS COMMITTEE'S
REPORT FOR 1947-48 (POST-PARTITION)**

**Memorandum in respect of Contribution to the Renewals Reserve
Fund (Posts and Telegraphs)**

2. A Depreciation Fund was established on 1st April, 1925 from which date the accounts of the Posts and Telegraphs Department were put on a commercial basis and the annual contribution from revenue to the Fund was calculated on the basis of certain assumed lives of the Capital Assets. This method was abandoned with the Institution of the Renewals Reserve Fund from 1st April, 1936 when it was decided that the contribution to the new Fund should be calculated on broader considerations, such as (i) the amount likely to be required for rehabilitation of assets and (ii) the amount of Capital at Charge. This revised basis was adopted in accordance with the views of the then Accountant-General, Posts and Telegraphs which were endorsed by the Public Accounts Committee in 1935. These views were expressed in the following words:—

“Instead of Depreciation Reserve Fund, calculated on a *pseudo-scientific* basis, the Department should constitute a Renewals and Replacement Reserve Fund on the basis of what is actually required year after year to cover renewals and replacements with a small margin; the contribution to such a fund should of course be subject to periodical review”.

3. During the period from 1936-37 to 1949-50, a sum of Rs. 9,36 lakhs (including special contributions of Rs. 1,50 lakhs in 1942-43 and Rs. 1,00 lakhs in 1944-45) was contributed from Revenue to the fund and a sum of Rs. 4,31 lakhs was withdrawn from it to meet the cost of renewals and replacements. After eliminating the share pertaining to Burma (23,61) and Pakistan (97,54) and meeting the loss (1,02,00) on press traffic, the accumulated balance on 31st March, 1950 at the credit of the Renewals Reserve Fund stands at Rs. 5,86 lakhs which represents 14.4% of the Capital at charge of Rs. 40,79 lakhs.

4. It may be mentioned in this connection that the question of the method of calculation of contribution to the Railway Depreciation Reserve Fund was considered recently by the Railway Convention Committee, 1949 on whose recommendations it has been decided by the Ministry of Railways that an *ad hoc* contribution of Rs. 15 crores per annum should be made to this fund for the quinquennium commencing from 1-4-50. The accumulated balance at the credit of the Railway Depreciation Reserve Fund as on 31-3-1950 amounts to Rs. 97.42 crores representing 13.4% of the Capital at charge (Rs. 723.8 crores) on that date.

5. In these circumstances, it is suggested that the basis, which was approved by the Public Accounts Committee in 1935 and which has been followed ever since may be allowed to continue. If this is approved it is proposed to make an annual contribution of Rs. 75 lakhs for the next 3 years and to review the position at the end of that period.

6. The Accountant-General, Posts and Telegraphs, has suggested that a stock-taking of all assets should be conducted for assessing the exact value of assets of the Department existing in the Indian Dominion after partition as well as those taken over from the ex-Indian States. The matter is under consideration. The present method of contribution to the Fund will be further reviewed on the completion of this valuation.

NOTE.— See P.A.C. 1940-41, P-82 ; 1941-42, R-14 ; 1943-44, P-94 ; 1944-45, P-26. (3rd sub-para.) and 1945-46, P-75 (Epitome Volume I).

Training of Audit and Accounts Officers in Railways

P52. The Comptroller and Auditor-General informed the Committee that a procedure had been introduced whereby a few audit officers were posted to the Railway Accounts Organisation for a limited period in order to familiarise themselves with the accounting system obtaining on the railways and other problems in general. Similarly, an equal number of Accounts Officers was placed at his disposal for training on the audit side. He hoped that by this interchange of officers for a limited period both the Audit and Accounts side of the Railways would become more efficient and better organised.

Method of calculation of the operating cost

P55. The Committee then took up para. 15 of Part I of the accounts showing the operating ratio for the period under report. The Committee discussed at great length the general principles underlying the method of calculation of the operating cost. It was stated that

in former days the Company-managed Railways would buy locomotives at a cheaper rate, build the wagons in a particular way, obtain coaches manufactured of inferior steel and so on. But today the Ministry of Railways from the Centre determined the standard of passenger amenities to be observed on all the Railways. The locomotives of the accepted standard were bought for the entire railway system without any reference as to what effect it would have on the finances and operating cost of a particular Railway. Furthermore, under the present system, the terms and conditions of employment were regulated by central directions from the Ministry of Railways. In these circumstances, the operating ratio was not necessarily a reflection on the efficiency of the Railways. It was stated in this connection that the operating cost included only the working expenses plus the appropriation to the Depreciation Fund but not the interest charges. Further, a factor which should be borne in mind when considering the operating cost was that constant adjustments in the rating policy of the railways had to be made consistent with the economic policy of Government. For instance, coal was being carried at a concessional rate because if the full rates were charged, it would upset the price structure and disturb the economic system. It was contended that as all these factors necessarily affect the earnings of the railways, the operating ratio had lost its original significance. The aim that the Ministry of Railways had set before them was to balance the revenues and expenditure and not to make much profit nor to sustain any loss.

P59. ***** It was again emphasized that the railways were not operated purely on commercial principles, but they had to fulfil a complementary role in the economic development of the country. The Committee considered that although the operating cost was not the only test by which the working and efficiency of railways could be judged, nevertheless it was an important test and it had its own significance in assessing the results of the working of the railways. The reasons for high operation costs should always be analysed in order to see whether they are satisfactory.

Commercial principles for Railway Collieries

P69. The Committee then considered the Balance Sheets of Railway Collieries and Statement of all-in-cost of coal, etc. for the period under review. The Committee were told that the Railway Board owned the Railway Collieries and the Ministry of Industry and Supply were the managing agents and the whole position was rather unsatisfactory. The Committee were told that one of the points which the Convention Committee had examined was the over-capitalization of the Railway undertakings and the collieries formed an integral part for capital purposes of the Indian Railway undertakings. The Committee observed that there should be no over-capitalization and commercial principles should be adopted for purposes of providing for depreciation in the case of collieries.

NOTE.— See P.A.C. 1927-28, R-70; 1928-29, R-13; 1929-30, P-49 and 1934-35 Appendix VI-Part II (Epitome Volume I).

Measures to improve efficiency of the Audit Department.

P114. Before the Committee concluded its deliberations, the Comptroller and Auditor-General reviewed the measures adopted by him in strengthening his Department and improving the efficiency of

audit. He stated that the Audit and Accounts Department suffered very greatly during the war as a result of certain policies in regard to relaxation of audit. During the war recruitment was stopped when at the same time the activities of Government increased enormously. In the matter of accounting itself many complexities arose as a result of Government undertaking novel and complex activities in regard to State Trading, purchases of supplies etc. The position was further aggravated by taking away audit and accounts officers on deputation to other Ministries. All this resulted in relaxation of audit and the accounts got into a mess. The Comptroller and Auditor-General had prepared a two years plan for recruiting suitable men to the Department and for providing a course of training at the various training centres. He had under consideration other plans and he hoped to strengthen the Department further to cope with the enormous activities that it had to shoulder.

The Comptroller and Auditor-General thereafter stated that the important problems before him could be summed up under four heads :—

- (i) To raise the standard of Accounts Officer in the Part A States to the pre-war level and to increase efficiency in Accounts Offices in Part B States which had just come over to him in a chaotic condition ;
- (ii) Audit of foreign transactions, especially in the Supply field ;
- (iii) Separation of audit from accounts ;
- (iv) Audit of receipts.

As regards the first item, the Comptroller and Auditor-General assured the Committee that he had the position under his control and constant review, but as the whole process was likely to take some time, the results of the policies pursued by him could only bear fruit after sufficient time had elapsed. As regards the second problem viz., audit of foreign transactions, the Comptroller and Auditor-General stated that it was necessary to organise a small audit office in Washington and to add some more staff to the Audit Office in London for inspection purposes. He said that both the matters were under his consideration.

With regard to the separation of Audit from Accounts, the Comptroller and Auditor-General expressed the view that this was very important problem and in no country of the world, his counterpart was required to maintain accounts in addition to carrying out audit functions. He said that the principle of entrusting accounts functions to the Comptroller and Auditor-General was quite wrong and it detracted considerably from the responsibility of the administration itself for rendering accounts. It was the duty of each Administration to keep its accounts, to watch the progress of expenditure so that it functioned properly and effectively. The Administration will be a live organisation only when the excessive central financial control was eliminated and more responsibility in the field of Financial control and Accounts was delegated to them.

The Comptroller and Auditor-General said that the fourth reform of taking up audit of receipts was academical at the moment

as there were man-power difficulties. This matter could be seriously considered only when the men were trained and they were fit to take up the work.

The Committee endorsed the views of the Auditor-General and observed that the Comptroller and Auditor-General should be provided with adequate facilities to enable him to go ahead with his schemes and to provide for more efficient audit.

Discussion of P. A. C. Reports on the accounts relating to Pre-partition period by the Parliament.

P3. (Page 112 of the Report.) The Committee considered a Memorandum (Annexure) on the question whether the Reports of the Public Accounts Committee on the Accounts relating to the pre-partition period, i.e., up to the 14th August 1947 should be discussed in the House. It was agreed that these reports should only be laid on the Table of the House and not discussed.

APPENDIX XXII TO THE PUBLIC ACCOUNTS COMMITTEE'S REPORT FOR 1947-48 (POST-PARTITION).

ANNEXURE

Memorandum setting out the Question whether the Reports of the Public Accounts Committee on the accounts relating to the pre-partition period, i.e., up to the 14th August 1947 should be discussed in the House.

During the debate on the 31st March 1948 in the Constituent Assembly (Legislative) on the motion for election of members to the Public Accounts Committee, there was considerable criticism of the decision of the Ministry of Finance not to prepare the Appropriation Accounts which were outstanding at the time of the partition of the country except in respect of the Defence Services, expenditure, which were necessary for purposes of sharing military expenditure. These accounts relate to the period from the 1st April 1945 to the 14th August 1947. The Ministry of Finance felt that there had been a misunderstanding about the actual position of these accounts and accordingly clarified it in their Memorandum, dated the 20th May 1948, addressed to the members of the Committee, the substance of which was :

- (1) The decision to discontinue the work on the Appropriation Accounts was due to a genuine doubt as to the competency of the Legislature (1948) of either Dominion or the Public Accounts Committee elected by them to scrutinise the Appropriation Accounts of the undivided Government as also to the inadequacy of the staff to take on this additional work. There was also the fact that consequent on intertransfer of staff between the two Dominions, it would have been difficult to obtain suitable explanations or fix responsibility for irregularities which had occurred before the partition.
- (2) The Accounts Officers concerned have, however, been instructed to complete the accounts for the pre-partition period in accordance with the normal procedure to which the ordinary process of audit will be applied ; and the non-preparation of the Appropriation Accounts would not therefore mean that there will be no accounts at all for that period.

- (3) The Ministry of Finance had reconsidered the position in the light of the debate in the House and proposed that—
- (i) the Appropriation Accounts for the year 1945-46, on which work had reached an advanced stage should be completed and placed before the Public Accounts Committee ;
 - (ii) for the years 1946-47 and 1947-48 (pre-partition period) the Public Accounts Committee could examine the Finance Accounts prepared by the Auditor General along with a memorandum, which the latter would prepare, for the consideration of the Committee, and which would bring out the important financial irregularities ordinarily appearing in the Appropriation Accounts.

2. At the same time, the legal aspects of the case also were examined by the Ministry of Finance, in consultation with the Ministry of Law, and explained in a Memorandum which was placed before the Public Accounts Committee at their meeting held on the 8th September, 1948. The points mentioned in that Memorandum were :—

- (1) The statutory obligation of the Auditor-General under the Government of India Act, 1935, as adapted, and the Government of India (Audit and Accounts) Order, as amended, to compile the Appropriation Accounts is only in respect of the period after the establishment of the Dominion and not for the period prior to the 15th August 1947; and that in compiling any such account, he would not be discharging a statutory function.
- (2) The Legislature of the Indian Dominion and the Public Accounts Committee elected by them are technically not competent to deal with the accounts of undivided India.
- (3) The authority of the Government of India and of the Legislature of the Indian Dominion does not extend to the period when they were not in existence and they cannot, therefore, regularise the excess over grants, voted or non-voted, in the pre-partition accounts.
- (4) In view of the legal position explained, the Public Accounts Committee, in dealing with the pre-partition accounts will not be discharging a statutory function but will only be helping the executive government to take adequate action in the matter of disposal of financial irregularities pertaining to the Indian Dominion brought to their notice.
- (5) These Accounts and Audit Reports and the Reports of the Public Accounts Committee thereon will not be laid before the Legislature or debated by it as section 169 of the Government of India Act, 1935, as adapted, relates only to the accounts of the Dominion. They may be placed in the Library of the House for the information of the members and action taken by Government, as usual, to implement the recommendations of the Public Accounts Committee.

3. The Public Accounts Committee, having considered the legal position recommended as follows :—

“Normally these excesses will have to be voted by the Legislature. But we are advised that technically it is not within the competence of the present Legislature to deal with the excesses which relate to the pre-partition period and we accordingly recommend that no action need be taken to regularise them.”

The Committee did not comment on the point that these accounts and reports need not be laid before the Legislature or debated by it. Having accepted, however, the legal position as explained in the Ministry of Finance Memorandum, it would appear to follow that the Committee also accepted the position that these reports etc., need not be laid before the Legislature.

4. In view of the fact that these accounts and reports relate to the pre-partition period and are more than three years old and in view of the legal position explained, it is proposed that they may be laid on the table of the House but no debate should take place. The Committee may kindly consider this question, and if approved, recommend this course of action to the House.

Examination of the Accounts and Report by the P. A. C. before Presentation to Parliament

P4. (Page 115 of the Report.) The Committee took up for consideration a recent reference received from the Ministry of Finance proposing that in view of the strong views held by the Comptroller and Auditor General a working arrangement under which the P.A.C. would examine the Audit Reports and Appropriation Accounts only after they had been laid before Parliament, might be adopted. After a brief discussion, it was decided to circulate relevant papers containing the opinion of the Ministry of Law, the views of the Auditor-General and the orders of the Hon'ble the Speaker on the subject to the members of the Committee.

P3. (Page 117 of the Report.) The Committee noted the decision of the Honourable the Speaker that it was competent for the Public Accounts Committee to begin the examination of the Reports and Accounts as soon as they became available, but they should not submit any reports thereon to Parliament before the Accounts were laid on the Table of the House.

The Hon'ble the Speaker of Lok Sabha has recorded the following decision :—

“I do not see the point in sticking to the formality of examination after the reports are laid before the Parliament. It appears to me that as hitherto the Public Accounts Committee may begin the examination of Reports and accounts as soon as available so that the Committee will have more time and greater leisure for doing their work but they should not submit any report thereon to the House before the accounts are laid on the Table of the House. I have no objection to authorise the Committee specially as the C. & A. G. wishes. What we want is an examination before the matter gets stale. The technicalities ought not to hamper or defeat the very object of examination by Public Accounts Committee by delays.”

Audit of Receipts

P6. (Page 116 of the Report.) The Committee discussed the question of purpose and scope of Audit of the Accounts of the Indian Union and also whether the Committee should require the Comptroller and Auditor-General of India to give the Committee a report on the audit of Revenues and Receipts of the Indian Union. The Committee agreed that it was competent to consider such matters. *****The Committee felt in this connection that unless they examined the receipt side of the accounts of the Indian Union, their examination of the accounts would not be complete. The Committee considered that matters arising out of the ways and means policy of the Government also fell within its purview.

NOTE.— See P.A.C. 1923-24, R-40-41; 1924-25, R-29; 1925-26, R-29-34, 1926-27 R-20(6) and 21 (i) and 1927-28, R-19 (Epitome Volume I).

Form and Structure of the Report of P.A.C. and consideration of Finance Accounts

P3. (Page 118 of the Report.) A reference was made to the letter dated the 3rd March, 1951 from Prof. K. T. Shah suggesting the form and structure of the Report of the Public Accounts Committee, and also the examination of the Accounts covering the Revenue side, Public Debt and the Liabilities and Assets of the Government as deduced from the balances recorded in its books. The Comptroller and Auditor-General informed the Committee that *****since the Finance Accounts were also 'Public Accounts' the Public Accounts Committee was quite competent to take up the examination thereof simultaneously with the Appropriation Accounts of the corresponding year. The Committee held a brief discussion over the other points raised in Professor Shah's letter referred to *ibid* inasmuch as they related to the form of the Report of the Committee on the Accounts of the year 1947-48 (post-partition). It was decided that while presenting the Report to Parliament, the Chairman might add some of the points raised during the course of the discussion in the introductory part of the report. (See also P.A.C. First Report 1951-52, P 3-6 of Appendix LI.)

ANNEXURE H TO APPENDIX LI OF THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

Copy of a letter dated the 3rd March, 1951 from Professor K. T. Shah, Member, Parliament of India, to Shri M. N. Kaul, Secretary to Parliament, New Delhi.

I have gone through the Draft Report attached to the above letter, and have to make the following suggestions regarding the form and structure of the Report, as well as the order of its contents.

2. Looking at the draft as it stands, it seems to me that it starts and proceeds much too abruptly. Discussion of individual departments begins at once, without any preface or introduction; and that presupposes not only an amount of familiarity with the working of the National Financial System but also with the underlying principles regarding its accounting and auditing by the Public Accounts

Committee of a sovereign Parliament. The facts, however, do not correspond to these assumptions. Many Members are new to this Branch of Parliamentary work. Several also lack adequate acquaintance with the theory and practice of Public Finance, its accounting and audit.

3. I would accordingly suggest that there should be, at the commencement of the Report, an Introductory Section. It should briefly lay out the nature and scope of the Public Accounts Committee's work. In the forefront, I would suggest, there should be a statement of facts, giving the appointment of the Committee, its composition, and the number of meetings held as well as the individual attendance thereat, and the programme of work before each. The last may well be in an Appendix if you so think proper. But I think it is necessary, if only to show the degree of enthusiasm and earnestness shown by the Members in the work of the Committee. It would, besides, be nothing more than a statement of facts which is commonly given by all other Parliamentary or Government Committees in the very first Chapter of their Reports, or in an Appendix. We would, therefore, be doing no more than following a well-established procedure by adopting this method.

4. The Second Section should, I think, give an idea or explanation of the terms of reference. There are perhaps no precise terms of reference, as such, in the Resolution appointing the Committee of Public Accounts. Nevertheless, it is desirable to have an idea of the scope and nature of the Committee's work, and the most effective mode of dealing with it. This is the more desirable and, in my opinion, the more necessary, as the entire structure has changed since the new Constitution came into operation. Formerly, before 1950, the Public Accounts Committee worked on a totally different line. Now it has sovereign authority with its own Chairman, its own programme and procedure, and without any restriction on the scope of the inquiries and observations it may choose to make. The past tradition of this Committee may have some bearing; but its analogy should not, I suggest, be pushed too far. The nearest comparable model for the working of this Committee is provided by the corresponding British Parliament's Committee. I believe you yourself have made some extracts or notes on the working of that body, which in my opinion, would fittingly find a place in this—the First Report of our Committee since the Republican Constitution came into operation.*****

5. The next Section, Section III of the Report, should also be a general one, giving a bird's eye view of the Financial system whose details have been audited by the Auditor-General and are to be reported upon by the Committee. It is true that, in recent years, India has had to suffer a good deal of dismemberment. The Accounts, therefore, of her national finances may not be comparable over a long number of years. Nevertheless, I think, in order to give a really complete picture, or the necessary basic information and guidance, to the Members of the Committee, and of Parliament, it would be desirable to give comparative statistics. I would suggest beginning at 1935-36 when the first big cut took place, namely the separation of Burma. The figures of that year may not be a good base or standard; but they would suffice to show the magnitude of

the changes that have occurred. Intervening years since that date till the beginning of World War II may be skipped over, as there was nothing particularly noteworthy therein to deserve special mention. But the last pre-war year, 1938-39, may well serve as a base for comparison. Statistics should therefore be given continuously from 1938-39, in order to make our picture more complete. The first war year, 1939-40, may serve its own purpose as a starting point for a changing economy culminating in 1945-46,—the last war year for at least about half the period. That will mark the end of an epoch also. 1946-47 and 1947-48 were abnormal for a variety of reasons and circumstances. Nevertheless, the figures given for them would be worthwhile, if only to show the degree of abnormalcy that had occurred. 1948-49 would be the first normal period, the starting point and the basic year for the Republic's economy; and, as such, when we come to that period, we should have a proper foundation for an effective comparative examination of our Public Accounts.

6. Having given the comparative position, we should, in the next section, lay out briefly the method and order by which we scrutinise the audited accounts. As you will remember, I had, in the very beginning, raised the question, that, in the present set-up, the Public Accounts Committee is a sovereign Parliament whose jurisdiction must extend to every Branch and aspect of Public Finance, including revenue as well as Expenditure, States as well as Central, borrowing as well as auditing. The importance of Expenditure, believed to be the special field for Audit, may have been considerable in the days when a foreign Government was in power in this country. Now, however, that sovereign authority is vested in the Parliament of India, the importance of Revenue as well as Expenditure in shaping the country's aggregate economy is unquestioned. The same may also be said of the borrowing and lending programme, including the work of the State Trading organisations, that of the Reserve Bank, in its currency and finance operations particularly. Accordingly this section should explain briefly the Committee's programme. We should review also the working of Public Economy as reflected in the several statutory corporations. The finances of units, or the States, are also under the review of the Auditor-General of India, and should accordingly be included in the review. We have so far got the material from the Auditor-General on most of the aspects suggested by me. We should ask him. I suggest, to promise as early as possible for the Interim Report.

7. I have no objection to begin with Expenditure, as you have done. But, even there, I would explain briefly, in what order, and for what reasons, the different departments or Ministries are chosen for scrutiny and report. I consider that the magnitude of Expenditure, or and alternatively, the degree of influence on National Policy of a given Ministry, ought to be a good guide in fixing the order in which the various Ministries should be taken. Personally, I would take Defence Expenditure first, as not only the largest single Head of Expenditure, but also as affecting vitally the national policy, at home and abroad. Other Departments may be taken in a similar order. In any order however, I would suggest that the so-called Commercial Departments, like the Posts and Telegraphs, the Railways, or the State Trading Organisation, should be taken separately.

They stand on a different footing, and are to be judged by different standards. Accordingly the order given in the Draft Report will have to be altered, according as you follow the one or the other standards you adopt.

8. After the Expenditure side has been reviewed and disposed of, we should take the Capital Budget, and deal with the same in a section by itself. We have not yet dealt with it in the Public Accounts Committee; nor have all the ordinary Ministries with Revenue Expenditure been yet reviewed. The Committee has yet to meet to complete this part of its work. The present report would, therefore, have to be no more than Interim Report. * * * * *

9. The Revenue Accounts should next be taken up, and reviewed in a series of meetings of the Committee. A great part of our Public Economy is affected by the various forms of taxation and Government revenues, both even if the Public Accounts Committee may not have dealt with this aspect in the past, we should in the new set-up deal with it effectively and report upon it accordingly. Borrowing, National Credit, Capital Budget and Analogous items should be considered next, followed by a similar review of States Finance, and of expenditure and revenue outside India. The final complete Report should be rounded up with a summary of our conclusions and recommendations corresponding to the Introductory chapter at the commencement. Remarks on financial policy, as revealed in the Accounts ought to find a prominent place in this section. * * * * *

Mention of precepts from certain ancient Hindu books in the Codes etc.

P4. (Page 118 of the Report.) A reference was also made to an earlier letter from Prof. Shah in which he had suggested that an introduction containing precepts on the ancient Hindu books like *Kautalya's Arthasastra* and the *Sukraniti* should be added in the various Public Account Codes which were being revised and published by the Comptroller and Auditor-General of India. The Comptroller and Auditor-General told the Committee that Prof. Shah's suggestion was not feasible as there were a large number of Account Codes issued by him and also that by doing so no practical purpose was likely to be served from the accounts and audit point of view.

FIRST REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1951-52 ON THE APPROPRIATION ACCOUNTS (CIVIL AND POSTS AND TELEGRAPHS) OF 1948-49 AND UNFINISHED ACCOUNTS (CIVIL) OF 1947-48 (POST-PARTITION)

Delay in presentation to Parliament of Railway Appropriation Accounts and Audit Report

R5. The Committee noted that the Appropriation Accounts of the Railways for 1948-49 and the Audit Report thereon had not been placed on the Table of the House at the time of the meeting of the Committee with the result that these could not be examined. The Appropriation Accounts of the Defence Services for 1948-49 and the Audit Report thereon were not ready at the time of the July Session of the Public Accounts Committee owing to certain difficulties experienced by the Comptroller and Auditor-General in getting prompt replies from the Administration to communications sent by him. While appreciating the difficulties which have been experienced by the Comptroller and Auditor-General in having to undertake the preparation of the Appropriation Accounts and the Audit Reports for several years beginning with 1945-46 during the past two or three years and the considerable progress which has been made in accelerating the reports, the Committee desire that at a very early date a definite programme should be laid down for the presentation of the various accounts and the audit reports thereon to Parliament, due allowance being made for overtaking the brief time lag which still exists. In this connection, they emphasize the importance of the Government and the Administrative authorities under them cooperating to the maximum extent with the Audit Department by providing all the material required for audit and giving prompt answers to references therefrom.

P5. (Pages 298-299 of the Report.) *****In this connection, the Comptroller and Auditor-General stated that there should be a provision similar to that which exists in the Exchequer and Audit Department Act passed by the U. K. Government whereby the latest date by which the Accounts and Audit Report must be submitted by the Comptroller and Auditor-General to the President as also the date by which the President must lay them before Parliament, is specified and a further provision whereby it would become incumbent upon the President to send copies of the Audit reports direct to the Honorable the Speaker, if the report could not be laid before Parliament by the specified date. Elucidating the point further, he said that even in the absence of a provision to that effect, he had a feeling that under the Constitution, it would be permissible for him to act in that manner.*****

Budgeting and control over expenditure

R14. The successive Committees over a number of years have laid considerable emphasis on the need for correct budgeting and urged that control over expenditure should be as rigid as possible.

As things had practically settled down during the year under review and normalcy had been restored, it was hoped that the Accounts would present a better picture than that disclosed in the preceding year relating to the post-partition period. But, contrary to expectations, it was noticed that no appreciable improvement in the standards of budgeting and control over expenditure had been attained. A marked tendency on the part of the spending Ministries to incur expenditure in excess of the sanctioned grants or appropriations or to resort to excessive budgeting by asking for more funds than actually required through original or supplementary grants or to incur excess expenditure by making irregular reappropriations was much in evidence.

It was expected that the Ministry of Finance would devise suitable measures against these serious defects and ensure that the administrative Ministries complied with those measures scrupulously. Not only have the administrative Ministries, whose responsibility is no doubt greater, been unmindful of the necessity of observing close control over their financial affairs, but the Ministry of Finance have also failed in making the Ministries realize their responsibility and exercising a proper check centrally over the progress of expenditure of the various Ministries. It appears that at present the Ministries have freedom to budget for what they like, to ask for supplementary grants notwithstanding the fact that the funds are available with them or to incur expenditure over the sanctioned grants without caring for the consequences. This is a sad state of affairs and the Committee feel compelled to recommend that suitable action should be taken in cases in which it is established that the responsibility of framing budget estimates or controlling the expenditure has not been properly discharged.

R-17. Tightening of Budgetary Control.—There is at present a tendency on the part of the administrative authorities to inflate their budget by overestimating their requirements. This is so, because the Ministry of Finance impose arbitrary cuts on such estimates in the course of their scrutiny after the estimates are finally framed by the Ministries. Thus neither the administrative Ministry nor the Finance Ministry proceed on any planned basis and the resultant budget is mostly wide off the mark. In no sense does it represent the requirements of the Ministries in any accurate form nor is the picture complete as to the policies and plans which the Ministry must undertake during the year for which the money is sanctioned. Invariably, it happens that after the budget is settled by the Ministry of Finance, the administrative Ministries re-examine the position and alter their programme of activities on the basis of the approved estimates. It is quite clear that the planning and preparation of estimates proceed on a very unsatisfactory basis and the money asked for one purpose is spent on quite different activity or a major activity is allowed to be postponed and a minor scheme or activity proceeded with. There is no real co-ordination between the activities which a Ministry proposes to undertake during the year and the financial side of such activities. The Committee are of the view that there is an urgent need for overhauling the present system of preparation and scrutiny of estimates and to devise more methodical and more systematic

procedure whereby the budget is prepared on a more accurate data which is duly 'vetted' by both the administrative and financial authorities. The Ministry of Finance should associate itself with the administrative machinery from the very inception of the preparation of the budget and assist the Ministries in coming to proper decision rather than sit in judgment over their proposals. This can be achieved if the Financial Adviser in consultation with the administrative Ministry first determines what policies, activities or Schemes are going to be undertaken by the Ministry during the year, assess their relative urgency and importance, work out their financial implications and then come to conclusions. After an agreement has been reached between the Financial Adviser and the administrative Ministry the matter should be referred to the Budget Division of the Ministry of Finance for their advice as to the extent to which funds will be available, in respect of that Ministry, keeping in view the urgency or importance of the matters for which the money is required. After the budgetary figure is thus settled, the administrative Ministry and the Financial Adviser concerned should re-examine the position and revise their earlier estimates in the light of the funds available for the various purposes and come to final conclusions as to the activities which have to be pursued and the funds required for each such activity. If the budget is prepared in this manner there is little doubt that there will be any large scale savings in or excesses over the sanctioned expenditure. Moreover, both the Financial Adviser and the administrative Ministry concerned will have a clear idea of what they are required to do during the year within the money allotted to them and proceed with their schemes from the earliest date so that there is no uncertainty or last minute difficulty or postponement for want of funds.

R15. (iii) *Control over expenditure incurred through the agency of State Governments.*—While examining the Accounts relating to the Ministry of Health, the Committee came across some glaring instances of bad budgeting and lack of proper control over expenditure on the part of that Ministry. When questioned why in several cases the explanations of important variations relating to that Ministry had not been furnished, the representative of the Ministry deposed that they did not exercise any direct control over the expenditure booked under these Grants which was incurred by the State Governments and adjusted later by book debit. The Committee are surprised that the Ministry should have overlooked this important function of controlling expenditure and cannot help observing that such a state of affairs is far from satisfactory. The Committee consider that some arrangements should be made whereby the Ministry of Health, which is ultimately responsible to Parliament for the control of these Grants, is in a position to know what the various State Governments were spending from time to time. As the delay in furnishing the explanations for variations for the Appropriation Accounts delays the compilation of these accounts and affects the examination thereof by the Public Accounts Committee, the Committee suggested that the Ministry of Finance should issue strict instructions in the matter. It is also desirable that the Ministry of Finance in exercising its 'banking' control should take into account wider considerations and bring it to bear upon the Ministry accountable for the proper spending of the

funds entrusted to it that it should exercise strict financial control in all such cases where funds are spent through the agency of the State Governments.

R-18. *Watching progress of expenditure and fraing procedure for the purpose.*—The Committee understand that at present the procedure whereby the administrative Ministries keep a concurrent check over the expenditure incurred against allotments to see that they have not been exceeded at any time during the year is not observed effectively. It is a grave matter if expenditure in excess of the sanctioned sum under a grant is incurred without Parliamentary sanction having been obtained in advance. It is immaterial whether there is justification for incurring such excess expenditure or whether it has happened through a deliberate or an innocent act. The fact remains that the Ministry runs a great risk if at any time during the year its sanctioned grant is exceeded by any amount without the Parliamentary sanction. It is a serious matter of which the Committee and subsequently Parliament are bound to take notice and to suggest drastic action. It is, therefore, important that the Ministries, in general, and the Ministry of Finance in particular, should devise measures urgently whereby expenditure under each grant and sub-head under that grant is booked immediately after it is incurred and the progress watched by the authority administering the grant so that before incurring further expenditure under a head of the grant, it ensures that the fresh expenditure is within the limit of sanctioned allotment. This is of course without prejudice to the legitimate use of the Contingency Fund.

P150. *Control over expenditure.*—*** The representative of the Ministry of Finance stated that one of the methods they had adopted to implement the recommendation on the subject made by the previous Committee, *vide* para 4 of their Report for the year 1947-48 (post-partition) was that in case a particular Ministry overspent, they had been told that until the extra money required by the Ministry had been voted by Parliament the Ministry of Finance would not sanction it unless it was proved that delay in sanctioning the expenditure would be dangerous. The Committee, however, observed that the Ministry of Finance should shoulder the responsibility of ensuring stricter control over the total expenditure and assist the administrative Ministries in the matter in the various ways by showing them how the Ministries could keep a proper check over their expenditure. It was not sufficient to rely on promises or assurances from the Ministries to issue instructions of a general character but the Ministry of Finance should devise practical methods whereby this important aspect of their duties was properly and adequately realized by the various Ministries. ***The Ministry of Finance should ensure that the money was properly spent, accounted for in time, booked in the books at regular intervals, and properly controlled by the officers in-charge; and that the system of submitting progress reports was instituted so that both the Head of the Department concerned and the Financial Adviser had an eye over the day to day developments which reflected in the expenditure charts. The Committee desired that a report on the various measures evolved by the Ministry of Finance in the light of their observations should be submitted to them in due course. (*See also P. A. C. Fifteenth Report, 1954-55, R-13 (b).*)

**ANNEXURE IX OF APPENDIX II TO THE PUBLIC ACCOUNTS
COMMITTEE'S FIFTEENTH REPORT 1954-55 VOLUME II**

Copy of Office Memorandum No. 12122-B.II/51, dated the 18th December, 1951, from Government of India, Ministry of Finance to all Ministries of the Government of India, etc.

A reference is invited to this Ministry's Office Memorandum No. 11399-B.I/51 of even date on the subject of the reconciliation of departmental and accounts figures. (See Annexure VIII on page 60).

Apart from the periodical reconciliation of the departmental with the accounts figures it is also necessary for each Ministry to have currently reported to it the departmental figures of expenditure to enable it to watch the flow of expenditure against the sanctioned grant for which it is accountable to Parliament. Under the existing orders, the Heads of departments outside the headquarters of the Government of India have to prepare returns of the monthly progress of expenditure in Form G.F.R. 7 as indicated in para 89(4) (vi) of the Central Government Compilation of the General Financial Rules. A similar return in Form G.F.R. 11 has to be prepared by the controlling officers in the Ministries of the Central Government and their attached and subordinate offices at the headquarters of the Government of India, *vide* Annexure B referred to in para. 90 of the General Financial Rules. In both cases though expenditure figures are available either with the Heads of Departments or the controlling officers no procedure has been prescribed for making these figures available to the Ministries to facilitate the latter's control over the expenditure against the grant as a whole. In the absence of this information most Ministries are not in a position to know at any given time the progress of expenditure in respect of the various grants controlled by them. It is accordingly necessary that the returns in Form General Financial Rules 7 or 11, as the case may be, referred to above, should be forwarded in future to the administrative Ministry by the Heads of Departments in offices outside the headquarters of the Government of India, and by the concerned officers in the attached and subordinate offices of the Ministry at headquarters. These should be obtained by the 15th of the month following the month to which the returns relate. The information so obtained should be suitably posted by each Ministry in the Register or Registers kept for the purpose with a view to enable the sanctioned grant and the progressive total of expenditure incurred from month to month being ascertained at a glance. Heads of Departments and Controlling Officers should be instructed that if the departmental figures submitted to the Ministry require correction in a subsequent month such correction should be made by making *plus* or *minus* entries in the progressive totals. It should, however, be understood, that if in any case the accounts office figures which subsequently become available are higher than the departmental figures, the former should be assumed to be the correct figures as appropriation accounts are prepared on the basis of the figures booked in the accounts.

If any practical difficulties arise in giving effect to the procedure prescribed in the preceding paragraph, or the expenditure figures do not become available for any sector of expenditure controlled by a Ministry/Department, the matter may be reported to the Ministry of Finance.

*Enclosure to Annexure IX**Broadsheet for watching receipt of the Returns from the Heads of Departments under a Ministry*

Sl. No.	Grant No.	Date of receipt of returns				
		April	May	June	July	March

N.B. 1. Dates of receipt should be noted in monthly columns. Reminders should be sent if returns are not received by the prescribed date.

2. Returns relating to the Secretariat proper should also be maintained in the above form.

NOTE:— See P.A.C. 1947-48 (Post-Partition) R-4.

Reconciliation of Accounts

R19. The Committee attach great importance to the periodical reconciliation of the figures of expenditure booked by the spending Departments concerned with those booked by the respective Accounts Officers. This is one of the potent methods by which the flow of expenditure can be regulated and the tendency to over-spend curbed. The responsibility for maintaining the administrative accounts and for reconciling those with the figures booked in the Accounts Offices should rest with the Administrative Departments concerned. It was brought to the notice of the Committee that the omission on the part of the Ministries in not reconciling their figures with those booked in the Accounts Offices had become a regular feature in almost all the Ministries and this was one of the major causes for incorrect estimating and insufficient control over expenditure. To remedy this state of affairs, the first step to be taken is to ensure that the spending departments maintain their accounts properly. The Committee suggest that the Financial Advisers attached to the Ministries etc. should guide the Administrative Ministries concerned in regard to the maintenance of accounts and for watching the progress of

expenditure. They should also look into the accounts of the Ministries concerned periodically in order to see that these are being maintained properly. This will serve as a check against any extravagance on the part of the Ministries and regulate their expenditure within the Grant voted by Parliament. The Comptroller and Auditor-General also brought to the notice of the Committee the system obtaining in this regard in the U.K. There, the responsibility for keeping the entire accounts rests with the departments concerned. The Committee consider that it should not be difficult to follow the same procedure in India and recommend that steps should be taken to introduce the changes gradually but effectively.

P149. * * * * * Committee drew the attention of the representatives of the Ministry of Finance to the omission on the part of the Ministries in not reconciling their figures with those booked in the Accounts Offices.* * * * * The Committee was informed that the Ministry of Finance had issued instructions to all the Ministries etc. in 1949 asking them to reconcile their accounts with those maintained in the Accounts Offices. It was added that so far as that Ministry was concerned they had laid down a procedure and that the responsibility for maintaining the administrative accounts and for reconciling those with the figures booked in the Accounts Office rested with the Administrative Departments concerned. The Committee observed that the matter needed further examination from the point of view of control over expenditure.* * * *

APPENDIX XXXVI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTH REPORT 1952-53 VOLUME I

Copy of Director-General of Posts and Telegraphs Memorandum No. B.15-5/51, dated New Delhi, the 23rd May, 1952 to all Heads of Circles, etc.

SUBJECT :—*Procedure followed for controlling expenditure and reconciling departmental figures with Audit figures in the P. & T. Department.*

While reviewing the accounts of 1948-49 the Public Accounts Committee emphasised the necessity for prompt and systematic reconciliation between the departmental and accounts office figures as it is one of the potent methods by which the flow of expenditure can be regulated and the tendency to overspend curbed.

2. So far as postal fluctuating charges are concerned there is a clear cut procedure laid down in D.G.'s Special Circular No. 21 dated 18-7-1934* which has also been amended from time to time. It is proposed to incorporate this procedure as an Appendix in the next edition of Volume II. An advance copy of this Appendix will be furnished to all Heads of Circles etc. shortly. The same procedure may be followed with suitable modifications for reconciling the departmental figures with audit office figures in respect of the fluctuating charges of Telegraph Offices, Engineering Divisions, Store Depots, Workshops, etc., etc. In the case of the offices which submit classified accounts to audit, it will not be necessary to get the departmental figures verified by the Audit Office as in the case of Post Offices and R.M.S. Offices.

*Not Printed Included as Appendix 16 of P. & T. Manual Vol. II.

3. In order that the Heads of Circles and other Controlling Officers may have an overall picture of the expenditure incurred within their jurisdiction it is necessary that figures for pay charges also should be obtained from the subordinate disbursing units and compiled and reconciled in the same manner as for fluctuating charges. Particular attention should be devoted for reconciling the figures under 'Pay of Officers'.

4. To enable this Office to watch the progress and effectiveness of the reconciliation a statement showing the unreconciled circle figures (i.e., the difference between the departmental and audit figures) under 'cash' and unadjusted liabilities under 'Book debits' in respect of each secondary unit should be communicated to this office by the 15th of the second month following alongwith a certificate that the departmental figures have been reconciled with the Audit figures, that there are no differences excepting those furnished in the statement referred to above and that necessary action is being taken to get the differences reconciled.

**ANNEXURES VII AND VIII OF APPENDIX II TO THE PUBLIC
ACCOUNTS COMMITTEE'S FIFTEENTH REPORT, 1954-55
VOLUME II**

ANNEXURE VII

Copy of Office Memorandum No. D. 6039-BII/49, dated the 7th October, 1949, from Government of India, Ministry of Finance, to all Ministries of the Government of India, etc.

The Accountant General, Central Revenues, has brought to the notice of this Ministry that the procedure prescribed for the reconciliation of departmental figures booked in the Accounts Office is not being followed by the various Ministries, Departments, etc. In some cases, this reconciliation is in arrears from April, 1948 onwards with the result that the compilation of the Appropriation Accounts for the year 1948-49 is being unnecessarily held up. The delay is mainly due to the failure on the part of the various Ministries, Departments, etc. to depute their assistants regularly and in time in spite of repeated reminders from the Accounts Office. In some cases, the results of reconciliation with the observations of the Departmental authorities are not reported to the Accountant-General in time to enable him to carry out necessary adjustments.

2. Owing to the rapid expansion of Governmental activities during the war and to the diversion of experienced staff that followed, the procedure prescribed for the reconciliation of departmental expenditure with those booked in the Accounts Offices has in most cases not been followed. Without this reconciliation it is not possible for the Executive to control the expenditure against the grant obtained from the Legislature. There has been a growing volume of criticism that there is in effect, no real control of expenditure now. It is therefore extremely important to secure that there is a prompt and systematic reconciliation between the departmental figures and the accounts. The importance of this work can therefore hardly be over-emphasised; for this is the only means whereby

the controlling authorities can accurately estimate from month to month the ultimate savings and excesses in grants placed at their disposal to enable them to apply for additional funds where required before the expenditure is actually incurred and to surrender unnecessary funds before the close of the year.

3. The undersigned is accordingly directed to request that effective steps may be taken immediately to observe the procedure laid down in the late Finance Department Resolution No. 13-Ex/25, dated the 2nd August, 1926, and in its OFFICE MEMORANDUM No. D. 2839-B., dated the 8th July, 1933, for reconciling departmental figures of expenditure with those booked in the Accounts Offices.

ANNEXURE VIII

Copy of Office Memorandum No. 11399-B.I./51, dated the 18th December, 1951, from Government of India, Ministry of Finance (Department of Economic Affairs) to all Ministries etc.

SUBJECT.—Reconciliation of departmental figures of expenditure with account figures

The undersigned is directed to invite a reference to Finance Ministry Office Memorandum No. D. 6039-B.II/49, dated the 7th October, 1949, in which the importance of prompt and systematic reconciliation between the departmental and accounts office figures was emphasised. To ensure this, Ministries were requested to take steps to follow strictly the procedure prescribed in this regard in the late Finance Department Resolution No. 13-Ex-25, dated the 2nd August, 1926, and its Office Memorandum No. D. 2839-B., dated the 8th July, 1933 (The orders have since been incorporated in Rules 88-92 and Annexure B to Chapter 5 of the Central Government Compilation of Financial Rules).

2. Under the existing procedure the Administrative Ministry/Department has no ready means of knowing whether the monthly reconciliation as prescribed is being regularly carried out by the various heads of the Departments under it. This can be achieved if the Heads of Departments send monthly returns showing the progress of reconciliation in respect of expenditure relating to each of the grants placed at their disposal to the Ministry/Department concerned. Such returns should be accompanied by a statement showing the departmental figures, the reconciled figures, the prescribed date of reconciliation, the date on which the reconciliation was completed and arrears, if any, with remarks indicating steps taken to clear the arrears and should reach the Ministry not later than the end of the second month following the month to which the expenditure pertains. The Ministry in its turn should watch that the returns are received by it regularly by maintaining a Broadsheet and take necessary measures promptly to complete reconciliation where delays occur.

NOTE:— See P.A.C. 1923-24, R-24; 1926-27, R 12(6) and 1945-46 R 7 (Epitome Volume I).

Action against Delinquents

R20. A sense of consciousness of the responsibility for proper spending and accountal of money should pervade the mind of the Departmental Heads at all times and travel down to the lowest officials responsible for estimating, spending and accounting. Prompt action should be taken to haul up the peccant officials for any irregularity. It has been the experience of the Committee that at present little action is taken by the Ministries when such cases come to their notice. There is an effort more to explain the reasons why action could not or was not taken rather than to locate the defects and punish the defaulters. Thus, there being no fear or awe of the authority, the irregularities are on the increase, and more and more defects are creeping into the system. The Committee strongly recommend that Ministries should ensure that action against all delinquents is taken promptly and the Ministry of Finance should see that the Ministries have in fact initiated necessary action in each and every case in time and devised remedial measures against any defects that may have come to notice in the course of such investigation.

R25. * * * * * The Administrative Ministry should not content itself merely with passing strictures against the officers concerned but efforts should be made to take some positive action against them for the wastes in public funds caused through their wilful actions or contributory negligence. In cases where action should have been taken against the delinquent officials but was not taken in time the officers responsible for omitting or delaying to take any action and treating the matter in a light-hearted manner should be suitably punished. The Committee feel that officials found guilty of mis-appropriating public funds wilfully, spending them extravagantly or wasting them through their negligence deserve no mercy. In order, therefore, to tone up administrative integrity and efficiency it is absolutely essential that officials found guilty of such acts are dealt with promptly and severely.

Responsibility of the Supervising Officer.

R26. (vi) The Committee regard it unsatisfactory that an officer who is in charge of cash and accounts in an office should plead as an excuse that he could not attend to this work properly as he had some other duties to perform. Matters should greatly improve if Ministries take a very serious view of such defalcations and irregularities and bring the offender to book without allowing him to take shelter under technicalities. It would also act as a deterrent if no leniency is shown to the supervising officers for lapses of this kind. The Committee understand that the rules which have been prescribed in this regard are adequate but what is lacking is control on the part of the administrative authorities and the willingness of Heads of Departments to inculcate a sense of responsibility in the subordinates under them by resorting to disciplinary measures as soon as any irregularity comes to their notice.

R27. ***** The Committee view with disfavour any tendency on the part of the Ministries to bring forward general pleas that the officer concerned has been overworked, that there was no deliberate intention of misleading, that there was no time to check, that the rules did not provide for supervision and so on in justification of such irregularities.

The Committee wish to emphasize in this connection that the time factor in dealing with such cases is of the real essence and if action is delayed it is tantamount to action not taken. It must be noted that procrastination always helps the offender to escape the tyranny of punishment or punitive action. The first step towards putting down such irregularities is to deal with them promptly and on the spot as it were and to take such corrective measures as the occasion may demand.

APPENDIX XLV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

Director General of Posts and Telegraphs Memorandum No. F.1-1/50/- Pt dated the 15th June 1951, to all Heads of Circles.

SUBJECT.—Disciplinary action for negligence or misappropriation of Government Money

Attention of all concerned may kindly be invited to the instructions contained in para. 2 of the Director General's Memo. No. F. 1-1/50 dated the 31st January, 1950 (Copy enclosed) and to Rule 103 of P. & T. Manual Vol. II, and all punishing authorities may be instructed to keep in view the loss sustained by the Department while considering the question of awarding any of the statutory penalties, including that of recovery of a part or whole of the loss sustained by the Department, not only from the officials held responsible for the same but also from those who by their negligence or omission contributed to the commission of the offence or to the hindrance or the frustration of the enquiries.

* * * * *

Copy of Memorandum No. F. 1-1/50, dated 31st January 1950, from the Office of the D. G. P. & T., New Delhi, to all Heads of Circles (By Name.)

The Public Accounts Committee expressed themselves strongly regarding the losses which the Department suffers on account of forged money orders, loss of insured covers and misappropriation in Savings Bank Accounts. They considered that lapses on the part of the officials were sometimes viewed lightly and that there was a general tendency to give officials the benefit of the doubt regardless of whether the doubt was reasonable or otherwise. They desired that every one should have a livelier realisation of the responsibility arising from his trusteeship of public money.

2. Where the Department is put to loss, the responsibility of everyone whose negligence or misconduct has contributed to the loss must be fixed, and the punishment imposed must be such as will have a deterrent effect on others. Officials should not be allowed to evade punishment by retiring etc. To be effective, the punishment should be not only sharp but prompt, since delay only dulls its edge.

3. If there is any tendency on the part of your subordinates to take too light a view of embezzlements etc., or to be dilatory, you should not hesitate to step in and pull them up or in the alternative to inform the Directorate. They must be made to realise that all cases of loss and irregularities are brought to the notice of the Public Accounts Committee and through them to the Parliament and that the Director General is closely questioned about the action taken by them on those cases. Where Officers go wrong, he will admit their mistakes before the Committee and later on will be constrained to take disciplinary action against not only the punishing authorities but also their superior officers who failed to take sufficient cognisance of the mistakes.

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APPENDIX LIV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT 1954-55 VOLUME II.

MINISTRY OF FINANCE

SUBJECT.—*Prompt action against officers found guilty of misuse of Public money, reckless disregard of financial rules, extravagance and losses.*

Detailed instructions regulating the enforcement of responsibility for losses etc. have been laid down in Appendix 2 to the General Financial Rules, Volume II. The importance of avoiding delay in the investigation of any loss of Government money due to fraud, negligence, financial irregularity etc. on the part of Government servants has also been emphasised in Finance Secretary's D.O. letter to the Secretaries of all the Ministries of Government of India No. 118-SF/53, dated the 12th January, 1953. (See Annexure I). The Ministry of Home Affairs also, in their Office Memorandum to all the Ministries of the Government of India No. 39/40/52-Ests., dated the 24th October, 1953 (See Annexure II) issued instructions regarding steps to be taken for expeditious disposal of departmental proceedings against Government servants.

2. A copy of Defence Secretary's D.O. No. 111/Secy/53, dated the 13th March, 1953, in reply to Finance Secretary's D.O. of the 12th January, 1953, referred to in paragraph 1 above is also enclosed (See Annexure III) for the information of the Public Accounts Committee. The reactions of the Secretary, Finance Ministry, to the Defence Secretary's reply to the former's D.O. are given in the enclosure to this note. (Annexure IV).

ANNEXURE I

Copy of Shri K. R. K. Menon's (Secretary, Government of India Ministry of Finance) D. O. No. 118-SF/53, dated the 12th January 1953.

* * * * *

2. A number of cases have gone up before the Committee in which it was stated that action could not be taken against the delinquent officials because of the delay in making necessary enquiries in the matter and by the time their guilt was established they had either retired, died or left the country. The P.A.C. have, therefore, been extremely critical of the inadequacy of administrative action, particularly as clear procedural instructions exist enjoining on every Government officer to realise fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part, and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence (*vide* Rule 23 of the General Financial Rules Vol. I) Detailed instructions regulating enforcement of such responsibility are embodied in Appendix 2 to Vol. II of these rules.

3. I would, therefore, like to emphasize the importance of avoiding delay in the investigation of any loss of Government money due to fraud, negligence, financial irregularity, etc. Such cases should be reported immediately to the Audit Officer concerned so that his assistance can also be obtained in regard to the technical investigation of any case of losses. The Administrative Ministry and the Ministry of Finance should also be informed at the earliest moment so that effective remedial action may be taken in rectifying defective procedure etc. quite apart from the punitive action against those at fault. In any case in which it appears that recourse to judicial proceedings is likely to be involved, competent legal advice should be taken as soon as the possibility emerges. In all cases departmental proceedings should also be instituted at the earliest possible moment and concluded expeditiously in strict accordance with the prescribed rules. The question of enforcing pecuniary liability should always be considered as well as the question of other forms of disciplinary action. In particular, if the loss has occurred through fraud, every endeavour should be made to recover the whole amount lost from the guilty persons, and if laxity of supervision has facilitated the fraud, the supervising officer at fault should be penalised either directly by requiring him to make good in money an adequate proportion of the loss, or indirectly by reduction or stoppage of his increments of pay. Steps should also be taken to ensure that a Government servant concerned in any loss or irregularity, which is subject to any enquiry is not inadvertently allowed to retire on pension, while the enquiry is in progress; and accordingly, when a pensionable Government servant is concerned in any irregularity or loss the authority investigating the case should immediately inform the Audit Officer responsible for reporting on his title to pension and the authority competent to sanction pension. In all important cases which might figure in the Audit Report if a convention should be followed of consulting the Finance Ministry

also before awarding punishment to the delinquent officer some of the criticisms of the P.A.C. about inadequacy of departmental action may be obviated. The supplementary instructions contained in para. 8 of Appendix 2 to the General Financial Rules. Vol II referred to above should be followed by departmental officers wherever prosecutions in the criminal courts are or are likely to be necessary.

4. Even under rule 49 of the Civil Services (Classification, Control and Appeal) Rules, one of the penalties which may be imposed upon a Government servant is the recovery from pay of the whole or part of any pecuniary loss caused to Government by negligence or breach of orders.

5. As will be realised, suitable action against the delinquent officials can only be taken if the matter is pursued promptly. I, therefore, request that you will kindly take suitable steps to ensure that action against the delinquent officials is taken promptly and that Audit and the Ministry of Finance are brought into the picture without any delay.

ANNEXURE II

Copy of Government of India (Ministry of Home Affairs) Office Memorandum No. 39/40/53-Esta., dated the 24th October, 1953.

SUBJECT.—*Departmental Proceedings against Government Servants—Steps for expeditious and better disposal of—nomination of specified officers in the Ministries/Departments to be in charge of all disciplinary inquiries in the Ministry/Department.*

There have been repeated references in Parliament and in Parliamentary committees to the delays in the disposal of departmental proceedings against delinquent Government Servants, and to cases in which, on technical and procedural grounds, the accused persons ultimately escape the punishments they deserve. The general impression is that the prescribed procedure is too elaborate and requires to be replaced by something more simple and summary.

2. After careful consideration the Ministry of Home Affairs have come to the conclusion that this impression is not wholly justified. The procedure prescribed in Rule 55 of the Civil Services (Classification, Control and Appeal) Rules is applicable only to cases in which the charges are so serious as to call for one of the major punishments, i.e., Dismissal, Removal, or Reduction in Rank etc. (A more summary procedure is already available for less serious cases). The provisions of Rule 55 are merely designed to ensure compliance with a salutary principle of justice and public policy which has also been incorporated in article 311 of the Constitution of India viz. that no man should be condemned and punished without a reasonable opportunity to defend himself. The prescribed procedure therefore requires that the accused officers should be told in the form of written charges exactly what he is alleged to have done and on what evidence oral or documentary the allegations are based.

that he should have an opportunity to inspect the documentary evidences, to test the oral evidence by cross examination and to furnish such evidence as he may wish to adduce in his own defence. If, as a result of the enquiry, it is decided that the officer should be dismissed, removed or reduced in rank, he has to be given a further opportunity to show cause, if any, against the actual punishment proposed. Anything less than this would amount to a denial of the 'reasonable opportunity' which is guaranteed by article 311.

3. There is, however, nothing in these minimum requirements which must necessarily lead to unduly protracted proceedings or to a failure to secure just punishment to the guilty. The officer conducting a departmental inquiry has to hold the balance even between the interests of the State and the avoidance of injustice to the accused. He is free to take a responsible, reasonable and prudent view of the facts and circumstances of the case and is not bound by the rigid limitations regarding the admissibility of evidence and the degree of proof applicable to prosecutions before Criminal Courts. Provided the inquiry officer gives the necessary time and efforts, confines his attention to the main points at issue and firmly resists any attempt by the accused officer to introduce irrelevancies or to adopt deliberate dilatory tactics—there is no reason why satisfactory expedition in disposal should not be achieved in all cases without departing from prescribed procedure.

4. The various factors which may contribute to undue delays and faulty disposal are :—

- (i) Officers conducting the departmental enquiries may be so pre-occupied with other duties that they can only spare a few hours at a time at long intervals for the enquiry itself.
- (ii) Unfamiliarity with the procedure or inadequate appreciation of the difference between a departmental enquiry and a trial in a Criminal Court, may lead to over-elaboration, or lack of firmness in dealing with dilatory tactics.
- (iii) Avoidable delay may sometimes occur at the stage when the enquiry officer has submitted his report and the appropriate authorities have to make up their minds whether the findings are to be accepted and if so what the punishments should be.
- (iv) Where, under the rules, consultation with the Union Public Service Commission is necessary some undue delay may occur in making the reference to the Commission, and in the consideration of the case by that body.

5. As regards the factors mentioned in (i) and (ii) above the Ministry of Home Affairs have considered the feasibility of setting up separate Administrative Tribunals for enquiring into the more important departmental proceedings. Although such bodies have worked satisfactorily in the States of Uttar Pradesh and Madras, it is felt that Central Government's machinery is so vast and so widely scattered that a similar experiment will hardly justify the expenditure incurred. In cases of extreme complexity or importance it will

always be open to Government to set up special committees of enquiry or to have recourse to the Public Servants Enquiries Act, 1850. For all other departmental enquiries the delays caused by excessive pre-occupation or unfamiliarity with the procedure could be easily avoided by adopting the following measures :—

- (i) In each Ministry or Department a specified officer or officers of appropriate rank shall be nominated and earmarked for the purpose of conducting all the departmental enquiries arising within that Ministry/Department.
- (ii) As soon as occasion arises for taking up such an enquiry the nominated officer will be relieved of his normal duties to such extent as may be necessary to enable him to devote full and careful attention to the completion of the enquiry and the submission of his report. During this time the work of which the officer is relieved may be distributed amongst other officers.
- (iii) The nominated officers should familiarize themselves with the rules and essential procedural requirements and appreciate the difference between Departmental inquiries and trials in the Criminal Courts. The maintenance of close personal contacts with the Ministry of Home Affairs will enable them quickly to resolve any doubts or difficulties which may arise.

6. As regards the causes of delay mentioned in (iii) and (iv) of para 4, much improvement will be effected if, (a) it is impressed upon all concerned that both public interest as well as humanitarian considerations demand that no avoidable delay should occur in the disposal of disciplinary cases; and (b) any failure to give such cases due priority is itself regarded as a dereliction of duty and suitably dealt with.

7. As to the possibility of delay occurring in the consideration of a case and tendering of their advice by the Union Public Service Commission, the Ministry of Home Affairs are in correspondence with the Commission and they have every hope that satisfactory arrangements will be made to secure all possible expedition on the part of the Commission.

8. The Ministry of Finance/etc. are accordingly requested to take immediate action on the instructions contained in paras 5 and 6 above* * * *.

ANNEXURE III

Copy of D. O. letter from Shri H. M. Patel, Defence Secretary to Secretary (R & E), No. 111/Secy. 53 dated the 13th March, 1953.

Please refer to your D.O. No. 118-SF/53 dated the 12th January 1953 in which you referred to a recommendation of the Public Accounts Committee on the Appropriation Accounts for the year 1948-49.

So far as this Ministry is concerned, prompt action is taken wherever necessary against officials who are considered *prima facie* to be responsible for any loss or damage, and where loss or damage is caused by some faulty procedure, action is taken to remedy it. I do not, however, see that it is necessary to establish any convention as is suggested by you, to consult the Finance Ministry. The action will be of an administrative nature. It is difficult to see how Finance will be any more competent than the administrative Ministry to decide what punishment should be awarded. The administrative Ministry must be presumed to know and act in a responsible manner. In the Defence Services the cases are generally tried formally by courts-martial and action must, in such cases, be taken in accordance with the disciplinary Acts of the Services. I feel that so far as the Defence Ministry is concerned, the present system of dealing with these cases is adequate.

ANNEXURE IV

The Public Accounts Committee wanted the Ministry of Finance (a) to see that Ministries initiate necessary proceedings in each and every case in time and (b) to devise remedial measures against any defects that may have come to the notice of the Ministry of Finance in the course of investigations. Finance Secretary's D.O. letter of the 12th January, 1953, to other Secretaries stressed the importance of their dealing with these irregularity cases promptly and firmly. A suggestion was also made in that letter that the administrative Ministry could consult the Finance Ministry in advance regarding the action the former were proposing to take. This suggestion regarding the previous consultation with the Finance Ministry was not intended to be mandatory at all. It was a suggestion meant merely to enable the administrative Ministry to fortify its own position. If a particular Ministry did not find it necessary to avail of this method of fortifying itself, there was obviously no question of its disregarding any instructions issued in Finance Secretary's D.O. referred to above. There really was intended to be no instruction or direction of any sort on this particular point. The Defence Secretary's reply simply means that he does not wish to avail of this method which was offered for the consideration of the Secretaries of all the Ministries of the Government of India. He has given a fairly good reason for it too— though, in fact, he need have given no reason at all viz. that the Defence Services cases of loss, damage, etc. are tried formally by Courts-Martial, and the disposal of such cases, including the award of punishment, is governed by the Army Act. This does not mean that the Finance Ministry are absolved from performing the two functions emphasised by the Public Accounts Committee and mentioned at (a) and (b) at the commencement of this paragraph.

Grants for Development Schemes

R21. An important point that engaged the attention of the Committee during the examination of the Ministry of Finance was that there did not exist an adequate machinery at the Centre for ensuring that the Grants made to the State Governments etc. for Development Schemes were properly utilized by them for the purpose for

which these were intended. The Committee feel that while the responsibility for spending properly the monies allocated by the Centre or the scrutiny of individual items of expenditure should rest with the State Governments concerned, the Central Government should conduct broad checks to see that the objectives with which such allocations are made to the State Governments are achieved as intended and within the targets laid down. The Committee hope to re-examine the whole position after going through a note which the Comptroller and Auditor-General promised to incorporate in the next audit report. (See also P.A.C. Third Report 1952-53, R4.)

Copy of paragraph 20 of the Central Government Audit Report (Civil) 1952 Part I.

Audit of Central Grants for Development

20. The Development Grants given to the State Governments since 1945 by the Central Government, as a part of post-war Five Year Plan, were discontinued with effect from 1950-51. From 1951-52 grants are made for specific development purposes to State Governments as part of the Five Year Plan. The accounting and audit arrangements of these grants are given below :—

The expenditure on the development schemes is initially incurred by the State Governments from their own revenues. This expenditure is subject to usual audit by the Accountant General, as in the case of other expenditure incurred by the State Governments. Only so much of the audited expenditure as is incurred on schemes approved by the Government of India, is then reimbursed by the Accountant General to the State Government concerned by debit to the Central Government. This ensures that the Grant from the Centre is actually spent by the State Governments on the objects for which it was sanctioned.

NOTE.—See P.A.C. 1944-45, R86 (Epitome Volume I).

Procedure for communication of draft paragraphs for the Audit Reports on Missions abroad to the Ministries.

R-22. (i) The Committee came across some cases of irregular expenditure incurred in the Office of the High Commissioner for India in the U.K. The Ministry of External Affairs, which is expected to be in executive charge of the various Embassies and Missions abroad, expressed ignorance when questioned on facts mentioned in these cases. The Comptroller and Auditor-General stated that he would in future arrange to send copies of all draft paragraphs of Audit Reports relating to the High Commissioner's Office to the respective Ministries for verification of facts, with a copy to the High Commissioner.* * * *

Financial powers of the High Commissioner.

R-22(ii) * * * *The Committee desire to have a detailed note outlining the financial powers at present enjoyed by the High Commissioner and whether any of the powers delegated to the Old India

Office had been withdrawn and also whether the High Commissioner in the U.K. was exercising the same powers as were vested in the Ambassadors serving in other countries (*See also P.A.C. Seventh Report 1952-53 Volume I, R 16*)

APPENDIX VI TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I

MINISTRY OF EXTERNAL AFFAIRS

Note showing the revised financial powers contemplated to be delegated to the High Commissioner for India in the United Kingdom, as also the measures proposed to be taken to tighten up the internal financial control in his organization.

The financial powers enjoyed by the High Commissioner at present are set out in annexure 'B', Chapter 4 of the G. F. R. Volume I, which is briefly summarized below. The High Commissioner may :—

(1) create temporary posts—

- (i) for any specified period or for an indefinite period terminable at a week's or a month's notice, if the consolidated pay of the post does not exceed £400 a year; and
- (ii) for not more than 3 months, if the consolidated pay exceeds that limit but does not exceed £650 a year;

(2) reduce the pay of a temporary post or increase it within the limit of £400 a year ;

(3) sanction the grant of superannuation allowance to officers on his own permanent establishment, who have duly qualified for such allowances, under such conditions and at such rates as are laid down in the Superannuation Acts for similar service under the British Government ;

(4) sanction within the limit of his budget allotment expenditure on—

- (i) contingencies, including the purchase of articles required for his office ;
- (ii) grants-in-aid to Indian students, or contributions to educational and other institutions conducive to Indian interests;

(5) sanction the writing off of irrecoverable losses incurred in the discharge of functions under his administrative control or of overpayments which owing to lapse of time or for special considerations he considers it unreasonable to recover ;

(6) sanction re-appropriation within his budget under 'External Affairs';

2. These powers were delegated to him under the old orders of the Government of India. Other diplomatic Missions were established much more recently, and it was not considered necessary or desirable to delegate the same financial powers to them. The question of modifying financial powers of the High Commissioner is under consideration, in the light of the limited powers delegated to other Heads of Missions* * *

3. * * * It may be stated that the Indian High Commission in London is a very large organization charged with responsibility for a number of extradiplomatic functions. It is responsible for the purchase of stores, the care of Indian students, and for a great many other "agency" functions, which were formerly performed by the Secretary of State for India. For all this work the High Commission has to maintain a large establishment. Its position is, therefore, not really comparable with that of any other Indian Mission abroad. It would not be proper to curtail the High Commissioner's powers without full examination of the case and without considering his views. It is also most unlikely, for the reasons given above, that it will be possible to reduce the High Commissioner's powers to the same as those of other Heads of Missions.

4. To ensure adequate financial control, an officer nominated by the Ministry of Finance is stationed in the High Commission to serve as Financial Adviser. The duties and functions of the Financial Adviser are set out in Annexure II. Although this officer is under the administrative control of the High Commissioner and functions directly as an officer of the Finance Ministry only in respect of the India Stores Department, the procedure prescribed for consultation with the Financial Adviser and for the resolution of a disagreement between the High Commissioner and the Financial Adviser on a matter of importance is expected to ensure that due importance is attached to the Financial Adviser's advice. At present this post is held by an officer of Deputy Financial Adviser's status. It is now being considered how the post should be manned, having in mind the fact that the incumbent will not only be required to render financial advice to the High Commissioner but may also be called upon to advise and act on a wide range of economic matters.

ANNEXURE II

Duties of the Financial Adviser to the High Commissioner for India in the United Kingdom.

He will advise the High Commissioner on all general questions of expenditure, finance, currency, banking and allied matters affecting India which may be referred to him, and will, whenever required by the High Commissioner, attend meetings and participate in discussions relating to these matters on behalf of the High Commissioner or Government of India as the case may be.

2. He will, subject to such general orders as the High Commissioner may issue, keep the Ministry of Finance (External Finance Division) regularly informed of all important developments in respect of the matters mentioned at 1 above.

3. He will scrutinise all proposals for expenditure for which specific sanction of the Government does exist, and advise the High Commissioner or his officers, as the case may be, on the propriety of incurring the expenditure.

4. He will render financial advice to the High Commissioner or his officers, also on proposals for expenditure other than those mentioned at 3 above, it being understood that the High Commissioner may decide by general or special orders what proposals must be referred to the Financial adviser, and what proposals need not be.

5. He will also function as *ex-officio* Deputy Secretary in the Expenditure Division of the Ministry of Finance in so far as the India Stores Department, London, is concerned.

6. He will be subject to the administrative control of the High Commissioner.

7. The High Commissioner will generally be guided by the Financial Adviser's advice; but in case where he disagrees with the Financial Adviser, it will be open to him to suspend further action pending reference to the Ministry of External Affairs, with a full statement of the case, for orders, or he may take such action as he deems necessary in anticipation of Government's approval, and then report to India with a full statement of the case.

8. In regard to the Financial Adviser's duties at 5 above, he will work as a unit of the Ministry of Finance, and when reference to the Ministry of Finance in a particular case, due to the importance of the subject matter or difference of opinion between the Financial Adviser and the India Stores Department or the High Commissioner, becomes necessary, he will make such reference through the High Commissioner.

Working and Audit of State sponsored Corporations.

R24. The Committee discussed with the representatives of the Ministry of Finance the propriety of transferring governmental activities to private Corporations—e.g. Indian Telephone Industries, Bangalore, which had been formed into a Joint Stock Company, but capital of which had been invested by the Mysore and the Central Governments. The Committee feel that if such concerns are run independent of the control of Government or Parliament there is a danger that public money might be frittered away in frivolous investments. The Committee therefore consider that for the reasons indicated by them in paragraphs 8 and 104 of their report for 1950-51, State sponsored Corporations should be regulated by Statutes of Parliament and their finances subjected to audit by the Comptroller and Auditor-General and scrutiny of the Public Accounts Committee. While it is recognised that the day to day administration of

a business concern should be regulated somewhat differently from ordinary public administration for which purpose it may be formed into an autonomous or semi-autonomous body it is important that such a body does not transgress the recognised rules of financial propriety and there is strict check over the public money which has been invested in such concerns (See also P.A.C. Third Report 1952-53. R. 5).

NOTE.—See P.A.C. 1947-48 (Post-Partition) R 8.

Prompt action on irregularities reported in the Audit Report.

R26(i) * * * The Committee would expect that whenever irregularities are mentioned in the Audit Report, action to rectify them is taken in advance of their consideration by the Committee so that the Committee are informed of the final position and not merely told that the matter would be looked into.

* * * * *

The Public Accounts Committee for 1952-53 (Seventh Report 1952-53 page 168) were informed that the Ministries had noted the recommendations.

Purchase of a car by High Commissioner without prior sanction of Government.

R26. (iv) * * * Regarding the purchase of a motor car by the High Commissioner for India in the U.K. from a senior official returning from U.S.A. without having obtained prior sanction of the Government of India, it was deposed before the Committee that the transaction was intended to help the officer in getting an advance. The Committee feel that the advance should have been given in the manner prescribed under the rules and with the sanction of the competent authority and the rules themselves should not have been circumvented in the way it was done. The Committee consider that the Ministry of External Affairs should instruct the High Commissioner for India in the U. K. to observe strictly the rules in future.

The Public Accounts Committee for 1952-53 (Seventh Report 1952-53 page 178) were informed that the necessary instructions were issued to the High Commissioner for India in London who had noted the recommendations for future guidance.

Principles for the recovery of charges on account of work done for State Governments, Private Bodies, etc.

R31. In the working of the commercial undertakings such as the Central Tractor Organisation, all factors that tend to raise the working cost, e.g., increase in the pay and allowances of the staff, depreciation charges etc., should invariably be kept in view while enforcing recoveries from private bodies, State Governments etc. on account of the work done or services rendered. In case the accepted commercial principles are infringed, the officers concerned should be held responsible for loss of public money resulting from short recovery from those to whom services are rendered or supplies made.

The Public Accounts Committee for 1952-53 (Seventh Report) 1952-53, Vol. I page 196) were informed that so far as the Railways are concerned the relevant provision exists in the Engineering and Mechanical Codes of the State Railways for the levy of all elements of cost of work done for other Departments and private bodies and that the other Ministries had noted the recommendation.

Loss due to change in specification after placing of orders

R.33. * * * If in any case it becomes necessary to change specifications after orders have been placed, the financial effect of such changes in specifications should be taken into account before a decision is arrived at. In any case, it should be ensured that by changing the original specifications, there is no undue loss to Government. The Committee also endorsed the suggestion of the Comptroller and Auditor-General that there should be a close co-ordination between the indenting and purchasing Ministries. (See also P.A.C. Seventh Report, 1952-53 R. 27).

The Public Accounts Committee (Seventh Report 1952-53, Vol. I page 184) for 1952-53 were informed that all the Ministries had noted the recommendation.

Audit of Grants-in-aid paid by the Government of India to the Central Universities

R36. During the course of examination of the accounts relating to the Ministry of Education, the Committee were told that Government were contemplating to bring forward before Parliament a measure regulating control over the grants paid to the Universities and the conduct of audit thereof through the agency of the Comptroller and Auditor-General of India. The Comptroller and Auditor-General informed the Committee that his own feeling in this matter was that in consonance with the provisions of the Constitution, he should, under the proposed arrangements, submit his Audit Reports to the President who should cause them to be presented to Parliament. The Committee agreed with this view of the Comptroller and Auditor-General and desired that Government should carefully consider the matter and clearly define the powers and responsibilities of the Comptroller and Auditor-General in so far as the audit of the finances of the Universities was concerned without impinging upon the autonomous character of the Universities as conferred upon them under the various Statutes.

P100. * * * * * The Comptroller and Auditor-General informed the Committee that the accounts of some of the Universities in the States were already subject to audit by 'consent arrangements'. * * * (See also P.A.C. Fifteenth Report 1954-55 Volume I, R-43).

APPENDIX XXXVII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I

Copy of letter No. F. 43-2/52-G. 3., dated the 11th November 1952 from the Government of India, Ministry of Education to the Chairman and Members of the Public Accounts Committee.

SUBJECT:—Audit arrangements for the Central Universities.

At the meeting of the Public Accounts Committee held on the 29th of October 1952, the Committee desired that a memorandum should be submitted on the question of audit of the accounts of the Central Universities by the Comptroller and Auditor-General of India and the presentation of the report to Parliament. I am accordingly directed to submit the following facts for the information of the Committee.

2. At the time of amending the Acts of incorporation of the Central Universities at Banaras, Aligarh and Delhi in 1951 and 1952, it was suggested by the Comptroller and Auditor-General of India that the audit report on the accounts of the Central Universities should be submitted to Parliament. The suggestion was considered in consultation with the Ministry of Law who held that it was not necessary that the Comptroller and Auditor-General should submit his report to the President or that the accounts of the University be placed before Parliament as they are not Government accounts. It was also noted that Parliament would have an opportunity of discussion in connection with the voting of grants to the Universities. Accordingly, provision was made in the Acts of incorporation of the Banaras Hindu University, the Aligarh Muslim University and the Delhi University for the submission of the report of the Comptroller and Auditor-General to the Visitor of these Universities who is the President of India. This arrangement will enable the Government of India to advise the Visitor whether specific action on the audit report is called for and also enable Government to ensure that the financial affairs of the University are efficiently managed, without in any way impairing the autonomy of Universities.

3. The point of view of the Comptroller and Auditor-General was raised in Parliament in the debate relating to the amendment of the Banaras Hindu University Act by means of an amendment to the relevant clause to provide that the "Report of the Comptroller and Auditor-General shall be submitted to the Visitor, who shall cause it to be laid before each House of Parliament". After a full discussion, this amendment was rejected by the House. It will be seen from the enclosed extracts of the relevant Sections as adopted by Parliament that the accounts of the Central Universities, when audited, are to be published in the official gazette and that a copy of the accounts together with the auditor's report is to be submitted to the Visitor (the President of India).

4. An extract of the relevant provision in the Visva-Bharati Act, 1951, is also appended. The accounts of the University are to be audited "according to the directions of the Central Government" and

copies of the audited accounts and audit report are to be submitted to the Paridarsiká (visitor) who is also the President of India. It is understood that the audit of the University's accounts has been entrusted to the Accountant General, West Bengal.

Copy of Section 13 of the Banaras Hindu University Act, 1915.

13. Audit of Accounts.—*(1) The Accounts of the University shall, once at least in every year and at intervals of not more than fifteen months, be audited by the Comptroller and Auditor-General of India.

(2) The accounts, when audited, shall be published in the Official Gazette and a copy of the accounts, together with the Auditor's report, shall be submitted to the Visitor.

*Vide Section 9 of the Banaras Hindu University (Amendment) Act, 1951.

Copy of Section 35 of the Allgarh Muslim University Act XL of 1920.

35. Annual Accounts.—(1) The annual accounts and balance sheet of the University shall be prepared under the direction of the Executive Council, and shall once at least every year and at intervals of not more than fifteen months be audited by the Comptroller and Auditor-General of India.

(2) The annual accounts when audited shall be published in the Official Gazette and in the local official Gazette, and a copy of the accounts together with the report of the Comptroller and Auditor-General shall be submitted to the Visitor.

(3) The annual accounts and the financial estimates shall be considered by the Court at its annual meeting, and the Court may pass resolutions thereon and communicate the same to the Executive Council which shall take such action thereon as it thinks fit.

Copy of Section 39 of the Delhi University Act of 1922.

39. Audit of Accounts.—(1) The accounts of the University shall, once at least in every year at intervals of not more than fifteen months, be audited by the Comptroller and Auditor-General of India.

(2) The accounts, when audited, shall be published in the Official Gazette and a copy of the accounts together with the audit report shall be submitted by the University to the Visitor.

Extracts from the Visva-Bharati Act No. XXIX of 1951 and the First Statutes of the University.

* * * * *

Section 36. Annual Accounts.—(1) The annual accounts and balance-sheet of the University shall be prepared under the direction of the Karma-Samiti (Executive Council), and shall be submitted to the Central Government.

(2) The audit of the accounts of the University shall be carried out according to the directions of the Central Government.

(3) Copies of the audited accounts together with copies of the audit report, if any, shall be submitted to the Samsad (Court) and to the Paridarsaka (Visitor).

(4) The annual accounts and the financial estimates shall be considered by the Samsad (Court) at its annual meeting, and the Samsad (Court) may pass resolutions thereon and communicate the same to the Karma-Samiti (Executive Council) which shall take them into consideration and take such action thereon as it thinks fit or inform the Samsad (Court), when no action is taken, of its reasons therefor.

Verification of facts included in the Audit Reports

R37. The Committee noticed a tendency on the part of some Ministries to refute the facts embodied in the Audit Reports which are, as the Committee were told by the Comptroller and Auditor-General, included therein after the statement of facts had been verified by the Executive. This procedure is designed to prevent a subsequent waste of time of the Public Accounts Committee or Parliament owing to any disagreement on facts. Ministries are expected to send their comments on facts within a time limit prescribed by the Comptroller and Auditor-General. The Committee agree with the Comptroller and Auditor-General that it is his duty to call the attention of Parliament through the Public Accounts Committee to any facts which appear to him to indicate an improper expenditure or waste of public money, and it necessarily follows that, for the performance of his duty satisfactorily, he is fully justified in asking the department for its explanations as may be proper. The Committee strongly disapprove of the failure of certain officials to co-operate with the Audit Department in the timely verification of facts proposed to be incorporated in the Audit Report and subsequent attempts on the part of the representatives of the Ministries to contradict any statement contained in the Audit Reports at the time they appear before the Public Accounts Committee. This can only impede the work of the Committee and defeat the object of Audit and Parliamentary control.

The Public Accounts Committee, 1952-53 (Seventh Report, 1952-53, Volume I, Page 169) were informed that the Ministry of Finance have noted the observations of the Committee.

APPENDIX IV TO THE PUBLIC ACCOUNTS COMMITTEE'S SECOND REPORT 1951-52

Copy of Railway Board's Letter No. 51-B-2498, dated the 18th April 1951 to the General Managers, All Indian Railways.

SUBJECT.—Delays in meeting audit requirements.

In this connection attention is invited to Board's letter No. 46-B-2498/3, dated 21st May 1946 (copy reproduced below for ready reference) wherein it was very clearly stated that within 6 weeks of the receipt of an audit para. from the Chief Auditor a Railway Administration should complete the verification of the facts in, and the scrutiny of, the draft paragraph and send a reply to the Chief Auditor.

Copy of Railway Board's letter No. 46/B/2498/3 dated the 21st May, 1946 to the General Managers of Indian Government Railways.

2. As the immediate spending authority to whom the Chief Auditor originally presents the draft para. for possible inclusion in the Audit Report is the General Manager of the administration concerned, it has been decided that the time limit of six weeks should count from the date the draft para. is received by the Railway Administration from the Chief Auditor. It is, therefore, imperative that, within six weeks of the receipt of an audit para. from the Chief Auditor, a Railway Administration should complete the verification of the facts in and the scrutiny of the draft paragraph and send a reply to the Chief Auditor. Necessary instructions to implement this decision without fail should be issued to the departments of the administration concerned.

APPENDIX III TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT, 1952-53 VOLUME I

Ministry of Works, Housing and Supply Office Order No. Budget-(2)/52, Dated 17-12-1952.

* * * *

6. *Audit paras.—*

(i) Cases which audit considers it necessary to be brought to the notice of the Public Accounts Committee either on account of the large amount or the principle involved are embodied with the audit comments in the Appropriation Accounts and Audit Report. These are published documents which are scrutinised by the Public Accounts Committee. It is the responsibility of the executive including this Ministry to defend the subjects mentioned in the audit

paras. from the administrative point of view. Before the cases are actually included in the audit report, the Audit Officers refer the proposed draft paras. to the Ministry for acceptance both as regards the facts of the case and the audit comments thereon. These paras. should in the first place be sent to the Budget Branch which will enter them—in a register and then mark them to the branches administratively concerned. The Budget Branch will carefully watch through this register the efficient disposal of these paragraphs. The administrative branches will examine the audit paras. from their point of view, suggest amendments where necessary, considering the defence that we have to put up to the Public Accounts Committee eventually, and, after approval of the disposal, in draft stage, by the Branch Officer, send the case to the co-ordinating Budget Branch which will thoroughly and critically scrutinise the audit comment and the draft reply and submit the case to Joint Secretary or Secretary. It has been decided that, before the reply is finalised and sent to audit, the Budget Branch will send the case to the Ministry of Finance (I. & C. Division) for their remarks or advice. Thus the Ministry of Finance will be associated in the disposal of the audit paras right from the beginning. This is a slight departure from the existing practice under which we bring in the Ministry of Finance only when we are unable to persuade the audit of our views on the subject. This departure enables the Ministry of Finance to come into the picture straightaway. Reply to audit regarding the draft para. should be issued only after the case has been seen in the Ministry of Finance and the draft reply is approved by the Budget Branch.

(ii) It should be remembered in the disposal of audit paras. that having regard to the facts of the case we should be able to justify our action before the Public Accounts Committee at a later date. It is, therefore, necessary that suitable action should be taken by us not only on the irregularity pointed out, if it is established, but also to prevent a recurrence thereof. It should be our endeavour to convince audit of the adequacy of action taken by us and suggest amendments to the para., where necessary to clearly bring out in the para. itself that we have taken the requisite action so that the work of the Public Accounts Committee may also be lightened when they scrutinise the audit para. eventually. This will naturally save a lot of time when the briefs for defence are prepared.

* * * * *

Expeditious disposal of Audit Notes

R-38. The Committee reiterate the recommendation made in para. 9 of the Report of the Public Accounts Committee for the year 1950-51 in regard to the expeditious disposal of Audit Objections and Audit notes. The Committee further suggest that the Ministry of Finance should issue instructions requiring the Financial Advisers attached to the various Ministries to call for quarterly statements showing the progress made in the disposal of audit objections pending in the various Ministries and their attached and subordinate Offices and to see that they are replied to in time. The Executive Officers should also, while inspecting the subordinate offices, make it a point to enquire about the disposal of audit objections and the improvements effected in the procedure as a result thereof.

P. 152. * * * * * *Disposal of Inspection Reports and Objections.*—This para. revealed large number of outstanding objections involving over a crore of rupees, some of which were as old as 1942-43. The Committee while stressing the necessity for the expeditious clearance of those objections suggested that the representatives of the Ministry of Finance and the Accountant-General, Central Revenues should together clear up all the outstandings on the spot. It was stated by the representative of the Ministry of Finance that they had already issued necessary instructions in the matter to all the Ministries. As general directions or circulars of this nature were not found to be very effective, it was suggested that in order to expedite matters, the Finance Officers accredited to the various Ministries might ask for lists of outstanding objections from the Ministries periodically and also examine the reasons why the outstandings had not been cleared up. If necessary, they should be asked to render necessary assistance to the Ministries in the clearance of the arrears and ensure that the objections were answered in time.

APPENDIX VII TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTH REPORT 1952-53 VOLUME I

Copy of Railway Board's Letter No. 52-B-2498 Pt. 21, dated 9th July 1952 to the General Managers, Indian Railways and Chittaranjan Locomotive Works.

SUBJECT:—*Disposal of Audit Objections.*

* * * * *

In this connection, attention is invited to the previous recommendations of the Public Accounts Committee in the matter embodied in the Board's letter No. 46-B-2498/3, dated the 21st May 1946, the Board desire that you should impress upon your heads of department and their subordinate officers the necessity and importance for expending disposal of Audit objections and for keeping your F.A. & C.A.O., fully informed of the progress in the disposal of Audit objections. The proposal made in the concluding sentence of the recommendations, viz., enquiry about the disposal of the Audit objections during the inspection of the subordinate offices by Executive Officers, should also be arranged to be implemented.

No. 52-B-2498 Pt. 21, DATED 9TH JULY 1952.

Copy forwarded for information to the F.A. & C.A.O., Indian Railways and Chittaranjan Locomotive Works and Director, Railway Clearing Accounts Office. Arrangements should be made, if they are not already in force, for watching the disposal of the Audit objections through the monthly or periodical progress reports submitted by the different branches and through the half yearly arrear reports. In the half yearly arrear reports submitted to the Board, the position in regard to the disposal of Audit inspection reports and Audit notes should be dealt with.

**APPENDIX CIV TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT 1954-55 VOLUME II****MINISTRY OF FINANCE**

SUBJECT.—*Prompt disposal of audit objections*

The procedure that has been devised to ensure prompt disposal of audit objections is laid down in the Finance Ministry's Memorandum No. F. 27(7)/EGI/53, dated the 29th June, 1953 and Office Memorandum No. F.27(7)/EGI/53, dated the 19th December, 1953. (See Annexures I and II). It is briefly explained below.

2. According to this procedure, audit will send their objections to the appropriate Ministries and will also compile and forward to each Ministry a list of objections which are outstanding against the Ministry for more than six months. A copy of the list will also be sent to the Ministry of Finance for information. It will be the duty of the administrative Ministry to arrange for prompt action being taken to settle outstanding objections, if need be, in consultation with their accredited Finance. As far as possible, periodical discussions will also be held between administrative Ministry and the Audit Officers concerned to facilitate prompt settlement of audit objections. As regards audit objections relating to the various offices under a Ministry, the A. G. concerned will send periodical returns to the Ministry showing the offices which have failed to clear the audit objections, the number of such objections and the period for which such objections have been outstanding with each office. On the basis of this information from the A. G. concerned, the administrative Ministry will see that necessary action is taken by the offices concerned under it to settle the outstanding objections expeditiously. The administrative Ministries have also been requested to maintain a register containing the items of outstanding objections as reported by the audit authorities both in respect of the Secretariat proper and the attached and subordinate offices thereunder and indicating the progress of action taken on each item.

3. The returns containing audit objections outstanding for over six months will be furnished by the Audit half-yearly in the manner described below :

- (a) All old items which are settled in a half-year will be omitted and new items added in the next half-year. In respect of old items which remain unsettled at the time of the issue of the next return, only a reference to the return in which the items were originally included will be given.
- (b) The half-yearly statements will be compiled Office or Department-wise in duplicate.
- (c) Action required to be taken against each item of the statement will be indicated in the return.
- (d) Returns will contain relevant details such as particulars of objections (which are outstanding for over 6 months), period to which they relate, money value of the objections and replies of the administrative authorities together with their latest reference etc.

Each Ministry will, as a rule, obtain periodical returns from its own Branches and Sections and Attached and Subordinate Offices, showing the particulars of outstanding objections and reasons for their non-settlement, so that the Ministry concerned may check up those returns with the returns received half-yearly from the Audit and take such action as may be necessary in the circumstances of each item. The Ministries will also intimate to Audit half-yearly the progress of settlement of the audit objections as communicated by their Branches and Sections and Attached and Subordinate Offices.

4. The above procedure has had the concurrence of the Audit Authorities also.

ANNEXURE I

Copy of Government of India, Ministry of Finance (Department of Revenue and Expenditure), Memorandum No. F. 27(7)-E.G.I./53, dated the 29th June 1953.

SUBJECT.—Prompt disposal of Audit objections

The Public Accounts Committee have commented on the inordinate delay on the part of both the Ministries and their attached and subordinate offices in replying to audit objections and have suggested that effective steps should be taken to secure prompt disposal of such objections both in the Secretariat proper and outside. The following procedure is therefore laid down.

So far as the Ministries proper are concerned the Audit will send their objections to the appropriate Ministries and will also compile and forward to each Ministry quarterly a list of objections which are outstanding against that Ministry for more than six months. A copy of this list will also be sent to the Ministry of Finance for information. It shall be the duty of the administrative Ministry to arrange for prompt action being taken to settle the outstanding objections, if need be in consultation with the accredited Joint Secretary (Finance). Efforts to hold periodical discussions between the Administrative Ministry and the Audit Officers concerned will facilitate quicker settlement of audit objections. Special care should be bestowed in respect of such objections as involve the possibility of recurring loss unless quick remedial action is taken.

In regard to audit objections relating to the various offices under a Ministry, under the present procedure, it will not be possible for the Ministry to ensure that every audit objection has been dealt with promptly by the offices concerned as the audit objections are sent to the offices concerned and not to the Ministry. With a view to enabling the Ministry concerned to see that prompt replies are sent to audit, periodical returns to the Ministry showing the offices which have failed to clear the audit objections, the number of such objections and the period for which such objections have been outstanding with each Office will be sent by the Accountant General concerned quarterly. On the basis of the information from

the Accountant General, the Administrative Ministry should ensure that necessary action is taken by the offices concerned under it to settle the outstanding objections expeditiously.

Government attach great importance to the implementation of the above procedure. Suitable action should be taken by the Ministries and their attached and subordinate offices to ensure strict compliance with the above procedure. The administrative Ministries are requested to maintain a register containing the items of outstanding objections as reported by the audit authorities both in respect of the Secretariat proper and the attached and subordinate offices thereunder and indicating the progress of action taken on each item. The register will be open to inspection periodically by the accredited Financial Adviser to the Ministry concerned.

ANNEXURE II

Copy of Government of India, Ministry of Finance, Office Memorandum, No. F. 27(7)-E.G.I./53, dated the 19th December 1953.

SUBJECT.—Prompt settlement of Audit Objections

A reference is invited to the Ministry of Finance Memorandum of even number, dated the 29th June 1953, and to say that, it has now been decided in consultation with the Accountant General Central Revenues, to modify the existing procedure as indicated below :—

2. The returns containing Audit Objections outstanding for over six months will, in future, be furnished by the Audit half-yearly, and not quarterly, in the manner described below :

- (a) All old items which are settled in a half-year will be omitted and new items added in the next half-year. In respect of old items which remain unsettled at the time of the issue of the next return, only a reference to the return in which the items were originally included will be given.
- (b) the half-yearly statements will be compiled Office or Department-wise in duplicate.
- (c) Action required to be taken against each item of the statement will be indicated in the return.
- (d) Returns will contain relevant details such as particulars of objections (which are outstanding for over 6 months), period to which they relate, money value of the objections and replies of the administrative authorities together with their latest reference etc.

3. Each Ministry should, as a rule, obtain periodical returns from its own Branches and Sections and Attached and Subordinate Offices, showing the particulars of outstanding objections and the reasons for their non-settlement, so that the Ministry concerned may check up those returns with the returns received half-yearly from the Audit and take such action as may be necessary in the circumstances of each item.

4. The Ministries should intimate to the Audit half-yearly the progress of settlement of the Audit Objections as communicated by their Branches and Sections and Attached and Subordinate Offices.

5. Subject to the modifications indicated in the preceding paragraphs, the procedure outlined in this Ministry's Memorandum of even number dated the 29th June, 1953, will continue to be in force.

Note.— See P. A. C. 1926-27, R. 33 Epitome Vol. I, and P.A.C. 1947-48 (Post-partition) R 9 of this volume.

Responsibility of Central Government for agricultural development

R 43. The representative of the Ministry of Food and Agriculture explained to the Committee why the roseate picture of the working of the Grow More Food Schemes as outlined in the report placed before the Committee by the Ministry could not be reconciled with the actual food situation which had worsened in some of the States. The Committee feel that the Central Government should not take direct responsibility in matters of agricultural development which had better be left to the charge of the State Governments concerned and desire that this question should be considered by the Finance Commission.

The Public Accounts Committee for 1952-53 (Seventh report 1952-53, Vol. I page 186) were informed that the Ministry of Food and Agriculture had noted the recommendation.

Air Travel by the Ministers

R 45. With reference to the observations made in paragraph 22(c) of the Audit Report, 1950, the Committee were informed that the rules regulating the chartering of planes by the Ministers and other Officers of the Government of India had since been framed. A copy of such rules was also furnished to the Committee and after going through them, the Committee consider that the following provision contained therein was open to abuse : —

“In case a Minister certifies that it is necessary for the purpose of his visit on Government duty to take any other person with him that person too will be treated as an ‘entitled person’.”

The Committee are of the view that Government is not competent to regulate such matters under Executive Orders, and suggest that it would constitutionally be a proper course if they are regulated by legislation. Government should, therefore, introduce necessary legislation in the matter as early as possible.

The Committee also place on record their disapproval of the action taken to waive the recovery of the amounts due from two Ministers who were responsible for allowing some non-entitled persons to travel with them on certain journeys.

**APPENDIX XXXVI TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIRST REPORT 1951-52**

MINISTRY OF FINANCE

Rules for the chartering of Aeroplanes

A. By Hon'ble Ministers—

1. An Hon'ble Minister may on his own authority and subject to the provisions of Rules 2 and 3 sanction the chartering of an aeroplane for a journey required to be undertaken by him in the public interest. Subject to the provisions of these rules being observed the concurrence of the Ministry of Finance may be presumed.

2. An aeroplane may not be chartered for a journey between two points connected by a regular air service, unless in the opinion of the Hon'ble Minister it is necessary in the Public interest to travel by a chartered plane instead of by the regular service. The reasons for chartering a machine in such cases shall be recorded in writing and a copy of the same communicated to Audit.

3. As soon as a journey by air is decided upon, the Hon'ble Minister should communicate his requirements to the Hon'ble the Defence Minister with a request that one of the planes included in the Royal Indian Air Force Communications Flight may be made available to him. It is only if such a plane is not made available that a copy of the Hon'ble Minister's orders together with the names of the entitled persons (whose number should be kept to the absolute minimum) accompanying the Hon'ble Minister should be communicated to the Director General, Civil Aviation, who will thereupon arrange to charter an aeroplane of the smallest capacity available sufficient to accommodate the entitled persons undertaking the journey. In chartering the plane the Director General, Civil Aviation should see whether any other Minister can make use of the plane.

NOTE.—For the purpose of this Rule an "Entitled Person" means a Government servant who is entitled to travel by air under S. R. 48-B and who is required by the Minister to travel on duty with him in a chartered plane. It has been decided that a Private Secretary, a Personal Assistant and Jamadar and/or a private servant accompanying an Hon'ble Minister on duty in a chartered plane will be treated as entitled persons. Any officer required to travel with Hon'ble Ministers under the rules for the protection of their persons will also be treated as entitled person.

In case a Minister certifies that it is necessary for the purpose of his visit on Government duty to take any other person with him that person too will be treated as an "entitled person".

4. An Hon'ble Minister may subject to no additional expenditure being caused thereby to Government, take a non-entitled person with him in a chartered plane on payment to Government of a first

class full or half railway fare, as the case may be, and in the case of a journey between two stations not connected by rail but connected by a regular air service, one or half standard air fare as the case may be. In case no regular air service exists the fare should be calculated at the rate of 4 annas per air mile.

5. *Communication of sanctions to audit.*—A copy of the order sanctioning the chartering of the machine shall be endorsed to the Accountant General, Central Revenues, indicating therein that no plane of the Royal Indian Air Force Communications Flight was available for that journey. The sanction should indicate the purpose of the journey and the names of the entitled persons required to travel by the aeroplane. In cases falling under Rule 2 the sanction should be accompanied by the requisite certificate from the Hon'ble Minister. A certificate that the plane actually chartered was the smallest available with reference to the number of entitled persons and that the rates charged are correct shall be recorded on the bill for hire charges by the Director General, Civil Aviation before it is sent to the Accountant General, Central Revenues for payment. The bill should be accompanied by the Air company's list of passengers who travelled by the chartered plane.

B. By other Officers of the Government of India—

1. Each proposal for the chartering of an aeroplane must come up to Finance Ministry for sanction. The proposal should indicate the purpose of the journey, the reasons for chartering an aeroplane and the number of entitled persons who are to travel by the chartered plane.

2. As in the case of the Hon'ble Ministers, chartering will be arranged by the Director General, Civil Aviation "who will as far as possible combine the requirements of officers travelling in the same direction on the same day".

3. The Head of the Department concerned may, subject to no additional expenditure being caused thereby to Government, permit a non-entitled person to travel by the chartered plane on payment to Government of a full or half first class railway fare as the case may be, and in the case of a journey between two stations not connected by rail but connected by regular air service one or half standard air fare as the case may be. In case no regular air service exists the fare should be calculated at the rate of 4 annas per air mile.

4. The rule regarding communication of sanctions and arrangements for check and payment of bills will be the same as in the case of Hon'ble Ministers.

*The Public Accounts Committee for 1952-53 (Seventh Report 1952-53 Vol. I page 186) were informed by the Ministry of Home Affairs that the Salaries and Allowances Bill, 1952 has already been passed by the House of the people. * * **

Section 11 of Salaries and Allowances of Ministers Act, 1952 provides that.—(1) The Central Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act. (2) All rules made under this Act shall be laid before both Houses of Parliament as soon as may be after they are made.

Payment of fees to High Court Judges

R. 46. The Committee fully endorse the views expressed by the Comptroller and Auditor-General in paragraph 24(p) of the Audit Report 1950 that it is improper to grant any emoluments to Judges not provided by law. The Committee were glad to learn that Government had accepted the views of the Comptroller and Auditor-General. In the opinion of the Committee payment of fees to the Judges of the Supreme Court or High Court or any other Court or to other Officers who are independent of the Executive Government, viz., the Members of the Union Public Service Commission, Chief Election Commissioner, etc. is likely to lead to undermine the independence of such authorities which is so essential for the proper discharge of the high duties entrusted to them under the Constitution. The Committee consider that any attempt to repeat the instance brought out in the Audit report should be deprecated.

P 92. ***** The Committee felt that it was improper to grant extra emoluments to the High Court Judges not provided by law and that the emoluments of the Judges should be regulated by law and not by executive orders. The representative of the Ministry of Home Affairs informed the Committee in this connection that the preparation of a legislation on the subject defining the extent to which Judges of High Courts should carry out functions not directly associated with their purely judicial work in the High Courts was in process. He agreed with the Committee that it should be a cardinal principle that a High Court Judge should not look up either to the Government or to a private party for any reward for his services. He assured the Committee that the conclusions reached by Government would be more or less the same as those stated by the Committee.

APPENDIX LXXXII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I

MINISTRY OF HOME AFFAIRS

2. * * * * *In so far as the recommendation refers to payment of fees and honoraria to Judges of the Supreme Court or High Courts, this Ministry entirely agrees with the view expressed by the Committee. In fact, this Ministry has issued instructions to the State Governments under intimation to the Comptroller and Auditor-General and other audit authorities, to ensure :

- (i) that no payment of honoraria or other remuneration should be made to a Judge of a High Court for performing additional functions outside his normal duties, whether judicial or non-judicial, and

- (ii) that in no circumstances a Judge of a High Court shall act as an arbitrator, whether in cases pending before him or in private matters.

These instructions are to apply *proprio vigore* to Judges of the Supreme Court, to whose notice they have been brought.

3. The recommendation of the Committee refers to payment of fees and honoraria to other officers who are independent of the Executive Government viz., Members of Union Public Service Commission, Chief Election Commissioner etc. Of such officers, this Ministry is concerned with the Members of the Union Public Service Commission who are neither paid nor entitled to fees or honoraria.

4. In view of what has been stated above, the recommendation of the Public Accounts Committee as contained in para. 46 of their report, does not appear to call for any further action.

Secret Service Expenditure

R 47. * * * * * The Committee feel that in order to tighten control over Secret Service Expenditure, the Minister of Home Affairs should countersign such certificates after satisfying himself that the check conducted by the Home Secretary has been properly and adequately carried out. It is he who is ultimately responsible for the administration of the Fund to Parliament and it is logical that he should have more direct knowledge of the expenditure and its propriety before he gives an assurance to Parliament that the money spent has been properly accounted for.

The Public Accounts Committee for 1952-53 (Seventh Report Vol. I page 187) were informed that the Ministry of Home Affairs had considered the proposal of the Committee very carefully and it had been decided that the proposal cannot be accepted.

NOTE.— See P. A. C. 1944-45, P 14 and 95 (Epitome Volume I).

Revision of the Classification, Control and Appeal Rules

R 48. The Committee discussed at some length with the Home Secretary the desirability of amending as early as possible the existing Classification, Control and Appeal Rules, in order to ensure that prompt disciplinary action was taken against Government servants responsible for committing breaches of discipline, irregularities, etc. There is ample evidence that the present elaborate procedure is very procrastinating and it results in affording more protection to a bad Government servant. It was also distressing to know that the U.P. S.C. took several months to consider the disciplinary cases referred to them. In order to put down existing evil or to avoid its spread, it is necessary that prompt action is taken and summary methods are adopted as any undue delays in such cases may tend to undermine the morale of the Government servants as a whole. The Committee attach considerable importance to maintaining the highest integrity of character among Government servants and at the same time to dealing with cases of bad character promptly and in a ruthless manner. The Home Secretary stated before the Committee that a small

Committee consisting of a few Senior Secretaries of the Government of India had been appointed to consider the question of simplifying the existing procedure for dealing with such cases. It was added that they had also in view a proposal to appoint an Administrative Tribunal on the lines of the one existing in the U.P. or Madras to deal with disciplinary cases. The Committee suggest that the process of simplifying the existing procedure should be expedited so that such cases are dealt with expeditiously and Government servants maintain a proper standard of efficiency, honesty, integrity of character and impartial outlook. The Committee desire that as soon as the Report of the Special Committee is ready, a further Memorandum suggesting measures for remedying the situation should be submitted to the Committee by the Ministry of Home Affairs. (See also *P. A. C. Seventh Report 1952-53 Volume I, R. 37*).

APPENDIX XVII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I

MINISTRY OF HOME AFFAIRS

MEMORANDUM

Revision of Classification, Control and Appeal Rules

The Public Accounts Committee desired that the question of simplifying the existing procedure regulating disciplinary action against Government servants under the Classification, Control and Appeal Rules should be examined and suggestions, made in order to ensure that such cases are dealt with expeditiously. In their informal consultations the majority of the officers on this Committee agreed with the conclusion already reached by the Ministry of Home Affairs, after careful consideration, viz., that it was neither possible nor desirable to simplify the existing procedure or to make it more summary. There is nothing in the minimum requirements of the principles of natural justice and public policy which are embodied in the procedure prescribed in Rule 55 of the Classification Rules and which have received statutory recognition in Article 311 of the Constitution, which must necessarily lead to unduly protracted proceedings or to a failure to secure just punishment to the guilty officers. The procedure prescribed in these provisions is applicable only to cases in which the charges are so serious as to call for one of the major punishments, i.e., dismissal, removal or reduction in rank etc. A more summary procedure is already available for less serious cases. It will be observed that the various factors which have been found on examination to contribute to undue delay and faulty disposal of disciplinary cases have been examined and explained in the office memorandum on pages 65-67 and suggestions for measures to be taken for overcoming the difficulties arising from these factors have been enjoined on those authorities for meeting the situation.

2. The feasibility of devising other measures for meeting the situation, e.g., setting up of separate administrative tribunals of enquiry has also been examined. Although such tribunals have been set up in the States of U.P. and Madras, it is felt, for the reasons explained in paragraph 5 of the office memorandum (on pages 65-67), that the expenditure that would have to be incurred if a similar

experiment were to be tried in the Central Government's machinery could not be justified. It is considered that a reasonable trial should first be given to the measures which have now been enjoined in the above office memorandum and the results should be watched for a reasonable period, before the question of setting up other machinery for this purpose is further pursued.

NOTE.—See P. A. C. 1946-47, R 1 and P 40 and 1947-48 (Prepartition R 2) (Epitome Volume I).

Losses in the publication of the All India Radio Journals

R 49. The Committee viewed with great concern the losses sustained in the publication of the various Radio Journals as revealed in the Commercial Appendix to the Appropriation Accounts (Civil) 1948-49. It might be considered whether by making a nominal increase in the Radio Licence Fee, and in lieu thereof, supplying a copy of the Journal (published in one of the Regional languages) *gratis* to the licensee, a portion of the losses at present sustained will be met. (See also P.A.C. Seventh Report 1952-53 Volume I, R-44 and Sixteenth Report 1955-56 Volume I, R-90.)

APPENDIX XXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I

The proposal was discussed at the Station Directors' Conference held in March 1952 and the unanimous sense of the Conference was that it was unworkable. The question was again discussed at a meeting held on the 7th July 1952, with the representative of Finance, Controller, Printing and Stationery, A. I. R., Publications Division and Advertising Branch. It was the unanimous opinion at this meeting that even the slightest further increase in the Radio License fee would be highly unpopular and would evoke strong protests which the free supply of programme journals will fail to mitigate. It was also felt that the cost of production of 8 lakhs or more copies of the journal would be far too high for anything like a token rise of the license fee to make up for. As an undertaking too, the production of a weekly, with a mailing list so gigantic, would be well-nigh impracticable. Besides, language and other difficulties would also beset the enterprise. The proposal was consequently not recommended for implementation.

Commercialisation of the accounts of the All India Radio

R 50. The Committee were alarmed to learn that the working results of the A.I.R. showed a net loss of Rs. 91,87,502 in the year 1948-49 against Rs. 57,45,720 in 1947-48. In the light of these continuing and increasing losses, Government should examine urgently the suggestion made by the Public Accounts Committee of 1945-46 that the accounts of the All India Radio should be commercialised. * * * * * The Committee would like that the results of the consideration and examination of these suggestions are placed before them as early as possible.

APPENDIX XXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I

The question whether All India Radio as a whole should be treated as a "Service Department" has been under consideration of the Government in the past. At present, however, the Directorate General the Research Department and the Monitoring Service at Simla are treated as "Service Departments" and the remaining offices of All India Radio as 'Commercial undertakings'.

The proposal to treat 'News Services Division' and 'External Services Division, as Service Departments is under consideration. If the proposal is adopted, the loss to All India Radio will be reduced by about 29—30 lakhs. The remaining loss (about 30—31 lakhs on the basis of 1950-52 figure) is likely to be met as soon as the target of 1 million radio licences is reached. Every effort is being made to reach this target quickly.

NOTE.—See P. A. C. 1945-46, P 70 (Epitome Volume I).

Election Commission

R 51. During the course of the evidence tendered before the Committee, the Secretary, Ministry of Law stated that that Ministry was administratively concerned with the running of election. The idea of setting up the Election Commission under the Constitution was to secure its independence from political influence and even Governmental interference. The Committee are anxious that the independence of the Commission should be safeguarded and no Ministry of the Government should normally act as a supervisory administrative authority over its affairs.

The Public Accounts Committee for 1952-53 (Seventh Report, Vol. I, page 189) were informed that the Ministry of Law had noted the recommendation.

Ports and Pilotage

R 55. The Committee noted that the expenditure under the head 'Ports and Pilotage' was more than the receipts. In order to arrive at a balanced account, the Committee suggest that the Ministry should consider in consultation with the Accountant General, Central Revenues and the other Accounts Officers concerned the question of separating the Accounts under the head 'Ports and Pilotage' in such a manner that the commercial side is exhibited separately from the purely administrative side i.e., separate Accounts should be prepared for the various Heads, viz., Shipping Officers, Mercantile Marine Department. Training Ship, etc. It is also suggested that Government should consider the desirability of so regulating the pilotage charges, shipping charges, etc., that the deficit is wiped off and this Department made self-supporting.

First Report 1951-52**APPENDIX LXXVI TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53 VOLUME I***Separation of Accounts under the Head "Ports and Pilotage"*

In Para. 94 of their Report on the Central Civil Accounts of 1937-38, the Public Accounts Committee desired that, in order to ascertain how far the expenditure on "Ports and Pilotage" was covered by fees, a statement should be included in the Appropriation Accounts indicating the total receipts as against the expenditure under this head, excluding the items relating to the Dufferin, and the grant-in-aid to the Visakhapatnam Port. The A.G.C.R. accordingly has been preparing a separate statement of receipts and expenditure by different circles of accounts under "Ports and Pilotage" and appending it to his Appropriation Accounts (Civil). The Public Accounts Committee who examined the Appropriation Accounts for 1948-49 have remarked * * * * * as follows:—

- "(i) Government should consider the question of separating the accounts under the head "Ports and Pilotage" in such a manner that the commercial side is exhibited separately from the purely administrative side. It should also consider the desirability of so regulating the pilotage charges, shipping charges etc., that the deficit under this head is wiped off and the "Ports and Pilotage" Department made self-supporting.
- (ii) The Ministry should examine the question of reducing the charges under the head "Ports and Pilotage" especially on the Hooghly. The Committee should be apprised of the result of the examination made by the Ministry on this point."

2. It may be mentioned here that until 1948 the "Ports and Pilotage" budget included the receipts and expenditure relating to the Bengal Pilot Service which was then administered directly by the Government of India. The receipt of the Service arose from pilotage dues recovered under section 35 of the Indian Ports Act and, as the intention was that, as far as possible, the Service should be self-supporting, proforma accounts of the Service were maintained on a commercial basis (although actually the receipts were credited to Government Funds and the expenditure paid directly from General Revenues) and these accounts were submitted to the Bengal Pilot Service Advisory Committee and to Government. The administration of the Bengal Pilot Service was transferred to the Commissioners for the port of Calcutta in 1948 and since then there has been no expenditure on account of this Service debitable to Central revenues. This was the only part of the Ports and Pilotage which related to a commercial service.

3. It is observed that the 1937-38 Report of the P.A.C. mentions that in including a statement indicating the total receipts against expenditure under the head "Ports and Pilotage", the item relating to "Dufferin" need not be taken into account. This is presumably because "Dufferin" is a training institution and the only source of its revenue is from the fees recovered from the Trainees and there is no possibility of adjusting the revenue to cover a large proportion of the expenditure without running the risk of the quality of candidates offering being affected. Since 1948, the Government of India have started the Nautical and Engineering College and the Marine Engineering Training Scheme and this year it is proposed to start a

Marine Engineering College in Calcutta, and the remarks made in the case of the "Dufferin" apply in the case of these institutions also. Similarly, the Government of India have been maintaining since 1950 two Training Ships for the training of ratings for the merchant navy and, as the course of training is entirely free, there is no question of making the institutions self-supporting. The expenditure of all these institutions is included in the 'Ports and Pilotage' budget.

4. As regards the other organisations whose expenditure is charged to the "Ports and Pilotage" budget, the position briefly is as follows :

Directorate General of Shipping

This was set up in 1949 in Bombay and the Offices of the Controller of Indian Shipping, the Technical Officers, the Seamen's Welfare Directorate and the Lighthouse Department headquarters were all absorbed in the new organisation. This organisation has been entrusted with all the administrative work arising from the heading "Maritime Shipping and Navigation" and the expenditure is entirely on administrative charges and no part of its functions are of a commercial nature.

Mercantile Marine Department

This department has three offices under a Principal Officer at each of the major ports of Calcutta, Bombay and Madras and a small organisation at Visakhapatnam under a Ship Surveyor. The main functions of the department are :—

- (i) Survey and inspection of ships and
- (ii) the holding of examinations for Certificates of Competency in the Mercantile Marine.

The first of these functions arises from the acceptance by the Government of India of the International Convention concerning Landlines and the International Safety Convention, the necessary statutory provisions concerning which have been incorporated in the Indian Merchant Shipping Act, 1923. The second function arises from the provisions in Section 15 of the Indian Merchant Shipping Act which authorises the Central Government to hold examinations for various Certificates of Competency specified in the Act. The income of the Mercantile Marine Department arises from the following items :—

- (i) Survey fees.
- (ii) Examination fees.
- (iii) Recoveries from State Governments.

The survey fees are usually fixed on the basis of the corresponding U.K. fees at an approximate equivalent of Rs. 15 per pound, as it is desirable that the rates of survey fees should be uniform, as far as possible, in this country and the other Commonwealth countries. The scope for increasing these fees is limited. It is, however, proposed to consider increasing the rates of fees when the new Safety Convention is ratified later this year.

The examination fees are nominal and are also based on corresponding fees in the U.K. The total income from this source is very limited and there is not much possibility of increasing it, as it will cause some hardship to the candidates.

A substantial proportion of the cost of the Mercantile Marine Department in the various Districts is recovered from other departments or Governments. For instance in West Bengal half the cost of the Ship Survey Department and the cost of one full Engineer and Ship Surveyor are recovered from the West Bengal Government in consideration of the fact that the department deals with the State Government's work connected with the administration of the Inland Steam Vessels Act. Similarly in Bombay 8 per cent. of the cost of the department is recovered from the State Government for the same reason. In Madras, an annual contribution of about Rs. 16,000 is recovered from the Lighthouse Department as the Principal Officer, Mercantile Marine Department, Madras, also functions as the Superintendent, Lighthouses. A similar recovery is also made in respect of the Mercantile Marine Department, Calcutta, from the same source. A separate post of a Superintendent of Lighthouses, has however been created at Madras and the Principal Officer at that port will be relieved of the additional work on account of Lighthouse administration.

Although, as stated above, there are certain recoveries those are of an inelastic nature and any undue increase in the rates beyond those prevailing in other countries will lead to protests from the shipping industry. It is mentioned for information that in the United Kingdom under the Fees (Increase) Act, 1923, the principle adopted is that the fees recovered under the Merchant Shipping Acts should be so adjusted that the aggregate amount produced by the fees should be approximately one half of the expenditure. It will also be seen that no part of the functions of the Department can be regarded as being of a Commercial nature.

Shipping Offices.—The main functions of the Shipping Offices are specified in Section 8 of the Indian Merchant Shipping Act and the most important of these functions is to superintend and facilitate the engagement and discharge of seamen in the manner provided in the Act. The Shipping Offices also perform various other functions in relation to seamen which arise from various provisions in the Act and also from certain International Labour Conventions which the Government of India have ratified. Since the beginning of the War, the work of the Shipping Offices increased considerably on account of the administration of various War Compensation Schemes and in the post-war period, although this work shrunk considerably, there has been a large addition to their work arising from various new schemes like the Medical Examination Scheme, placing of Trainees from the Rating Training Ships, issue of identity certificates, registration of effective seamen, etc.

The revenue of the Shipping Offices is derived from the following items :—

- (a) Shipping and discharging fees.
- (b) Fines and forfeitures.
- (c) Sale of forms for overtime fees.

The rate of 'shipping and discharge' fees is prescribed in Schedule I to the Act and the total income from this source is more or less limited. It is not considered feasible to increase the rate at

present as since 1950 Government recover a fee of Re. 1 per seaman engaged on account of the Medical Examination Scheme and the Indian Merchant Shipping Amendment Act, 1949, which provides for the setting up of Seamen's Employment Offices, also provides for a separate levy from the shipowners.

The income from the sale of forms is limited as, having regard to the comparatively low income of seamen, the price of various forms has been fixed on a non-profit basis to cover the cost of printing. Similarly recoveries on account of fines are also limited as these have to be admissible under Section 112 of the Act. Overtime fees are recovered from Shipping Companies whenever the Shipping Office staff are required to do work outside office hours or on holidays and, under the existing orders, a proportion of the fees is credited to Government. This is not an item which could be regulated by Government orders and it is not considered desirable to increase the rates at present.

It will thus be seen that the functions of the Shipping Offices are also not of a commercial type and it would not be feasible to increase the fees etc., to augment the revenue but the general position is that approximately 50 per cent. of the expenditure is at present covered by receipts.

5. Another organisation working under the Ministry of Transport is the Seamen's Welfare Organisation which is maintained by the Ports and Pilotage budget. There is a Principal Seamen's Welfare Officer at Calcutta and a Seamen's Welfare Officer at Bombay having a small office each. The welfare work at Madras is looked after by the Principal Officer, Mercantile Marine Department, Madras. There are also Welfare Organisations in U.K. and Australia to look after the welfare of Indian Seamen. The functions of these officers are as follows :—

- (i) To render every assistance to Merchant Seamen such as provision of Medical facilities etc.
- (ii) To provide accommodation ashore, recreational and educational facilities, etc.
- (iii) To act as liaison between employer and employees, employers and Government, employees and Government, Shipping Offices and Seamen.
- (iv) To visit boardships with a view to looking after the comforts and amenities, etc. for seamen.
- (v) To organise and administer Seamen's clubs and canteens, and
- (vi) To enquire into the grievances of seamen and to look after their general welfare.

The welfare of seamen also figures in the international field and the Government of India have in common with other countries to look after the general welfare of seamen. No fees are levied by the Seamen's Welfare Officers and the Organisation is entirely financed from General Revenues.

6. The question of making the Mercantile Marine Department etc., more self-supporting was exhaustively considered in 1933 and it was then decided :

That on grounds of principle as well as of practical expediency, no attempt should be made to make the Department entirely self-supporting. Following the U.K. practice, we should attempt to secure an estimated income equal to one half of the total expenditure incurred.

The principle of making the Mercantile Marine Department self-supporting was thus not accepted at that time and there has been no change in the position since then to justify a different decision at present.

7. In view of the position stated above, it is not possible to split the expenditure of the "Ports and Pilotage" into "administrative" and "commercial" expenditure, but there would be no difficulty in continuing to show the total receipts and expenditure of each District, as has been done hitherto. It is accordingly proposed that the existing arrangements should be continued and the approval of the Public Accounts Committee obtained thereto.

Accounts of Port Trusts

R 56. The Comptroller and Auditor-General informed the Committee that he was looking into the relevant Acts relating to the Port Trusts in order to see whether the Audit Reports on their accounts should be submitted to Parliament so that it may have an opportunity of appraising their financial position. A report on the subject should be submitted to the Committee in due course.

Copy of Comptroller and Auditor General's note on the subject forwarded to the Ministry of Finance under his U.O. No. 1254-Admn. II/136-52, dated the 27-8-1953.

The Port Trusts of Madras, Bombay and Calcutta have for a long time been subject to audit by Auditors appointed from time to time by Government. The Audit was entrusted in practice, on a consent basis to the local Accountants General under the Comptroller and Auditor-General of India. The Audit Reports were required to be published in the local Government Gazettes. The Bombay, Calcutta and Madras Port Trusts' Act have been amended in 1951 whereby the accounts are required to be audited by the Comptroller and Auditor General of India at such times and in such manner as may be determined by him. The Audit Reports are now to be forwarded to the Central Government and to the Port Trusts which usually thereupon cause the accounts to be published in the local Governments' Gazettes. The only difference made by the amendment is that Government have no option in regard to the appointment of the Auditor but in practice there is no change since the accounts were always audited by an officer of the Comptroller

and Auditor-General. The Comptroller and Auditor-General has suggested in certain other connection, e.g., the State Industrial Finance Corporations Act, that where he is required by an Act of Parliament to undertake the audit of a Corporation or a Statutory body it would be in the fitness of things that he should report to the President or the Head of the State as the case may be, and that provision should be made for placing a copy of the Audit Report on the table of the Legislature. This view was accepted by Parliament in connection with the States Industrial Finance Corporation. Similar provision has not been made in the case of the Port Trusts and the Comptroller and Auditor-General intends to press his point of view. There is no point in invoking the high authority of the Comptroller and Auditor-General for audits which have not been so far obligatory and yet risk his reports receiving scant consideration from the Corporations and the Statutory bodies.

Contributions to Renewal Reserve Fund (Posts and Telegraphs)

R 65. The Committee were glad to know that the Posts and Telegraphs Department had accepted the recommendations made in para. 75-P of the report of the Public Accounts Committee for the year 1945-46 for the appointment of a Committee to determine the average life of the assets of the P. & T. Department so as to evolve a scientific and rational basis for contribution to the Renewals Reserve Fund in accordance with the accepted commercial practice. Further action in the matter should be expedited and the findings of the Committee proposed to be constituted in this connection and the decisions of Government on such findings should be placed before the Committee in due course.

**APPENDIX LIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
TENTH REPORT 1953-54, VOLUME II**

MINISTRY OF COMMUNICATIONS

(Post & Telegraphs Department)

No. B. 27-23/53.

Dated, New Delhi, the 7th December, 1953.

Note regarding the recommendations of the 'J. J. Committee' set up to determine the average lives of assets of the P. & T. Department for evolving a scientific basis for contribution to the Renewals Reserve Fund in the P. & T. Department.

The Public Accounts Committee in their meeting held on the 9th November, 1953 desired that a note should be submitted to them summing up (a) the broad recommendations of the 'J. J. Committee' which was set up to determine the average lives of the assets of the P. & T. Department for evolving a scientific and rational basis

for contribution to the Renewals Reserve Fund in accordance with the accepted commercial practice, and (b) the action taken thereon by the Government of India. This note is accordingly submitted.

2. A. 'Depreciation Reserve Fund' for the P. & T. Department was established on the 1st April, 1925 when the accounts of the Department were put on a commercial basis. The annual contribution from Revenue to this Fund was regulated on the 'Sinking Fund' principle with reference to the assumed lives of wasting assets, the interest earned on the balances in the Fund being also credited to it.

This arrangement was reviewed, by the P. & T. Accounts Enquiry Committee in 1931 and, on their recommendation, annual contributions to the Fund were made on the straightline method, interest on the balances in the Fund being credited to Revenue.

Later, however, Government felt that it would be more in accordance with the needs of sound financial administration to have a Renewals Reserve Fund than a Depreciation Reserve Fund and, accordingly, the Fund was changed to a Renewals Reserve Fund with effect from the 1st April, 1936. Annual contributions to this Renewals Reserve Fund were fixed on an *ad hoc* basis from year to year, on broader considerations of the amount likely to be required annually for the rehabilitation of assets and the amount of the Capital at charge.

3. When the P. & T. Appropriation Accounts for the year 1945-46 were examined by the Public Accounts Committee on the 24th September, 1949, the Auditor-General drew their attention to a suggestion made by his predecessor in September, 1947 to the effect that a Committee consisting of an Engineer and an Accounts Officer should be set up to determine the average lives of the assets of the Department so as to evolve a scientific basis for determining the contribution to the Fund in accordance with the accepted commercial practice. It was explained by the Department that it had not been possible to constitute such a Committee owing to the problems created by the Partition and shortage of suitable officers for serving on it. This was accepted by the Public Accounts Committee and in para. 75 of their Report relating to the year 1945-46, they observed that in view of the large accumulated balances in the Fund, the matter was not one of very great urgency and that it might be left over for the present, with the stipulation that it should again come up before the Committee in the report for subsequent years.

This question came up again before the Public Accounts Committee at their meeting held on the 12th January 1951. It was stated by the Comptroller and Auditor-General that he did not regard the position as 'satisfactory'. The Committee desired that a uniform policy should be evolved by all Ministries for allocating contributions to such Funds constituted by them and recommended that a detailed examination of the matter should be undertaken by a committee of experts.

Accordingly, a Committee, consisting of Shri Jagdeesh Prasad (Director of Telegraphs) as Chairman and Shri J. C. Sen (Deputy Accountant-General, Posts & Telegraphs) as Member, was constituted in December, 1951. The Report of this committee, which is known as 'J. J. Committee', was received in September, 1952.

4. Recommendations of the 'J.J. Committee', and the action taken thereon.

The main recommendations of the 'J. J. Committee' and the action taken thereon are summarised below :—

Recommendations	Action taken
1	2
<p>(a) <i>Lives of various classes of assets and their residual values.</i></p> <p>The lives of the various classes of assets and their residual values as recommended by the 'J. J. Committee' are contained in Annexure II.* The present lives and residual values are also indicated therein. The Committee recommended enhanced lives in most of the cases. The Committee recommended that no residual values need be fixed except in the cases of Copper or bronze wire and workshop plant and machinery.</p>	<p>The P. & T. Board in their meeting held on the 8th July, 1953 accepted the recommendations of the Committee subject to certain amendments in respect of the residual values of certain classes of assets. These amendments are indicated in column 7 of the statement given in Annexure II.* The matter is now under the consideration of Government.</p> <p>The A. G. P. & T., whose remarks were invited, expressed the view that it would be necessary to fix residual values for almost all the assets.</p>
<p>(b) <i>Scientific basis for contribution to the Renewals Reserve Fund.</i></p> <p>(i) <i>Method of Contribution.</i></p> <p>The Committee discussed at length the relative merits and demerits of the 'Sinking Fund' and the 'Straight Line' methods and came to the conclusion that the Straight Line method would be the most suitable for the reasons stated below:—</p> <ol style="list-style-type: none"> (1) It is the simplest; (2) As compared to the Sinking Fund method, it provides a larger sum, if replacement of assets, in special circumstances, required to be made before the expiry of the full life of the asset; (3) It is recommended by the Council of Institute of Chartered Accountants and also by eminent authorities on the subject. (4) It is almost universally in vogue in the United States and Canada; and 	<p>(b). (i) to (v). The recommendations of the Committee have been accepted by the P. & T. Department. As suggested by the Accountant-General, Post and Telegraphs, the recommendations are being referred to the Comptroller and Auditor General, before a final decision is taken by Government. Meanwhile, an increased provision of Rs. 100 lakhs on account of contribution to the Fund has been made in the Budget for the current year against Rs. 75 lakhs in the last year.</p>

- (5) It is also adopted by the British Post Office.

The Committee recommended that the interest on the balances in the Fund should, following the usual practice, be credited to the revenues of the Department.

- (ii) *Relationship of provision for Depreciation to future requirements.*

The Committee came to the conclusion that the annual contribution to the Fund has nothing to do with future rehabilitation but relates solely to the past; that is to say, it is intended for extinguishing the capital sunk in the past and not for replacement of the asset in future. Accordingly, the Committee recommended the name of the Fund being changed to 'Depreciation Reserve Fund'.

- (iii) *Opening of detailed heads of accounts.*

The Committee observed that in order to calculate the amount of annual contribution, detailed heads corresponding to the different classes of assets should be opened in accounts, similar to those which existed prior to 1936.

- (iv) *Value of existing assets under the new detailed heads.*

The Committee observed that the existing Block Account is maintained according to certain groups of assets and not in accordance with the various classes of assets for which separate lives have been assessed by them. They, therefore, recommended that in the absence of records to facilitate the task, the existing Block Account should be recast under the new detailed heads to be opened to correspond with the various classes of assets, on a rough and ready basis indicated by them.

- (v) *Amount of Contribution.*

On the basis of the above recommendations, the Committee worked out that the amount of contributions to the Fund for the year 1951-52 should be Rs. 109 lakhs. It is not, however, necessary to make good any possible short contributions in the past by any additional contribution now.

**APPENDIX XIV TO THE PUBLIC ACCOUNTS COMMITTEE'S
TWENTY-SECOND REPORT 1956-57
MINISTRY OF COMMUNICATIONS**

(Posts & Telegraphs)

No. B. 31-1/53.

Dated at New Delhi the 4th May, 1956.

SUBJECT.—*Method of contribution to the Renewals Reserve Fund of the P. & T. Department*

In order to regulate the contribution to the Renewals Reserve Fund, the Public Accounts Committee recommended in Para 75 of their Report relating to the year 1945-46 that a Committee consisting of an Engineer and an Accounts Officer should be set up to find out the average life of the assets of the P. & T. Department so as to evolve a scientific basis for contribution to Renewals Reserve Fund in accordance with the accepted commercial practice. In para 40 of their Report on the accounts of 1947-48 (Post partition), the Public Accounts Committee desired that a uniform policy should be evolved by all Ministries for allocating contributions to such funds constituted by them and that this matter should be regarded as urgent and gone into thoroughly by a Committee of experts. Accordingly under the orders of the Government of India, a committee consisting of a Director of Telegraphs as Chairman and an Officer of the I. A. & A. S., in the Grade of D.A.G., as member, was constituted in December 1951, with the following terms of reference:—

- (i) to examine the existing system of annual contributions to the Renewals Reserve Fund of the P. & T. Department and the principles governing expenditure from the Fund and suggest any modifications that may be considered necessary in order to place them on a more scientific basis;
- (ii) to conduct a general survey of the existing assets of the Department (including those taken over as a result of integration of States) and review the prescribed lives and residual values and the various classes of assets with a view to seeing whether any revision is necessary; and
- (iii) to examine the present rules of allocation of expenditure between Capital, Renewals Reserve Fund and Working Expenses and suggest such changes as are considered necessary.

2. The Committee, known as 'J. J. Committee' recommended that the Renewals Reserve Fund should be changed to Depreciation Reserve Fund and contributions thereto should be based on the

lives of assets on the 'straight line' method. The Comptroller and Auditor-General has not agreed with these recommendations for the following reasons :—

- (i) As what is required in the P. & T. is a Reserve Fund, adequate enough to meet the entire cost of Renewals of like by like, it is appropriate to describe such a Fund as Renewals Reserve Fund rather than Depreciation Reserve Fund and it is this initial error in the nomenclature of the Fund, that led the 'J. J. Committee' to suggest an altogether inappropriate method of contribution.
- (ii) The 'J. J. Committee's recommendations will put the clock back to the pre-1936 period when the then annual contribution had an appearance of being more scientific and still had to be abandoned in favour of contribution to a Renewals Reserve Fund.
- (iii) The reasons that prompted the Government in 1936 to abandon the system of contribution to a Depreciation Reserve Fund on the 'straight line' method as stated above, would seem to operate with equal force even today.
- (iv) In a period of rising costs, a Depreciation Reserve Fund based on original cost of the assets may be wholly inadequate to meet the cost of replacements.
- (v) When the replacement cost exceeds the original cost, considerable amount of detailed accounting with consequent risk of misclassification, will entail when the costs are allocated between Capital and Depreciation Reserve Fund.
- (vi) The time and trouble involved in setting up a Depreciation Reserve Fund by a complicated process would hardly be commensurate with the results achieved.
- (vii) The J. J. Committee's suggestion that the Depreciation Reserve Fund should bear the cost irrespective of the amount of all replacements of 'like by like', has defeated the very object of exploring a scientific method of providing for depreciation.
- (viii) The recommendation for the taking over of the existing balance to the new Depreciation Fund would mean that the balance in the new Fund would have no direct connection with the remaining lives of the existing assets.
- (ix) It is unwise under the present day conditions, to be theoretical and academic on such questions and to invoke commercial principles in evolving the pattern of administration.

3. The Comptroller and Auditor-General has therefore suggested that :—

- (i) The Renewals Reserve Fund should be continued with the balance standing at its credit;

- (ii) A fixed contribution of Rupees one crore should be made annually for a period of 5 years. At the end of this period, the whole position should be reviewed with reference to the credits in the Fund and the average out-go over this period;
- (iii) The 'improvement element' in replacing assets should not be capitalised. The replacement of assets should be entirely charged to Renewals Reserve Fund; and
- (iv) The interest on the Renewals Reserve Fund should be credited to the Fund.

4. The matter has been further considered in consultation with the Comptroller and Auditor-General and it has been decided that:—

- (i) The Renewals Reserve Fund should be continued with the balance standing at its credit;
- (ii) With effect from 1956-57, a fixed contribution of Rs. 1.25 crores should be made to the Fund annually for a period of 5 years, from the revenue of the P. & T. Department.
- (iii) The interest on the balance at the credit of the Renewals Reserve Fund should be credited to the Fund with effect from 1956-57.*

5. Government orders on the J. J. Committee's recommendations in respect of items (ii) and (iii) of para 1 *supra*, and Comptroller and Auditor-General's recommendations in item (iii) of para 3 *supra* will be issued separately.

NOTE.— See P. A. C. 1940-41, P82, 1941-42, R14; 1943-44, P94; 1944-45, P26 (3rd sub-para.), 1945-46, P75 (Epitome Volume I) and 1947-48 (Post-Partition) P40 of this Volume.

Postal Life Insurance Organisation

R 69. The Committee desire that consequent on its transfer from the Audit Department to the Posts and Telegraphs Department under the Ministry of Communications, the Postal Insurance Organisation should be run on commercial lines and that a balance sheet in respect thereof duly countersigned by the Audit Officer concerned appended to the Commercial Appendix to the Appropriation Accounts. The Committee also recommend that it should not be run as an ordinary Government department but on sound business lines.

Presence of the representatives of the Ministries at the Meetings of the Public Accounts Committee

R 72. The Committee would like to reiterate the recommendations made by the Committee of 1943-44 in Para. 57 of their Report (Proceedings portion) that the Secretaries to the Ministries or Heads of Departments should invariably appear before them at the time of the examination of the Accounts relating to their Ministries or

Departments. The Financial Advisers accredited to the Ministries should also appear in person and not depute their subordinate officers.

The Committee while appreciating the assistance rendered to them in the examination of the accounts by the Secretaries and other Officers of the various Ministries and Departments who appeared before them, wish to observe that some of them were not thoroughly prepared and lacked full knowledge of the working of their Ministries and Departments, should be fully conversant with control. The Committee desire that the Secretaries of the Ministries and Heads of Departments, on whom the final and undivided responsibility rests for the efficient and proper administration of their Ministries and Departments, should be fully conversant with and properly briefed on the various matters concerning their Departments so that when they appear before the Committee they are more helpful in the expeditious disposal of their work.

P 87. The Committee then proceeded to examine the Accounts relating to the Supreme Court. It, however, observed with regret that the Registrar of the Court could not appear before them as he was on leave and a junior officer had been deputed to appear before the Committee. The Committee decided to postpone the examination of these Accounts.

The Committee in this connection desired to reiterate the recommendation made by a previous Committee that the heads of Ministries or Departments should invariably appear before them personally in connection with the examination of their Accounts.

In case they were not able to come personally for any unforeseen reasons, a senior officer should be deputed, with the permission of the Chairman, to attend the meetings of the Committee. The Committee further desired that if the head of the Department was not able to attend the meetings of the Committee an intimation to that effect should in any case be sent to them well in advance so that they could revise their programme accordingly, if considered necessary.

The Public Accounts Committee (Seventh Report 1952-53 Vol. I Page 195) were informed that the recommendation had been noted by the Ministries.

Disclosure to P. A. C. of the names of officers responsible for irregularities

P. 167. Para 23(c) of the Audit Report 1950.—The Committee wanted to know the reasons for not enforcing the full recovery of £487 from the Officer concerned, as decided earlier by Government on the recommendation of the High Commissioner. While discussing this matter, the Committee desired to know the name of the officer concerned. The Comptroller and Auditor-General informed the Committee in this connection that the British parliamentary practice in the

Public Accounts Committee was that ordinarily the names of individuals were not disclosed or discussed. The practice of disclosing the names, according to him, did not help in the prosecution of the case. * * * * *

ANNEXURE I TO PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52 (PAGE 114)

Memorandum outlining the proposed changes in the form and contents of the Appropriation Accounts

The question of making certain changes in the form and content of the Appropriation Accounts so as to reduce their size without curtailing any substantial information at present made available to the Public Accounts Committee has been under consideration for some time. With the concurrence of Government, the Comptroller and Auditor-General proposes to make the following changes :—

- (a) The Explanation for variations between the original grant and the final appropriation under individual sub-heads will be omitted, but instances of defective supplementary appropriations and reappropriations indicating bad budgeting and control will be brought to notice through notes below the grants in the individual appropriation accounts.
- (b) No amounts or percentages will be prescribed for explaining the variations in the appropriation accounts between the expenditure and the grant, but the Accountant General or the other authority compiling the appropriation accounts will be given full discretion in the matter so that he may include in the appropriation accounts explanations of variations only in those cases which, in his view, are likely to be required by the Public Accounts Committee.
- (c) In the Civil Appropriation Accounts the monetary limits fixed for the detailed statement of expenditure on important new works will be raised from Rs. 50,000 to Rs. 1 lakh in the case of major works and from Rs. 20,000 to Rs. 50,000 in the case of major works not provided for in the budget. These limits will also apply in the case of P. & T. Appropriation Accounts. This is justified by present day conditions and the matter will be reconsidered if and when prices fall to pre-war levels.
- (d) The notes below individual appropriation accounts which give the percentages of variations between the expenditure and grant as compared with previous years will be omitted. These do not by themselves convey anything as these variations need not necessarily imply any lack of control. So long as the Committee's attention is specifically drawn to instances of bad budgeting and lack of financial control, these notes do not serve any purpose.

2. The position was explained to the P. A. C. at its meeting held on 18th July, 1951.

**APPENDIX XLIX TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIRST REPORT 1951-52**

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ANNEXURE I

**Address delivered by the Honourable the Speaker at the Meeting of
the Public Accounts Committee held on the 9th May 1951**

Functions of Public Accounts Committee and Estimates Committee.

* * * * * A couple of days back, I met our friends on the Estimates Committee. Their functions, in a sense having to do with the running expenses of the year, have something more to do with the running administration. By that I do not mean to suggest that this Committee has nothing to do with the administration or that its functions are merely *ex post facto*. It can influence a good deal, even the running administration, as we always profit by past experience. So the experience and suggestions of this Committee will be helpful a good deal to the Estimates Committee and their deliberations also are bound to be helpful to you—though not as much as your deliberations are to the Estimates Committee. That way both the Committees are inter-related. It may also be said that all Committees of Parliament are inter-related, because, they are merely different organs of the same body or body-politic of our Republic, intended to serve the best interests of the People. It is our experience even in the smallest sphere of a joint family, having a large number of members (ten, fifteen or twenty) that it is the principal man or the head of the family who has to be careful, keeping a very close eye on every item of expenditure. The members work with a feeling of oneness with the family, the resources are theirs and they are no doubt careful. Still they cannot be expected to be careful to the extent to which the principal man cares for them. And when we come to a large administration of a governmental machinery, particularly such a big administration as the Government of India, which is concerned with the entire Union, there is a much greater need of the financial control. When we say financial control, it is not the idea that we try to sit tight on somebody. No, we try to sit tight on ourselves. Because, we are all functioning towards the same end through different directions. The Ministry functions. Then, the several Ministries connected with the whole administration function, though of course they function as Departments. But they function for one common idea. Just as in the body the same blood must run through all the veins and the purity of the blood has to be maintained, so that the vein in each organ might develop into proper proportions and strength, so in administration also, though different functions are allotted to different bodies or different departments, the purity or the ideal must be the same all-round. Unless, we are in a position to achieve that, it will not be possible to run an ideal administration in the best interests of the people taking into consideration the welfare of every person. It is not a rule for the few but for the entire benefit of all people. From that point of view, a system of financial control very properly devised and very carefully worked is, to my mind, the *sine quanon* of good administration. The administration, of course, will not be just a machine. It will have a human element, a human touch. We shall not

be rule-bound: yet it does not mean that we shall all be free to act as we like. We must go by certain rules and regulations. But a financial control is necessary, because, when the administration is so wide that one part of it does not know what the other part is doing, each part looking to its own little field of jurisdiction, it tends always to become more costly; sometimes it becomes wasteful by duplication of the same thing in different departments. It is, therefore, necessary that there should be a complete check-up of all expenditure. And, when we are exercising the power of taxing the man in the remotest corner of the country who is not yet conscious of his right to ask for accounts from us of what is taken from him as taxes our responsibility becomes all the greater. I, therefore, believe that there can never be too much of financial control in any parliamentary or democratic Government. It is possible that some of us may sometime be criticising wrongly or may be having fantastic notions—may be, having notions which have no relation to realities or facts; and yet taking all that into consideration, it is not possible to complain that there is too much of control. The control has to be there and, therefore, you will see that, in the system of Government, Control at various stages is contemplated. In the first place, Government cannot spend what you do not sanction. That is the first control. If you are dissatisfied with the way in which the Government are acting, then we say: "We will not allow you the budget grants". How far we are able to do that is another matter. I am talking about the theory of it and our attempt has been to reach the ideal through this parliamentary system of Government. The second control is that they must put the whole amount into the Consolidated Fund, so that nothing can be drawn out merely because the vote is there. Before drawing, the legislature or the departments are to be satisfied that the money is being taken out for the purpose of which it has been sanctioned.

Then, there is the Estimates Committee which also exercises a sort of control, examines the thing as to how far these estimates are correct, what scope of economy is there, etc. Then after this, there is audit which is to see that the money is spent in a proper manner and the accounts are properly maintained. The keeping of accounts is not merely a formal matter, but it is a matter of substance. Many people ask "what is the good of writing all these accounts. I know what I earn and what I spend". This may do so far as individuals are concerned; even there I do not think, it is all right because, we must train our minds to a habit of organizing and planning things, of having an estimates as to how we spend our lives and our monies; and it is that habit of accounting—not for the love of money or as to how much money is saved,—for which, it is necessary that we must keep accounts—and those accounts must be kept very carefully, correctly and truly. The object of keeping of accounts is to have the truest possible picture of everything, not only to give us an idea as to how far the anticipations as to estimates have come out true but further to give us an idea for the future also. Therefore, audit is there and in the long course of about 35 years of public life, I have always considered it necessary that, there should be an audit of every little account of every little public body. In fact, I have insisted upon accounts being properly kept and shown in public whenever anybody wants that to be done. Sometimes, if somebody asks us: "Well, we gave in your charge Rs. 1,000. What have you

done? How have you done?". The first reaction of many of us is : "Well, why don't you trust me? Do you mean to say that I have not properly spent them?" That, to my mind, is a wrong conception. There can be never a more anti-self-government attitude than this kind of thing. We want the people in *Swaraj* (Self-Government) to be so strong and to be so intelligent that they will refuse to part with a single pie by way of taxation to any Government including their own, unless the Government is in a position to account for every pie that is taken as taxation, and satisfy the people that Government have spent the money for the best purpose possible and for their benefit. In fact that is, I believe to be the substance of self-government. That is what we want. So from that point of view, accounts are a matter of great importance and, therefore, we have several rules to devise, as experience has grown, various methods of keeping accounts, checks and counter-checks, etc. The idea is not merely to stop leakage somewhere here or there but to be exact in all respects. The Auditor looks into the little things brought before him, viz., the vouchers, etc., and he certifies that the accounts are quite all right. After the accounts are audited by the Comptroller and Auditor-General, they come up before your Committee. That is, I believe, the final stage of check-up. Here, people from outside say : "What is the good of this Public Accounts Committee? What is the Committee going to do after the monies are spent? Even if you criticise, it is not going to come back from the pockets of those who have mis-spent the money. What is the Public Accounts Committee going to do further now?". This is not, to my mind, a legitimate or proper question to be put. It is true that, so far as the expenditure is concerned, the auditor's findings are, in a sense, limited. They are bound to be, because we want to examine the whole field of expenditure by compartments—by division of responsibilities. The auditor, when he sees an item of expenditure, will first verify as to whether there has been a budget provision for this, whether the money was voted for a particular item or head of account and whether the expenditure is incurred with proper sanctions which are required by the rules and regulations of the department, i.e., the Ministry of Finance. That means the auditor will be sitting as a sort of watch-dog to see that nothing is removed outside unless that is authorised by the budget grant passed by the Parliament and that, whatever is removed is spent for the purpose for which it has to be used. * * * * * That is the purpose of the audit. Ultimately, of course even if you find that the money has been properly spent but still if the money has not been spent with proper sanction or in a proper manner, the auditor will point out the defect. All this knowledge is of importance to see as to how far the rules we have made to achieve the highest degree of efficiency for spending and accounting, are properly adhered to. Of course, the question of false vouchers and false accounts is quite a different matter. In spite of the best control exercised by the Government, Legislature and the Auditor, false accounts and false reports are brought to light in the course of public administration. They are, of course, matters of exception rather than the rule. Such matters come before the Public Accounts Committee with the report of the Auditor who will point out all sorts of irregularities, cases involving expenditure not covered by the grant, and the re-appropriation of funds within a grant or appropriation without the formal orders of the competent authority.

Then it will be for this Committee to see something beyond that. As the Committee consists of Members of Parliament it means that it consists of people charged with the responsibility to ensure that every item of expenditure is incurred in accordance with the rules laid down for the purpose. As Members of the Public Accounts Committee, without looking into the merits of the expenditure posted in the accounts, you are charged with satisfying yourself that the moneys shown in the accounts were legally available for and made applicable to the service or purpose to which they have been applied. Being the Members of Parliament, who sanction the budget, the knowledge that you get here ought to be helpful to you in exercising or checking the estimates when they are being sanctioned and that knowledge is useful for the Estimates Committee as also for the Standing Finance Committee. Therefore, the Committees of Parliament which apply their mind to this expenditure at one stage or another will take into consideration the objective as to why the monies were sanctioned; they will not discuss the policy underlying them; they will try to grasp the policy. I will make the point clear by going a little further and say that the Committee will have, to my mind, the authority to consider as to whether the money spent for a particular policy has been fruitfully spent or not. The auditor cannot go into that. The auditor will say: "According to the Resolution, the money has been spent". He will certify to that effect, but it will be for the Committee consisting of Members of Parliament responsible for good administration of the country, to see whether the expenditure, though properly incurred so far as the keeping of accounts is concerned, and so far as the financial sanctions are concerned, whether the policy in pursuance of which the work has been undertaken has really been a good policy, and whether from that point of view the money has been actually and properly applied or not. This function is a little wider but in substance the opinions that you form, the experience that you gain, are useful for the administration. That to my mind, broadly speaking, is the function of this Committee. It is not, merely the function of the Committee hereby to point out the irregularities. You have been appointed by the Legislature and if you do not express where you are not satisfied then there is no meaning in having a Parliamentary Committee. The usefulness of the Parliamentary Committee is to bring under examination, in the light of experience gained after having worked the schemes, to be able to advise and report to Parliament whether the monies that they have voted have really been spent for services which, in the opinion of this Committee are useful or serviceable to the nation. The Estimates Committee will deal with the estimates and that is a different aspect but the same aspect practically in a different form. They also will apply their mind in the same manner as this Committee will apply their mind, in the light of your experience because after all they are trying to save something for the future but here you have a picture of the past and that places the Ministry of Finance, the Government and the Estimates Committee in a better position. That seems to me to be the scope of the Committee. Sometimes, much is made of the rules, whether under this rule it can be done or under that rule it can be done, etc. To my mind, in any administration if you want to have the administration as a composite one and not in compartments, there is nothing which is quite independent of another. All things are inter-dependent on one another. All things

are inter-dependent and, though my hand is separate from my eyes, my body being a whole, the same blood is being circulated and one part has got relation with the other. For purposes of finance and better work, we have departments and we have different committees, but, if anybody asks me as to whether that is exclusive of the other, I am prepared to say that theoretically at least it cannot be. They are all inter-dependent, taking a broad view of the matter and not trying to be too technical about it. These, as I have already stated are the objectives.

A note on "Parliamentary Control of Public Accounts" by Basil Chubb has been circulated to you. I take it that you must have gone through it. It is very interesting to read it and I should like to invite your attention to three points only. The functions of the Committee as defined there are to ensure that money is spent as Parliament intends. That is the most important point. Members of Parliament will better understand the intention and the mind of Parliament than the Comptroller and Auditor-General and they can better exercise their discretion and judgment. The second is, to ensure due economies and, the third, is, to maintain a high standard of public morality in all financial matters. Wherever we find that something is done which is of an extravagant character, even though it comes in conflict with the interests of a particular officer or for the matter of that, even a Member of Parliament, it should be the duty of this Committee to point that out. If we really want to rise in the eyes of our countrymen, our function should be strictly honest. If a matter is wrong, we must raise our voice and create a public opinion even though it may involve the displeasure of some. It is one of the most important things to maintain a high standard of public morality.

I need not go into the other matters; there are one or two things which I found very useful in this note and to which I may invite your attention. So far as the Budget Estimates are concerned, so long as the proposals are before the House for sanction, not only you may have, but you should have your party alignments, because you come with a programme and you are entitled to say this much should be spent on this and this much should not be spent on that. But, the moment it is sanctioned, whether by a huge majority or a small majority, it is the sanction of the entire House and it becomes the business of every man in the country and every Member of Parliament to respect the final decisions of the House. We do not pass all our Bills unanimously; there are many dissentients. But, still, is it open to anybody to say when he is prosecuted under a particular law, that that law does not apply to him because he had voted against that law? Similarly, as soon as the expenditure is sanctioned by the House, whether you like it or not, at the time the expenditure comes for examination, party politics should never enter into the consideration. You are not sitting in judgment on the expenditure incurred keeping in mind your likes and dislikes. You cannot ignore an irregular expenditure merely because it is incurred say, on *Khaddar*. You may like the idea of, say, the upliftment of the Tribal areas. The moment you find that some money is spent irregularly, you should not say, it is all right, because it is spent for a good purpose. You are sitting there to go by what the Parliament has thought over the matter. That is the principle of

democratic Government on Parliamentary basis. We are divided, opposed, so long as we discuss a matter, and so long as finality is not reached. The moment finality is reached, it should be the effort of every one to support that. Of course, it is open to any one to agitate and reverse the decision; that is different matter. So long as the decision stands, it must be loyally given effect to. Unless we have that kind of mentality, it is not possible to run successfully any Parliamentary system of Government. The direct corollary is that there must not be any party politics so far as examination of these accounts is concerned.

* * * *

Procedure for the preparation and submission of Audit-Reports to Parliament

P. 7. (Page 299 of the Report).—As questions asked in Parliament on the 12th May 1951, involved important issues, the Comptroller and Auditor-General made a statement (Annexure II—pages 111-114) before the Committee clarifying the position in regard to the general principles underlying the drafting and presentation of the Audit Reports.

P 8. (Page 299 of the Report).—The Committee further wished to know in some detail the procedure in regard to the drafting of Audit Reports, giving opportunities to the Executive Government to make such observations on facts of important cases of financial irregularities proposed to be included in the Audit Reports. The Comptroller and Auditor-General described how the Audit Reports were made up and how each tier both on the Audit side and the executive side worked. He also stated that the Department or Ministry concerned was given an opportunity of suggesting correction or modification to the draft in such matters in which it was proposed to question their action. Elucidating the matter further, he stated that he was not an Executive Officer but he worked on his papers only and his inferences were based on the documents placed before him. It was only fair both to himself and to the Department concerned that he should ask them as to what they had got to say about the specific matter, and he had then to consider whether any modification was necessary to his earlier conclusions in the light of facts thus brought to his notice.

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ANNEXURE II OF APPENDIX L TO PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

Statement made by the Comptroller and Auditor-General of India at the Meeting of the Public Accounts Committee held on the 22nd May, 1951 re: the procedure followed for the preparation and submission of Audit Reports to Parliament.

I have noticed in the *Hindustan Times* (Dak Edition) of the 13th May, 1951 that there was a debate in Parliament on Saturday, the 12th May, on the question of my visit abroad, my audit reports and

whether those reports were available, and so on and so forth. There was further a specific question whether the Comptroller and Auditor-General after presenting the Audit Report to Government had subsequently edited it, that is, deleted certain portions or qualified his statements in some respects or added something to it for presentation to Parliament.

* * * * *

I am going very briefly to explain how the audit work is done. The accounts come to the Accounts Officers. They are all examined and checked up. So many questions are sent out, some of which may be for eliciting information. We ask the Executive for their explanation. The explanation comes. Then, if we are not satisfied the Audit Officer sends it to the higher Officer asking him what he has to say. He may, perhaps, explain or say that the person concerned has been warned and so on. Perhaps, the Audit Officer may be satisfied after the receipt of the explanation, that there was nothing really wrong. That is how most of the things happen. There are some bigger things which are discovered in the course of audit. Correspondence may even go on with the Government and most of the correspondence is of the nature of asking for an explanation from the Government or for eliciting information or facts. Such correspondence is not a report. There are various stages, and processes for Audit to satisfy itself that a transaction was regular or irregular. The Audit Officer may find that it is a bad enough matter, or it may be an ordinary irregularity which should not be repeated, regarding which we would like to report to the Parliament. There may also be cases in which, at the instance of Audit, improvements in financial or accounts rules and procedure have been devised, or the authorities have refused to accept the advice of Audit. The Audit Report ultimately includes, at the discretion of the Audit authorities, an account of irregularities and other important or interesting matters. The more serious cases where the delinquents have not been adequately punished, are also reported. We report even where people have been sent to jail, and all sorts of things, which in our opinion ought to be reported to Parliament.

As to the process of preparing the Audit Reports, all the materials are collected by the Audit Officer concerned. The Draft Paras contain allegations of things that have happened or have been discovered in the course of the Audit. It is only right and fair to the Audit department as well as to the administration that the facts stated therein should be verified. These Drafts are not Audit Reports under Article 151 of the Constitution at this stage. These drafts are sent to the departments for their comments on the facts stated therein. If they say that they do not accept, the facts, arguments ensue between the Audit, on the one hand, and the administration on the other. If they say that the facts stated are not correct, we ask them what the correct facts are. Then, they say that the facts are such and such. Evidence has to be produced by the administration in support of their statements being correct. If adequate evidence is produced to justify a correction in the Draft Paras, they have to be amended because the Audit Report must be a faithful statement of facts. It is prepared without fear or favour without any affection or ill-will. * * * * * Therefore, we give every opportunity to the authorities concerned to contradict our statement of

facts and produce the requisite evidence in support of their case. After having done all this, the report is finalised. Until this stage is completed, the Paras are only drafts or provisional statements without any authority.

For all that is included in the Report, including opinions, the ultimate responsibility is that of the Auditor-General, who countersigns the report but he holds his Accountant-General responsible to himself. The Report could be challenged by the witnesses who may be called up by the Public Accounts Committee. The witnesses can say that the facts are not correct which rarely happens. Arguments ensue between the Committee and the witness. The Committee is helped by the Auditor-General. None of the preliminary correspondence or any correspondence taking place between the Auditing authority and the Government can be treated as the Report. Even a commercial Auditor who goes to a firm, does all this preliminary work; that is not his report. The Auditor may have been wrong in his suspicions, and if adequate evidence is produced and if he is satisfied, there is nothing more to be said about it. The point that I want to make is that you cannot regard the intermediate correspondence between the Audit Officers or the Auditor-General, on the one hand, and the Administrative Officers or even the Government, on the other, as Audit Reports. Audit Reports are formal documents such as you have seen. They are formal documents bearing the certificate saying that this is the Report under Article 151(1) of the Constitution which I present to the Parliament through the President. Nothing else is a Report. I can assure you nobody can tell me what I should or should not put in this Report. They may say that this or that statement of fact is not correct in which case it will be my responsibility if, in spite of their saying that it is not correct, I include it in my report. It is absolutely a matter for my discretion what to include. Of course, I have to rely on my Audit Officers to advise me as to what should be included here. Once any matter has been included in the Report and the latter presented to the President under Article 151 of the Constitution, there is no question of amending it and submitting a different report to Parliament from what I have put down in my Report under that Article. The discussion in Parliament has been very unfortunate and has been unfair both to the Government and to me. ***** To sum up, any correspondence that takes place between the Government on the one hand and myself or my Officers on the other, in the course of audit, with a view to eliciting further information or requiring the Government to take any particular action are not reports within the scope of Article 151. It is only when a final verdict has been reached on any particular matter and it is considered by me necessary to incorporate it in the Report submitted to Parliament that it is included. Correspondence cannot be treated as reports. Likewise, Draft Reports which are sent to the various authorities for vetting the facts are also obviously not reports under the Constitution. They become reports only after they are finalised in the light of the fully ascertained facts and are finally approved by me for submission to the President and the Parliament. It is most unfair to suggest that either the Government suppresses any of my reports, which they cannot and which I will not permit them to do—if I am asked to suppress any such report, there will be trouble; I shall report that to you if I am true to the Constitution.

Once a formal report has been made under Article 151(1), it has to be submitted to Parliament and if any amendment is made by me subsequently, that amendment will also have to be treated in the same formal manner. Normally, no such occasion has arisen except in the case of routine amendments of any inaccuracies in figures. Some figures might have been printed wrongly.

I noticed from the Press Reports that Shri Ananthasayanam Ayyangar had enquired whether there was any rule whereby certain portions of the Auditor-General's Report could be marked confidential and withheld from the Parliament. My Report to the President under Article 151(1) of the Constitution is not confidential and no portion of it can be withheld from Parliament. And it is also a priced publication. It is a printed document. After it is laid on the Table of the House it can be purchased by the general public. Shri Kunzru was also wrong in assuming that after presenting the Audit Report to Government, I might subsequently add or delete some portion or qualify the statement. Again, I emphasize that draft paragraphs sent by my officers for verification or comments are not reports. You may prepare a rough draft but until you sign it, it is only a draft, it is not the final document. It is a tentative statement under the consideration of audit. The Finance Minister has stated that unless he saw the Auditor-General's Report to the Public Accounts Committee, he would not be in a position to say whether there was any difference between that and the Audit Report that the Comptroller and Auditor-General submitted to President. There is some misconception here, because the Audit Report submitted to the President under Article 151(1) is precisely the same as that which is laid before the House and which is thereafter taken for consideration by the Public Accounts Committee. There is no separate Audit Report to the Public Accounts Committee from the one presented to Parliament.

APPENDIX LI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT 1951-52

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Form and structure of the Report of the P. A. C. and scrutiny of the accounts of Revenues, Borrowings, Public Debt, etc.

3. The Committee then proceeded with the further consideration of the next item on the Agenda, namely, the letter dated the 3rd March, 1951 (*vide* Annexure II on pages 48-51) from Professor K. T. Shah, a Member of the Public Accounts Committee, suggesting changes in the form and structure of the Report on the Committee and also extension of the scope of the functions of the Committee to the scrutiny of the accounts of the Revenues of Government, borrowings, Public Debt, expenditure charged to Capital, etc. The Comptroller and Auditor-General pointed out that subject to certain minor exceptions, he was not at present responsible for the audit of Revenues and control over the due collection of Revenues was now left entirely to the Administration. He further stated that in the existing circumstan-

ces it would be impossible for his Department to undertake any further extension of responsibilities in regard to Revenue audit for a considerable time. He was not, however, opposed to this in principle, but was only pointing out that it would take some years before the necessary machinery could be built up.

4. As regards Prof. Shah's Memorandum, the Comptroller and Auditor-General pointed out that the Finance Accounts of the Government of India which contained a complete picture of the Revenue and Expenditure of Government as well as of the Debt and Remittance Heads including Capital Accounts, was being presented to Parliament in addition to the Appropriation Accounts and Audit Report thereon which served a special purpose. The form of all these accounts is based more or less upon the British models and the requirements of Parliamentary control, but the Finance Accounts in India contain explanatory notes and comments which do not find a place in similar publications of the U.K. Treasury. The Comptroller and Auditor-General observed that Prof. Shah's desire seemed to be to extend the functions of the P.A.C. and to require it to go into every aspect of Revenue and Expenditure, such as the effect of taxation on the amount of Revenue over a period of years, Public Debt position and the policies of Government in regard to borrowing, the general growth of expenditure and so on. For this purpose, it appeared to the Comptroller and Auditor-General that what Prof. Shah desired was the provision to the Committee of elaborate reviews covering a number of years, of the various Revenue and Capital Heads. The Comptroller and Auditor-General stated that if this extension of functions was the considered decision of Parliament and the Public Accounts Committee, the latter would have to work for considerably longer periods than at present. Further-more, in addition to the accounts that are now compiled and presented to Parliament by the Comptroller and Auditor-General, arrangements would have to be made for the preparation of various special accounts statistically, and their review from the various points of view mentioned by Prof. Shah. It should be primarily the function of Government to provide whatever additional information is required by the Committee. The Comptroller and Auditor-General stated that his own Organisation was not adequately equipped at present for the purpose, but he would endeavour gradually to include such additional data in the Finance Accounts as the Committee might desire in the light of experience.

5. In this connection the Comptroller and Auditor-General explained that the compilation of the Finance Accounts of the Government of India had been unavoidably delayed owing to the difficulties which have arisen due to Partition. He stated that the Accounts for 1946-47 were practically ready and were being put into final form. As regards the Accounts for 1947-48, the year of Partition of the country, he said that the main difficulty for the finalisation of the compilation of the Accounts was due to the non-settlement of the Debt-Head balances on the date of Partition with the Pakistan Government. He added that unless these Accounts were ready he could not take up the compilation of the Accounts of subsequent years as the balances under the various Heads were required to be carried forward.

6. While recognising the difficulty explained by the Comptroller and Auditor-General, the Committee suggested that until the compilation of the Finance Accounts was printed up-to-date, the Finance Ministry may be requested to furnish the Committee in an appropriate form to be devised in consultation with the Comptroller and Auditor-General an account of the Revenue-earning Ministries showing the various sources of income and the actual revenues. This account should also embrace the Borrowing and Debt Heads side of the Government activities for the year under review. Such a compilation, the Committee observed, would enable them to suggest measures for economising public expenditure.

NOTE.—See P. A. C. 1947-48 (Post-partition) P-3 (page 118 of the Report).

**SECOND REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE 1951-52 ON THE ACCOUNTS
OF 1948-49 (RAILWAYS AND DEFENCE SERVICES)**

Budgeting and Control over expenditure

R2. The Committee note that the standards of budgeting for the Defence Services during the year under review are still far from satisfactory. In particular they feel that there is much scope for improvement in estimating the stores and works expenditure * * * * *. Further, surrenders of savings made at the time of the final grant were either inadequate or no surrender was made at all* * * *. The Ministry did not take proper stock of all their commitments towards the close of the year and failed to maintain a close watch over the flow of expenditure which resulted in the lapse of a huge amount. The Committee deprecate the growing tendency on the part of the spending Departments to inflate their estimates or to fail to surrender all anticipated savings as soon as they become known without waiting till the end of the year as also to appraise properly their commitments and liabilities when it becomes apparent that the actual expenditure is likely to fall short of the provision already made by them in the estimates. The Committee should like the Ministry of Defence and the Ministry of Finance (Defence) to follow the general recommendations made by them in Chapter III of their First Report relating to the Civil Accounts etc., in respect of the Defence Expenditure also.

R14 (Sub-para. 2). The Committee attach great importance to the correctness of the budgeting process being impressed upon the various Railways as the needs of the country in the existing financial position are to a certain extent dependent on the surpluses in the Railway Budget. The Railways are the largest national undertaking run on commercial lines and it would be contrary to the interests of the State if any money is spent hastily or in an ill-conceived manner merely because it is available, nor should any amount be spent in anticipation of the grant of funds. In the case of likely savings, their existence should not be seized as an opportunity for incurring expenditure on items which have not been specifically provided for in the Budget. It is also desirable that the surrender of unutilized amounts is made in time so that those amounts could be made use of instead of being lapsed. The Committee desire that the observations contained in Chapter III of their First Report on the Appropriation Accounts (Civil) and (P. & T.) of 1948-49 on 'Budgeting and control over expenditure' should apply *mutatis mutandis* to the Railway Administration subject to necessary modifications to suit local requirements. The Committee would be glad if the attention of the Railway Administration is invited to these observations so that a sense of preservation of high standards of budgetary control and financial propriety—which are a pre-requisite of the successful handling of the finances of a commercial concern—is infused in their minds. (See also P.A.C. Tenth Report, 1953-54, R-13.)

Ministry of Defence observed as follows (page 1 of Ninth Report 1953-54 Volume II):—

The estimates have been and are being framed based on the latest known or foreseeable factors ; despite this, variations do occur

owing to circumstances beyond control. However, no effort is spared to effect improvements wherever possible.

NOTE.—See P. A. C. 1943-44, R5 of Epitome Volume I and 1947-48 (post-partition) R 4; First Report 1951-52, R 14, 17, 15(iii), and P150 of this Volume.

Allocation of Works Expenditure to 'Maintenance' or 'Capital'

R 3. The Committee were informed that necessary instructions on the subject were under issue. They desire that while issuing the instructions it should be made clear that they will apply only to temporary accommodation and not to other types as otherwise there is a danger of their being applied to other types of accommodation also. A copy of the instructions issued should be furnished to the Committee.

Copy of Letter No. 9623/Q3VIII/10624/D(E&Qtg.) dated 25-11-1954, from the Ministry of Defence, New Delhi.

* * * * *

5. Original works comprise the construction of buildings and Defence Works and their internal fixtures together with the accessory services such as roads, Electrical/Mechanical services, water supply, furniture, drainage, ranges etc., as well as purchase and additions. Reconstruction of buildings and roads, widening or roads, alterations necessitated by administrative reasons, works necessary to bring into use buildings and services newly purchased or previously abandoned or rendered unusable by extraordinary causes such as storm, fire or earthquake, also fall in the category of original works.

EXCEPTION.—Petty works costing up to Rs. 400 may, at the discretion of the Commander Works Engineer, be treated as 'Repairs'.

(Paraph 146 Military Engineer Services Regulations.)

6. The purchase and installation of static plant and machinery (Paragraph 170 Military Engineer Services Regulations), the purchase of special tools and plant (paragraph 171 Military Engineer Services Regulations) and the provision of furniture (paragraph 183 Military Engineer Services Regulations), are treated as original works for the purpose of these orders.

Provision of furniture which does not form part of any project will be treated as major or minor work, depending on the cost.

7. Repairs comprise all maintenance and periodical services, renewals and replacements as well as alterations necessitated by technical or engineering reasons.

Works required to make good damages to buildings, roads, installations and services due to extraordinary causes, but which are still usable, are also classified as 'repairs'.

NOTE.—Whether or not a building etc., is still 'usable' will be decided by the Court of Enquiry convened to investigate the loss.

10. *Repairs are classified in two categories.—*

(a) *Ordinary Repairs.—These comprise—*

- (i) *Petty repairs,*
- (ii) *Periodical services, vide Military Engineer Services Regulations, Table 'F'.*
- (iii) *Replacements and renewals costing up to Rs. 20,000.*

(b) *Special Repairs.—These consist of replacements and renewals costing more than Rs. 20,000 each.*

Repairs in category (a) will be carried out in accordance with Military Engineer Services Regulations, paragraph 148(b) so far as seq.

Repairs in category (b) will be carried out in accordance with Ministry Engineer Services Regulations, paragraph 148(6) so far as buildings are concerned and paragraphs 757 and 759, so far as Electrical/Mechanical installations are concerned.

NOTE.—(i) *The Garrison Engineer will be the competent authority for grouping of buildings for the purpose of special repairs. (ii) Replacements of furniture rendered unserviceable by fair wear and tear will be treated as Ordinary repairs, irrespective of cost. for the purpose of this rule.*

No administrative approval is necessary for repairs falling in category (a), allotment of funds for the purpose implies administrative approval to that extent. No work will be carried out without the technical sanction of the competent engineer authority and expenditure will be incurred in excess of allotment under the relevant head except in so far as any such excess can be met by reappropriation from another head within the competence of the authority concerned.

*Repairs to buildings falling in category (b) will be treated as original works except for budgetary purposes * * * * **

Amendment to capital values will be made in accordance with Military Engineer Services Regulations, paragraph 148 (c) but see exceptions below. In calculating the addition to be made to the capital value, credit will be taken for the value at current rates of any portion of the original structure which has been demolished or replaced.

EXCEPTIONS :—

- (a) *Capital value will not be amended in the case of replacements and renewals costing Rs. 20,000 or less to temporary buildings.*
- (b) *Changes in capital value amounting to Rs. 400 will be disregarded.*

Amendments to capital values on account of Electrical/Mechanical renewals will be carried out in accordance with Military Engineer Services Regulations paragraphs 757 and 759.

NOTE.—See P. A. C. 1947-48 (Post-partition) P6.

Inter-depot Transfer of Stores

R 4. * * * * At present there did not exist any effective check against the inter-depot transfer of stores, as under the system in force, it is easy to transfer a certain category of stores which might be in excess in one depot in close proximity at the time of the stock verification of another depot. The Committee desire that the matter should be examined by the Ministry of Defence in consultation with the Ministry of Finance (Defence) and other Departments of the Government of India, if necessary, with a view to finding out a fool-proof method whereby such transfers of stores at the time of the depot stock-verification are eliminated.

* * * * *

Ministry of Defence observed as follows (page 2 of Ninth Report 1953-54 Volume II)

The transfer of stores from one depot to another is carried out on regular vouchers only, and no stores can be passed out from one depot to another without proper documents, which are checked by the security staff at the gate. In certain depots, e.g., Air Force Depots, Medical Depots and M. E. S. Depots, the stock position is controlled centrally by Air Headquarters, the Director General, Armed Forces, Medical Services, and Army Headquarters (Engineer-in-Chief's Branch) respectively. Moreover, they are situated away from each other, thus rendering inter-depot transfers of stores difficult. In the case of the M. E. S. Depots, the local authorities are not permitted to order transfer or move of stores in depots. Transfer orders are issued by the Engineer-in-Chief to satisfy specific demands and to replenish stores. All these checks therefore make fraudulent transfers almost impossible.

Non-recovery of hire charges for stores issued on hire

R 8. * * * * The Committee * * * desire that * * * the Defence Accounts Officer concerned should conduct a periodical check of the 'Register of Hire Charges' maintained in the Depots. The Accounts Officer should also keep a proper watch to ensure that recoveries of all amounts of hire charges are effected from the authorities concerned regularly and the matter pursued till it is finally adjusted. The Committee further desire that the existing machinery both in the Depots and the Accounts Offices, should be overhauled to see that such arrears of recovery of hire-charges are not allowed to accumulate as it becomes difficult to fix responsibility for oversight in the adjustment of such charges at a distant date.

APPENDIX XXIV TO THE PUBLIC ACCOUNTS COMMITTEE'S NINTH REPORT 1953-54 VOLUME II

MINISTRY OF DEFENCE

The observations and recommendations of the Public Accounts Committee made in para. 8 of their second report on the Accounts of 1948-49 (Railways and Defence Services) have been examined. The necessity for overhauling the machinery for recovery of hire charges, which the Committee recommended, has been accepted and pursuant thereto, detailed instructions have been issued to both the

accounting authorities and the Depots. These instructions it is hoped, will ensure the quick recovery of hire charges, by laying down separate responsibility :—(a) for issue of stores—mostly tentage, (b) for the return of stores when done with, and (c) for watching the progress of recovery of the hire charges. Provision has also been made for inspection and checking of the stores on their return and recovery for damages, other than those due to normal wear and tear, to the returned stores.

The instructions issued to the accounting authorities ensure audit of Registers and documents maintained by the Depots and maintenance of a complete record of all hire issues and prompt realisation and credit to the Government.

* * * * *

Copy of Office Memorandum No. 4077/AT-II, dated the 18th June 1952, from the Office of the Controller of Defence Accounts, New Delhi.

While examining the case relating to the "non-recovery of hire charges for stores issued on hire" mentioned in paragraph 36 of Audit Report, Defence Services 1950, it transpired that there existed some misapprehensions regarding the procedure to be followed for the accounting, and for progressing the recovery of hire charges for stores issued on hire. Detailed instructions in amplification of the provisions of paragraph 540 of Regulations for Army Ordnance Service, and paragraph 9, Section XI of Store Accounting Instructions have, therefore, been issued for this purpose in the above cited memorandum.

2. *The above instructions are comprehensive enough and clearly lay down the Registers and documents etc., required to be maintained by the Depot, which will be subjected to audit by the Local Audit Officer vide paragraphs 9 and 10 thereof. So far as Local Audit is concerned besides observing the procedure laid down in paragraph 6 Section VIII Local Audit Officers Hand Book Part 1 for the audit of issues on hire, these issues will not be treated on a par with payment issue transactions and the scope of audit over the documents, vouchers Registers etc., maintained in the issuing Depot and also in the Returned Stores Sub-Depot will be the same as for payment Issues.*

3. *In the Controller of Defence Accounts Main Office, the Stores Section will ensure, that a proper machinery exists for watching the receipt and adjustment of Treasury Receipts in cases where recovery is made on a cash basis and of the Receipted copy of issue vouchers in cases where book-adjustments are made. In either case, it should be ensured that there is no delay in realising the dues to Government.*

Responsibility of the indenting Ministry and the Purchase Organisations and duties and powers of the Director General Indian Stores Department London.

R 10. * * * * * The Committee noticed that there was a tendency on the part of the representatives of the various Ministries who appeared before them in connection with this matter to shift responsibility from one Ministry to the other. It shows an extraordinary state of affairs that the area of responsibility between

the indenting and the Administrative Ministries should not be clearly defined. The Committee have no doubt that while the Ministry which meets the expenditure from its grant for any stores or goods purchased through the Purchase Organisations is responsible to answer all questions concerning the transactions before the Committee, the Administrative Ministries which are directly in-charge of the Purchase Organisations or for the administration of the Missions abroad through whom such purchases might have been made should also own responsibility in so far as they are concerned. In the present case, neither the Ministry of Defence which was the indenting Ministry, nor the Ministry of W. P. & S. which was concerned with the over-all purchase work of the Government of India, nor the Ministry of External Affairs which was in administrative control of the Office of the High Commissioner, was in a position to take final responsibility in the various matters that were raised by the Committee. It is of the utmost importance that any confusion or fluidity in the sphere of responsibility between the various authorities which come into the picture should be removed forthwith and the matter placed on a satisfactory footing. The Committee would like to have a detailed note as to the action which Government propose to take in this connection.

The Committee also consider that it is essential for Government to re-examine the methods and organisation of the Director-General, India Stores Department, London with a view to defining in clear terms his duties and powers and his relationship with the High Commissioner and the Ministry of W. P. & S. in order to ensure that he functions efficiently.

The Ministry of Works, Housing and Supply have stated (Seventh Report 1952-53 Vol. I page 204) as below :—

“So far as Director General, Supplies and Disposals are concerned no confusion exists as to the sphere of responsibility between the indentors and Purchase Organisation. The Director General, Supplies and Disposals are responsible for placing contracts, progressing of supplies up to the point of delivery and arranging payment to the contractors through the Accountant-General, Food, Rehabilitation and Supply to be recovered from the indentor. The fact that the Director General, Supplies and Disposals acts only as an agent of the indentor, is known to all concerned.”

APPENDIX XXXII TO THE PUBLIC ACCOUNTS COMMITTEE'S NINTH REPORT 1953-54, VOLUME II

MINISTRY OF WORKS, HOUSING AND SUPPLY

Procedure followed in respect of procurement of stores with particular reference to Defence indents.

The procedure of acceptance of indents particularly Defence items is briefly as follows :—

The Ministry of Defence utilise fully the procurement agency of this Ministry in regard to procurement of Defence stores to be obtained from the trade and they leave it to the purchase organisations to arrange procurement in accordance with the specifications indicated in the indents.

(a) *Items procured through D. G. S. & D.*—Indents for indigenous Trade items are placed by the Defence indentors on the D. G. S. & D. for procurement. All action for procurement is the responsibility of the D. G. S. & D. except for inspection which is mostly done by a Service agency.

(b) *Items procured from U.K./Europe.*—Indents are placed by Service Indentors on the Service Advisers to the High Commissioner in U.K. Indents for stores procureable from Service Departments and Ministry of Supply of H.M.G. are retained by them. But the D.G.I.S. D. London is responsible for all residual action, e.g., payment of advances and final payment, taking delivery and despatch to India of stores, inspection, etc., D.G.I.S.D. is also responsible for all procurement action in respect of trade items, including inspection.

(c) *Items procured from U. S. A.*—Indents are placed by Defence indentors on the Service Attaches in Washington who retain those Indents which are for procurement from the U.S. Government departments and pass on the rest to the I. S. M., Washington. The division of functions in U.S.A. is identical with that in U.K.

2. On receipt of the indents, the D.G.S. & D. scrutinise them to see among other things that they are complete in all respects so that they can proceed with procurement action. The D.G.S. & D. ensure :

- (a) that the description and nomenclature of stores given in the indent are clear and free from ambiguity; that specifications or particulars to guide the supply have been correctly quoted and are in keeping with the description of stores. Technical particulars, etc. are vetted by officers of the Inspection wing and points of doubt are clarified by reference to the indentor before passing on the demand to the Supply Section concerned for procurement action;
- (b) that the packing, consignment instructions and mode of despatch have been clearly specified;
- (c) that a date by which supply is required has been stated;
- (d) that the indentor has completed the financial certificate on the indent certifying availability of necessary funds to cover the cost of stores and Departmental charges (where leviable) and have specified the Accounts Officer who will accept debits after payment has been made by the Accounts Officers of the D.G.S. & D. or, if the Indenting Officer is a non-Government indentor, whether the indent is accompanied with necessary deposit to cover the cost of stores and Departmental Charges.

Only after all these points have been fully examined and settled to the satisfaction of the D.G.S. & D., the indent is finally accepted for procurement action. In case it is found that supply cannot be arranged by the date specified in the indent, the Indenting Officer is informed and his prior concurrence to supply by a suitable date is obtained before covering the demand.

Once the demand is accepted by the D.G.S. & D., thereafter it becomes the responsibility of that organisation to arrange supply of the stores keeping in view the date by which supply has been asked

for and the funds provided by the indenter. The Directorate General is permitted to exceed the Indenting Officer's estimated rates without his prior concurrence up to certain limits. In the case of Defence Indents, according to the present arrangements, the demands can be covered at rates exceeding the indenter's estimates up to 66 2/3 per cent. without prior reference to the Defence indenter, provided the extra expenditure to be incurred on this account does not go beyond Rs. 5 Lakhs.

Supplies are governed by the Standard Conditions of Contract which have been drawn up by the Government of India in consultation with the Ministry of Law. The delivery dates stipulated in the contract are extended, where considered necessary, with or without penalty. Indenting Officers are always kept informed of such extensions and in important cases they are consulted before granting an extension of delivery dates. Copies of all amendments to the contract, whether affecting rate, delivery date or any other term thereof are invariably endorsed to the Indenting Officer who is thus kept associated with every development concerning the contract.

Progress against every demand is watched by the Purchase Organisations from the time indent is accepted right up to the time deliveries are completed. Indentors are kept informed at every stage by issue of Progress and Delay Reports and they are thus constantly kept in the picture concerning the position of their demand and are at liberty to raise at all stages any point concerning delay or hold up. For effecting a closer liaison between the D.G.S. & D. and Defence Ministry in order to facilitate and expedite the procurement of Defence stores, a Defence Services Liaison Cell is attached to the organisation of the D.G.S. & D.

3. The Purchase Organisations of this Ministry act only as agents in respect of purchase and inspection of the stores. As such, the authorities on whose behalf they act are called upon to bear losses in cases in which :

- (a) they are not lawfully and equitably to be borne by the supplier or carriers, or
- (b) they are not due to any unauthorised or negligent act on the part of the Purchase Organisation.

Cases falling under category (b) are dealt with on the general principles laid down for the investigation and treatment of such cases by the Government of India.

4. It will be seen from the above that the roles of the various authorities in the matter of procurement of stores are clearly understood and no confusion exists as to the sphere of responsibility between the Indentors and the Purchase Organisations in regard to the acceptance of an indent and the arranging of supplies in satisfaction of the demand.

Budgeting under the 'Suspense Heads'

R 16. ***** The Committee suggest that budgeting under the 'Suspense Heads' should be made with meticulous accuracy and they should not be treated as a 'cloak' to cover transactions which have not been properly budgeted for. It should be borne in mind that only

current and efficient items are placed in a suspense account. The Suspense Balances should be periodically reviewed more especially in the case of inter-railway transactions and a close liaison should be established between the Railways concerned. The cost of services rendered or supplies made should also be adjusted before the close of the financial year without resorting to the placing of the amounts in Suspense. The Committee desire that the Railway Board should issue general instructions to this effect to the various Railways concerned. (See also P.A.C. Tenth Report 1953-54 Volume I. R. 14.)

NOTE. See P. A. C. 1922-23 R 32 (Epitome Volume I).

Expenditure on large projects without detailed estimates

R 17 (ii). The Committee noted the comments contained in para. 19 of the Audit Report in regard to the marked tendency on the part of the Executive Departments to commence works without preparation of the detailed estimates in contravention of the Code rules or to postpone the preparation of estimates indefinitely and wish to observe that the matter requires serious notice. While they appreciate the urgency that led to the execution of the two projects referred to in the Audit Report, viz., the Assam Rail Link and the Locomotive Manufacturing Works at Chittaranjan, they strongly urge that it should be emphasised on the Railway Administrations that no authority should, as a general rule, incur expenditure or undertake a scheme which may eventually involve expenditure from public funds until the detailed estimates in respect of the project have been sanctioned by the competent authority. The Committee view with great displeasure the tendency to make indiscriminate departures from the codal rules as such a course is fraught with grave consequences.

APPENDIX XI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTH REPORT 1952-53, VOLUME I

Copy of Railway Board's letter No. 51/W/150/I, dated 23rd May, 1952 to all Indian Railways.

SUBJECT :—Adherence to Code Rules in connection with the Financial Control on large scale Projects

The Public Accounts Committee have stressed that no authority should, as a general rule, incur expenditure or undertake a scheme which may eventually involve expenditure from public funds until the detailed estimates in respect of the project have been sanctioned by the Competent Authority. In this connection, the Railway Board wish to draw your attention to their letter No 51-W/150/I, dated the 28th July, 1951. A copy of the Board's conclusions has been supplied to you under their letter No. 52/W/III/9, dated the 19th May, 1952.

The Board desire you to ensure that no expenditure is incurred on a work until the detailed estimate thereof has been sanctioned by the Competent Authority, except on work of real emergency nature, which should also be commenced only after getting a proper Urgency Certificate sanctioned by the Competent Authority. In the latter case, the preparation of detailed estimate should be undertaken and completed as expeditiously as possible.

Copy of Government of India, Ministry of Railways (Railway Board) letter No. 51/W/150/I, dated the 28th July, 1951.

SUBJECT.—Adherence to Code Rules in connection with the financial control on large scale projects.

** * * Railway Board would reiterate the imperative necessity of strict adherence to the Code Rules and avoiding delay in the preparation of the detailed estimates for sanction, of the competent authority.*

** * * * **

Copy of Government of India, Ministry of Railways (Railway Board), New Delhi letter No. 52/W/III/9, dated 19th May, 1952.

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(xv) The feasibility of preparing detailed estimates for items of New Works before including in the Works Programme.

The regular pre-war practice of preparing detailed estimates before including any new item in the Works Programme should now be followed by all Railways. This would be enforced in the 1954-55 Programme by the Board. For the 1953-54 Works Programme now under preparation detailed estimates should be prepared for as many items as possible and for the remainder at least abstract estimates should be ready, but no work should be commenced without preparing detailed estimates and having them sanctioned by the competent authority.

In future detailed estimates should be prepared according to advance programmes and pigeon-holed carefully until approved in a particular programme. The quantities should remain unchanged even after some years and price variations could be adjusted by a suitable multiplier. Each Railway must equip itself with a project section for this purpose and employ an adequate proportion of Engineering staff that could be used for both indoor planning, designing and estimating as well as outdoor surveying and measuring and the pure draftsman, calculator, should be replaced to an adequate extent by the Surveyor—Inspector—Designer—Estimator type of staff who were very much more useful and could be interchangeable with field staff. This was a most important matter and should receive early attention. The old practice of Pink Book approvals had now been discontinued but Railways should not hesitate to ask for sanctions for preliminary expenses, as separate from the actual project Estimates, for works which had to be planned and estimated for first. It was sound practice to draw up advance Works Programmes 2 years before due for discussion with the Board. To ensure that estimates were prepared in a proper and unhurried manner such Preliminary Expenses would of course have to be justified before acceptance in the same way as a reconnaissance survey for a new line.

Intimation of revised rates of coal by the Coal Commissioner to the Railway Administrations.

R 17 (iii). Extra payment on the overloaded weigh-bridge coal.—It is abundantly clear from the comments contained in para. 20 of the

Audit Report that the role played by the Railway authorities in this case has been unbusinesslike. The Committee are pained to remark that had the Railway Administration been mindful and kept vigilance over the reduction of the rate of coal by the Ministry of Industry and Supply (now the Ministry of W.P. & S.) in April, 1949, the over-payment of Rs. 56,227 would have been avoided. The Committee suggest that in order to prevent recurrence of such instances involving over-payments, the Railway Board should evolve a proper procedure in consultation with the Ministry of W.P. & S. whereby the revision in the rate of coal is communicated immediately by the Coal Commissioner to the Railway Administration concerned before it is actually put into force. The Committee shall be glad to know, in due course, of the action taken in the matter.

The Public Accounts Committee for 1953-54 (Tenth Report 1953-54 Vol. II page 48) were informed that the Ministry of Production had agreed to the simultaneous issue of the notification regarding the revision of rates of overloaded weigh-bridge coal consequent on the revision of prices of coal.

Remission of outstanding demurrage and wharfage charges.

R 17(iv). * * * The Committee deprecated the tendency of the Railways to grant remissions of wharfage and demurrage charges to the extent of 50 per cent. * * * The Committee are not satisfied with the manner in which the waiver of demurrage charges in the case of special sidings is being handled and desire that the Railway Board should examine the whole question minutely and submit to them a Report, in due course, of the decision arrived at in the matter. The Committee further desire that the question of the revision of the existing powers delegated to the various officers on the Railways to sanction write-off of demurrage and wharfage charges should also be examined to see that no abuse thereof is being made, resulting in a financial loss to the Railways (See also P.A.C. Tenth Report 1953-54 Volume I R 22).

APPENDIX XIX TO THE PUBLIC ACCOUNTS COMMITTEE'S TENTH REPORT 1953-54 VOLUME II

Memorandum on remission of wharfage and demurrage charges

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4. Demurrage and wharfage charges should not be considered as a normal source of revenue. The extent of free time that is given and the quantum of charge when the free time is exceeded will naturally depend on the condition of traffic, but in all circumstances, the criterion will be not so much the revenue to be derived from demurrage and wharfage as how soon the railways can have the wagon and godown space released for other customers.

5. In cases where the executive officers decide to waive a part of the demurrage and wharfage charges accrued, it should not be assumed that the customers are always to blame. In some cases, delivery cannot be effected owing to the delay in the arrival of the railway receipts. Although the Railways are not responsible in such cases, they cannot brusquely dispose of a request for giving consideration to this fact. There are several reasons why railways have to take a decision regarding waiver of both demurrage and wharfage charges when they find that the result of their insisting on the collection of full demurrage and wharfage charges would be that the

consignment might not be taken delivery of and ultimately they might be faced with a heavy claim for compensation. From the practical point of view, it is always profitable in such cases for the Railway to make some remission in the wharfage and demurrage charges if that will result in the consignment being delivered quickly.

6. With regard to special sidings, the administration of demurrage rules is a somewhat difficult problem. It is axiomatic that for proper functioning of the special private sidings, there should be an even flow of traffic in and out of them. But unfortunately in a country of the size of India, where traffic moves to and from the sidings sometimes over very long distances, it is not always possible for railway administrations to ensure this. It is often the complaint of siding owners that their work is hampered by what is called bunching in of wagons followed by periods when there are not enough loaded wagons coming in. During the period of bunching in of wagons, the siding capacity is exceeded and the siding owners, with the best will in the world, cannot work beyond the capacity, while in the lean period the normal organisation set up by the siding people for handling their inward traffic has not enough work. It is, therefore, the constant endeavour of the Railways to ensure an even flow of traffic to the sidings, but, as already stated, this cannot be always ensured. On occasions when bunching in does take place Railways have to make a concession, and demurrage accrued has to be waived, either in part or in full, according to the circumstances, on joint examination by the Railway administration and the siding owners.

7. In working private sidings, railways suffer from a further handicap in that loaded wagons are made over to siding owners before the railway charges are collected. This cannot be helped and is inherent in the working of private sidings. The result of this, however, is that occasions arise, though not very many, where the siding owners continue to receive loaded wagons, while the claims made by railways not only on account of demurrage but also on account of freight charges are not promptly met. In some extreme cases railways have been obliged to stop supplying wagons for loading, to bring the siding owners to their senses, but in all such cases it has not been possible for the railways to hold out long enough as the State Governments, the Labour Commissioner and sometimes even other Ministries of Government of India intervene on grounds of stoppage of production, temporary unemployment of labour, etc., and ultimately owing to such pressure they had to restore normal working. Nevertheless, even an occasional recourse to such drastic methods has the effect of sobering the siding owners, as they have to move heaven and earth in having pressure brought to bear on railways for restoring wagon supplies. In spite of this occasional handicap, the system of providing more and more of private sidings has been of benefit both to the trade and the railways. So far as the latter are concerned, they are saved the heavy expenditure of increasing their goods depot and yard capacities and at the same time the industry is tied down almost permanently to the use of the rail route, which is an important safeguard against possible in-roads by competitive road services.

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9. Cases of the kind considered by the P.A.C. cannot entirely be ruled out in the working of private sidings. It is not also possible to

devise a method which will prevent even an occasional recurrence of such cases in future. The criticism made by the P.A.C. has, however, been brought to the special notice of railways, asking them to scrutinise carefully and tighten up their existing checks and supervision, so that large sums of demurrage and wharfage are not allowed to accumulate and timely and regular action is taken to make the necessary recoveries from the siding owners to prevent as far as practicable the accumulation of large outstanding arrears.

10. Regarding the question of revising the existing powers delegated to various authorities on railways to sanction write-off of demurrage and wharfage charges in order to ensure that these powers are not abused by those authorities, instructions were issued in 1947 to railways that in refunding wharfage and demurrage charges for amounts higher than Rs. 200, the Accounts Officer must invariably be associated. This would appear to be healthy check on the action of the executive. The Railways were, however, again asked in August 1952 to scrutinise and tighten up the existing check on remission and refund of demurrage and wharfage charges and their views were called for whether the present procedure regarding delegation of power was working satisfactorily or whether a revision was considered necessary to ensure that there was no abuse of the delegated powers by the lower authorities. In reply almost all the Railways have stated that great care is exercised in the matter of waiver or refund of demurrage and wharfage charges and that the present procedure is working satisfactorily and no further revision is considered necessary.

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Hiring of a private building for Railway use

R 17(v). * * * * * The Committee were distressed to note that the expenditure to the tune of Rs. 59,000 incurred by the Railway Administration on rent and maintenance of watch and ward staff for guarding the buildings which remained vacant for 3 years is a sad commentary of state ownership and management of business by them. They should like to place on record their strong disapprobation over the manner in which the Railway Administration had handled this case which they characterise as a 'very bad case'. The Committee desire that a procedure should be evolved by the Railway Board for the guidance of the Railway Administrations whereby such instances of carelessness and remissness on the part of the Railway Administrations to utilize properly the leased buildings are eliminated.

APPENDIX XII TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTH REPORT 1952-53, VOLUME I

Copy of Railway Board's letter No. 50-B-2687, dated the 13th June, 1952, to all Indian Railways.

RE : Hiring of private building for railway use

* * * * * The Board consider that requirements of the case like this would be met if a list of all the leased buildings is compiled and subjected to periodical review both by the Administration and the Financial Adviser and Chief Accounts Officer.

* * * * *

THIRD REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1952-53 [EXCHEQUER CONTROL OVER PUBLIC EXPENDITURE]

Separation of Accounts from Audit

Para. 5 (Introduction) on page (iii). 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. (See also *Sixteenth Report 1955-56 R 63.*)

R 2. The sub-Committee 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 the 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.

R 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.

APPENDIX I TO THE PUBLIC ACCOUNTS COMMITTEE'S THIRD REPORT 1952-53

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.

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 out-lying 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 acknowledgements 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. 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.

* * * * *

The Ministry of Finance (E.A.) (Fifteenth Report 1954-55, Vol. I, page 199) have stated as below:—

The separation of accounts from Audit has been accepted in principle, but considering the administrative and other difficulties, this reform will have to be phased over a period in consultation with the States and the Comptroller and Auditor-General. A beginning has been made with the accounts of the Postal Life Insurance Scheme and as a stage in the process Government are also relieving the Comptroller and Auditor-General of the payments work done by him.

NOTE.—See P. A. C. 1923-24, R 23, 1924-25, R 23-24, 1925-26, R 24 Epitome Volume I and 1947-48 (Post-partition) R 11 of this Volume.

Grants made to State Governments

R 4. * * * * * 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. * * * * * It is * * 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 utilized so that there is no risk of these funds being diverted to unintended purposes, ****.

NOTE.—See P. A. C. 1944-45, P86 (Epitome Volume I) and First Report 1951-52 R 21 of this Volume.

Working and Audit of Private Limited Companies

R 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 Report to the Provisional Parliament *vide* paragraph 8 of the Report for 1950-51 and paragraph 24 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.

APPENDIX I TO THE PUBLIC ACCOUNTS COMMITTEE'S THIRD REPORT 1952-53

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.

* * * * *

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.

**APPENDIX LIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT FOR 1954-55, VOLUME II**

MINISTRY OF PRODUCTION

ANNEXURE-I—D

Opinion of the Attorney General

* * * * *

4. The position is somewhat different in regard to entries 54 and 56 of List I. The difference arises by reason of the phraseology used in entries 54 and 56. These entries empower Parliament to declare *the extent* to which the regulation and development therein referred to under the control of the Union to be expedient in the public interest. Once Parliament has declared by law *the extent* to which such regulation and development under the control of the Union to be expedient in the Public interest the legislative as well as the executive power of the Union will be exercisable in respect to such regulation and development *only to the extent* declared by law by Parliament to be expedient in the public interest.

5. Under entries 7 and 52 once the necessary declaration is made the industries as a whole and in all their aspects become subject to the legislative and executive power of the Union. Under entries 54 and 56 the regulation and development of mines, inter-State rivers and river valleys become subject to the legislative and executive power of the Union only to the extent to which Parliament has by law declared such regulation and development to be expedient in the public interest.

6. Parliament has by section 2 of Act LXV of 1951 declared that it is expedient in the public interest that the Union should take under its control the industries specified in the First Schedule to the Act. Among the industries specified are "heavy chemicals including fertilizers", item 15 in the Schedule. This declaration having been made the legislative power of the Union extends to making all legislation whatsoever with respect to the industries mentioned in the First Schedule to the Act; and the executive power of the Union with respect to these industries is co-extensive with the legislative power of the Union in relation to these industries.

7. No doubt Parliament has by the same Act created various bodies for the regulation and development of the scheduled industries. But the fact that they have so legislated has not the effect of cutting down or limiting the executive power of the Union with respect to these industries save in so far as the legislation made by Parliament expressly or by necessary implication limits it. There would appear to be nothing in the Act which, for example, either by enactment or necessary implication prevents the executive of the Union from subscribing and holding shares in the private limited company or managing and controlling that company.

8. Article 266 (3) provides that moneys out of the Consolidated Fund of India shall be appropriated in accordance with law and for the purpose and in the manner provided in the Constitution. If the necessary appropriation of the moneys needed for the shares of the private limited company has been made in accordance with article 110 (1) the disbursement of these moneys will be in compliance with the provisions of sub-clause (3) of article 266 and, therefore, constitutional.

9. I have dealt only with the point raised in paragraph (3) of the Memorandum of the Comptroller and Auditor-General of India as that alone has relevance to the question raised in the statement of the case. I do not deal with the point as to the whittling away of Parliamentary control over public moneys which has been raised in paragraph (4) of the Memorandum.

APPENDIX XXXI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT 1954-55, VOLUME II

MINISTRY OF PRODUCTION

(i) * * * * *

(ii) FORMATION OF PRIVATE LIMITED COMPANIES FOR THE MANAGEMENT OF STATE UNDERTAKINGS

Note stating action taken by the Ministry of Finance under recommendations made by the Public Accounts Committee in para 5 of their Third Report on the exchequer control over public expenditure with a special reference to the opinion recorded by the Attorney-General on the legality of the formation of such companies.

The Public Accounts Committee in para 5 of their Third Report on the exchequer control over public expenditure made the following recommendations :—

“Corporations for the management of Government Industrial undertakings should be set up under the authority of Acts passed by Parliament”.

2. The Comptroller and Auditor-General of India expressed doubt about the propriety of the Union Government spending money out of the Consolidated Fund of India on an industry until Parliament by law declared the control of such an industry by the Union Government to be expedient in the public interest—*vide* item 52 of

List I of Seventh Schedule of the Constitution. The Comptroller and Auditor-General raised the second major point, namely that he derives his authority from Art. 149 of the Constitution and he would be prepared to accept the responsibility for auditing the accounts of companies of this type if specifically asked to do so by Parliament but not otherwise. A Statement of the Case was first placed before the Attorney-General in June 1951. The two constitutional issues raised in the statement for opinion were (1) can the Central Government establish or run an industry such as the Sindri fertilizer project or spend money out of the Consolidated Fund of India on such industry unless and until Parliament by law has declared the control of such industry by the Union Government to be expedient in the public interest (item 52, List I of Seventh Schedule)? and (2) can the Comptroller and Auditor-General who derives his authority from Art. 149 of the Constitution accept responsibility for the audit of industrial and commercial undertakings unless specifically required to do so by Parliament? On this, the opinion of the Attorney-General dated 4th July, 1951 was as follows: In regard to the first issue, the reply was in the negative in the absence of a declaration by Parliament by law, and this could not be overcome by a resolution of Parliament which has not the efficacy of law. On the second point also, the answer was in the negative namely that the requisite statutory powers for the audit by Comptroller & Auditor-General could not be conferred simply by the articles of association of a limited Company.

3. In the meantime in October 1951, the Industries (Development and Regulation) Act, 1951 (Act LXV of 1951) had been enacted. In a meeting with him, the Comptroller and Auditor General still held the view that this Act did not confer on Government absolute powers in respect of fertilizers and other industries mentioned in the 1st schedule and the function of the Centre operating through Development Councils were limited—*vide* section 6(4) of the Act. On the second issue, the Comptroller and Auditor-General also expressed the view that the Company may request him to be auditor, if necessary, by incorporating suitable provisions in the Articles of Association; but this would be neither proper nor binding as his duties and functions are prescribed by Parliament.

4. A Statement of the Case was again presented to the Attorney-General on the 16th January 1952 where it was asked "Whether the declaration contained in section 2 of the Act cited is sufficient from the constitutional point of view to give the Central Government necessary executive power to hold shares in and to manage and control Sindri Fertilizers & Chemicals Ltd., or whether further and more specific legislation is necessary for the purpose". On this, the opinion of the Attorney-General furnished on 16th February 1952 was final and affirmative, namely that further and more specific legislation is not necessary for the purposes mentioned.

5. While the Comptroller and Auditor-General had pointed out that additional functions could not be imposed on him through the Articles of Association of Companies he expressed the definite view that, in any case, his audit jurisdiction could not be ousted from Central Government undertakings and he would continue to exercise his right to audit the accounts of such undertakings. In consultation

with the Comptroller and Auditor-General, a suitable provision has been made in the Articles of Association of each company providing for the right of the Comptroller and Auditor-General to audit the accounts of such undertakings in addition to the audit requirements of the Company Law.

6. In view of the position that had been sustained in regard to Sindri, other undertakings under the Ministry of Production with the company form of working had been started. In each of these cases there is a provision in the Articles of Association for audit by the Comptroller and Auditor-General and this was made in consultation with him and he has been arranging for audit on this basis although reserving his inherent right to have this regulated by legislation. The matter came up for discussion in Parliament in December 1953 when the Finance Minister clarified the attitude of the Government. **He explained that the company form of management was considered suitable for certain types of undertakings and Government had been experimenting with various types. It was Government's intention to consider in what way the whole position could be placed on a more satisfactory basis by legislation, either by special enactment or by incorporation in the Company Law Bill which is still pending.**

After a discussion with the Ministries concerned, a decision has been taken to introduce a special chapter in the Companies Bill, introduced in Parliament in September 1953 and now pending before a Joint Select Committee of the two Houses. To provide for the establishment and regulation of companies in which Government has a predominant interest, it is proposed to include within the scope of the special chapter all companies in which the Central and/or the State Governments have, individually or jointly, a share-holding of fifty-one or more per cent. of the total shareholding of the companies. If Parliament approves the provisions contained in the special chapter, statutory authority will have been conferred on the executive Government to organise Government undertakings, with a majority of Government capital in them, in the form of Joint Stock Companies. Whether a specific provision should be made in this chapter for Parliamentary authorisation for the establishment of such a company, in each individual case where such a company is proposed to be set up by Government, by an appropriate Parliamentary resolution or otherwise, is a matter which is now under the consideration of Government. As soon as a decision is taken on this issue, a suitable provision will be made in the special chapter in the Companies Bill.

NOTE. —See P. A. C. 1947-48 (Post-partition) P 104 and First Report 1951-52, R 24.

FOURTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1952-53 [IMPORT AND SALE OF JAPANESE CLOTH]

Procedure regarding submission and disposal of cases

R 20. The sub-Committee find that this whole matter was dealt with by a few Officers of the Department of Industry and Supply. The main decisions were taken at the level of Deputy Secretary. The Secretary of the Department seems to have seen the file once or twice. At no stage was the file or proposal submitted to the Minister for his orders. Certainly, the Cabinet has been unaware of the whole transaction from beginning to the end. To the repeated questions of the sub-Committee, the representatives of the Ministry of Commerce and Industry were unable to show any evidence that any statement of the case had been prepared at any time or that the implications of the scheme studied in any detail either in a note or a memorandum. All that was shown to the sub-Committee were a few cryptic notes here and there of lower Officers who seem to have taken the whole responsibility in this case upon themselves. It was pleaded before the sub-Committee that it was sufficient that if the Minister had seen a stray telegram in dak his approval to the whole scheme was assumed although it was stated before the Public Accounts Committee that the Minister was consulted. The sub-Committee were surprised to find during the examination of the Officers that there were no uniform rules regulating the business of Government or various Ministries and Departments. It was contended before the sub-Committee that each Ministry followed its own methods of work and there was no uniformity of procedure for submitting cases to the Secretary, Minister or Cabinet.**** The way in which the case under examination has been dealt with leads the sub-Committee to think that there is room for tightening up the procedure and laying down rules which should regulate the conduct of the Governmental business in a more methodical manner.

R 24. The sub-Committee feel that the looseness of procedure which was responsible in the present case for the eventual loss of over half a crore of rupees to the Public Exchequer should be investigated by Government immediately and clear instructions laid down for future for the examination of proposals at all levels, namely, cabinet, Ministerial and Secretarial. The present case has shown that there is still confusion of thought among the various Officers and the responsibilities are not properly apportioned between, and understood by, the various authorities.

ANNEXURES I AND II OF APPENDIX LXXIV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT FOR 1954-55, VOLUME II

ANNEXURE I

Government of India, Ministry of Home Affairs Office Memorandum, No. 23/27/53-RE, dated the 21st April 1954.

SUBJECT.—Procedure regarding submission and disposal of cases.

The Public Accounts Committee had an occasion recently to look into a case which had resulted in a substantial loss to the Public

Exchequer. The Committee attributed this loss to the looseness of procedure, confusion of thought among the various officers as to their respective roles, and want of proper apportionment of responsibility among the various authorities in the Ministry concerned; and recommended that these matters should be investigated by Government and clear instructions laid down for the examination of proposals at all levels, namely, Cabinet, Ministerial and Secretarial.

2. The Ministry of Home Affairs have examined the above recommendation of the Public Accounts Committee in detail with reference to the case in question and are satisfied that the instructions already issued and those proposed to be incorporated in the revised Rules of Business and Secretariat Instructions and in the Manual of Office Procedure make adequate provision for the proper examination and disposal of cases at appropriate stages. Nevertheless, it must be admitted that in the very nature of things it is not possible to prescribe in detail the circumstances in which cases should be submitted to higher levels for decision and a certain amount of discretion must necessarily be left to the officer handling a case. Any mistakes arising out of the exercise of this discretion can, however, be avoided, or at least detected soon after they occur, if Departmental Standing Orders of the type envisaged in the Ministry of Home Affairs Office Memorandum No. 9/3/51-RE, dated the 20th November, 1951 (Reproduced below) are issued by Ministries laying down *inter alia* the powers, duties and responsibilities of the various grades of officers and specifying cases or classes of cases which should be brought to the personal notice of the Minister-in-charge. It is, therefore, requested that pending the issue of the revised Rules of Business and Secretariat Instructions and Manual of Office Procedure, Ministries/Departments may take suitable steps (if not already taken) to ensure :—

- (i) that the Departmental Standing Orders of the type referred to in paragraph 4 of the Ministry of Home Affairs Office Memorandum of 20th November, 1951 referred to above are issued and observed strictly; and
- (ii) that weekly statements of cases (other than those of a purely routine nature) disposed of without the personal consideration of the Minister are submitted to the Minister-in-charge regularly.

* * * * *

ANNEXURE II

**Government of India, Ministry of Home Affairs, Office Memorandum,
No. 9/3/51-RE, Dated the 20th November 1951**

1. A case recently came to notice from which it appeared that at present not all the Ministries submit to their Ministers a periodical statement of cases disposed of by Secretariat officers. A scrutiny of these statements enables a Minister to find out whether any case has been disposed of in a manner contrary to his policy or desire and to take urgent steps to correct any mistakes.

2. It will be as well to refer to following provisions in this respect in the existing Rules of Business and Secretariat Instructions :—

- (a) "Save as otherwise provided.....cases shall ordinarily be submitted by the Secretary in the Department to which the subject belongs, for the purposes of the first perusal of papers and of the initiation of orders thereon to the Member (Minister) in charge of that Department". (Rule 3);
- (b) "Cases of minor importance shall ordinarily be disposed of by, or under the authority of, the Member (Minister) in charge of the Department to which the subject belongs." (Rule 4); and
- (c) "It shall be the duty of the Secretary in the Department to which the subject belongs to submit every case which he is not by the practice of the Department competent himself to dispose of, in a complete form, ready for orders to..... the Member (Minister) in charge of the Department." (Instruction 4—Secretariat Instructions).

3. The Ministry of Home Affairs have had under consideration the revision of the Rules of Business and Secretariat Instructions so as to bring them into conformity with the provisions of the Constitution of India and the Cabinet decisions on the reorganisation of the machinery of Government, and preliminary drafts of these have been prepared. The draft Rules provide as under :—

"Subject to the provisions of these Rules, in regard to

- (a) consultation with other Ministries or Department, or
- (b) submission of cases to the Prime Minister, the Cabinet or its Committees and the President.

all business allotted to each Ministry or Department shall be disposed of by, or under the direction of the Minister-in-charge."

4. Draft Instruction 6 of the proposed Secretariat Instructions provides that "Consistently with the Rules, and these Instructions and the Manual (of Office Procedure), the Secretary in a Ministry or a Department shall, with the approval of the Minister-in-charge, frame Departmental Standing Orders for regulating allocation of subjects and procedure for disposal of work within the Ministry or Department under his charge. Such Departmental Orders shall provide, *inter alia* :

- (a) for detailed distribution of subjects allotted to the Ministry or Department among the Wings, Divisions, Branches and Sections of the Ministry or the Department; the charges of the various officers, their powers, duties and responsibilities; and routing of cases;
- (b) for specifications of cases or classes of cases which shall be brought to the personal notice of the Minister-in-charge;
- (c) for submission to the Minister of a weekly statement of cases other than those of a routine nature disposed of in Department without personal consideration by the Minister."

Draft Instruction 7 provides that "care should be taken that decisions reached as a result of personal discussions, as well as the reasons which led to the decisions in question, shall be placed on record".

5. It will be sometime before the proposed Rules and Instructions are finalised. When the draft Secretariat Instructions and the Draft Manual of Office Procedure are approved and published, there should be no room for any confusion because these will ensure the issue of both Standing Orders and the periodical submission to the Minister of lists of cases disposed of by secretariat officers. Meanwhile (in view of the importance of the subject) it has been decided that all Ministries which do not at present submit weekly statements to their Ministers should be requested to make arrangements to do so at once. Where there are no Standing Orders of the nature referred to in para. 4 above, the issue of such Standing Orders may also be considered.

**FIFTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS
COMMITTEE 1952-53 ON THE APPROPRIATION ACCOUNTS
(RAILWAYS) AND (POSTS AND TELEGRAPHS) 1949-50**

Vetting of Ministries' Notes/Memoranda by Audit before submission to the Public Accounts Committee.

R7. * * * * The Committee desire that in pursuance of standing instructions contained in the Office Memorandum from the late Finance Department, No. D. 6368-F, dated the 17th August, 1934 and as reiterated *vide* the Office Memorandum from the Ministry of Finance No. F. 10(10)-B/52, dated the 31st October, 1952, all notes/memoranda containing facts and figures which are susceptible of verification by Audit authorities should, in the first instance, be referred to audit authorities before being submitted to the Committee. The Committee desire that these instructions should invariably be followed by the Railway Board in future.

Copy of Office Memorandum No. F. 10(10)-B/52, dated the 31st October, 1952, from the Government of India, Ministry of Finance (E. A. D.) New Delhi, to all Ministries of the Government of India, etc.

It has been reported that Ministries submit Memoranda direct to the Public Accounts Committee without taking into consideration any comments which the Audit Department may have to make concerning them. The figures which can be verified in audit are included in such memoranda without any specific mention of whether or not they have been accepted in audit. It will save a lot of time and discussion of the Public Accounts Committee if the instructions contained in the late Finance Department Office Memorandum No. D. 6368-F, dated the 17th August 1934 (copy enclosed) are followed in future.

* * * * *

Copy of late Finance Department Office Memorandum No. D. 6368-F, dated the 17th August, 1934.

The undersigned is directed to say that as a result of suggestion made by the Auditor General it has been decided that in future memoranda should not be submitted to the Public Accounts Committee or the Military Accounts Committee without taking into consideration any comments which the Audit Department may have to make concerning them and that such memoranda, if they mention figures which can be verified in Audit, should state whether such figures have or have not been accepted in Audit.

Reference of cases to arbitration in which "No claim" Certificate had been signed by the Contractors.

R11. * * * * The Committee find that even claims relating to items in respect of which the contractors had signed "No Claim" certificates previously were allowed to be referred to arbitration. The Committee observe that the Railway Administration should have insisted on the exclusion of these cases from the claims before agreeing to arbitration. They feel that it was a mistake on the part of the Railway Administration and can be cited as an example of 'careless stewardship' of the financial interests of the State. * * * * (See also P. A. C. Tenth Report 1953-54 Volume I, R-35 and of Thirteenth Report 1954-55 Volume I, R-84).

Execution of emergent Works and maintenance of contemporary records of facts.

R12. * * * * The Committee suggest that in future in all cases where works are required to be carried out in any emergency, special procedure should be prescribed by the competent authority taking into account all the circumstances of the emergency. It is undesirable that a general permission to the authorities executing the work "to take all necessary measures to ensure that the project is fulfilled" should be given (as was stated to have been done in this case) and the extent to which the normal Code rules are to be relaxed should be precisely stated. Further, the authorities exercising such extended powers should be directed to leave sufficient contemporary record of facts to enable the investigating authorities in future to judge whether such powers have been judiciously exercised. (See also P. A. C. Tenth Report 1953-54 Volume I, R-30).

The Public Accounts Committee for 1953-54 (Tenth Report 1953-54 Volume II page 52) were informed that all the Ministries had noted the above recommendations.

"Cost-plus" contracts

R13. * * * * The Committee has always held the view that 'cost-plus' contracts should be avoided except when they are inevitable. While there might have been at least some justification during an emergency, such as war, when firms had to enter new lines of business or even during ordinary times in case where an indigenous industry has to be developed, the Committee is emphatically of the view that such contracts should not be placed in other cases. In particular, it is wrong to enter into 'cost-plus' contracts, with foreign firms over which Government can have little control in respect of costs, and when even precise ascertainment of costs is likely to be difficult. In the preamble to the agreement with this firm, it has been stated that Schlieren have long and varied experience of manifold character in the manufacture of light-weight, coaching stock. If that was so, this firm with considerable experience should have been in a position to quote a firm price once the design was finalised. The 'cost-plus' contract should not have been entered into with such a firm, as

it has been the experience in the past that there is no incentive to economy in such contracts, and that Government has always to pay unnecessarily high prices.

The Public Accounts Committee for 1953-54 (Tenth Report Volume I) were informed that the recommendation had been noted and instructions issued by all Ministries.

Note.—See P. A. C. 1939-40, R-5 (M. A. C.) Epitome Volume I.

Recovery of heavy station outstandings.

R 16. The Committee note that out of a sum of over Rs. 18 lakhs shown in para. 40 of the Audit Report as outstanding against the station staff on account of admitted traffic debits on the 31st March, 1950, about Rs. 6 lakhs have already been recovered and the latest position of such debits is about Rs. 12 lakhs. The Committee express concern over such a huge amount being outstanding for recovery from the station staff. The Railway Board have contended that in view of the limitations of the total amount that can be realised monthly from the salaries of individual staff imposed under the Payment of Wages Act, 1936, there is bound to be some delay in the realisation of the full amount. The Committee apprehend that in a great number of cases, the amount of outstandings might be very large and may even exceed the pay of the Railway Servants and as such the chances of full recovery may be very remote. The Committee desire that the Railway Board should impress upon the various Railway Administrations to effect recoveries of the outstanding debits from the station staff expeditiously and no consideration should be shown to them in the matter of postponement or write off of such recoveries. The Committee also suggest that the Government should explore the possibilities of recovering these outstandings, if necessary, by amending the Payment of Wages Act, 1936. The Committee desire that the Railway Board should take all steps considered necessary to safeguard the interests of the Public Exchequer.

The matter is still under the consideration of the Ministry of Labour.

Nationalisation of TELCO for manufacture of boilers and locomotives.

R17. * * * * Without pronouncing any opinion on the subject of nationalisation of industries as such, it appears to the Committee that in the case of an industry which caters entirely for Government purposes, such as the Locomotives or the Ammunition Factory, there is obviously a strong case for the State-ownership and management of such industry. The arguments may be different in the case of an industry which caters only partially to the needs of Government. But in the case of an industry catering wholly to the Government requirements, the assessment and payment of profits has hardly any meaning. The Committee trust that Government will give due consideration to this view and come to an early decision on the advisability of their taking over from TELCO the manufacture of boilers and locomotives, and running it as a State-owned Industry. If necessary, the Government can invite participation of private capital in such State-owned concerns in the shape of Debentures. [See also P. A. C. Fourth Report 1957-58 (Volume I Second Lok Sabha) R-54 and 60.]

**APPENDIX XX TO THE PUBLIC ACCOUNTS COMMITTEE'S
THIRTEENTH REPORT 1954-55, VOLUME II****MINISTRY OF RAILWAYS (RAILWAY BOARD)****Memorandum on the Manufacture of Locomotives and Boilers by
The Tata Engineering & Locomotive Company, Limited.**

* * * * *

5. The third recommendation is for taking over TELCO and running it as a purely nationalised or Railway concern. It may first be pointed out that the agreement with TELCO subsists until 1st June, 1961, and Government is, until then, bound to purchase 50 locomotives and 50 boilers a year from the Company. To discontinue placing orders for locomotives and boilers on TELCO would therefore, constitute a breach of this agreement. Further, the total demands for boilers and locomotives are and will continue to be much in excess of the production that can be secured in the factory which the Railway Ministry have set up at Chittaranjan for the manufacture of locomotives and boilers. It is, therefore, desirable to use the existing facilities at TELCO for the manufacture of locomotives and boilers.

6. The main idea behind the recommendation of the Public Accounts Committee, however, seems to be that inasmuch as TELCO factory caters entirely for Government purposes, it should be State-owned and managed by the State. If this recommendation is to be given effect to, the TELCO Works would have to be acquired either by agreement or compulsorily. There is hardly any possibility of TELCO agreeing voluntarily to sell the factory to Government. Legislation would, therefore, have to be enacted for the compulsory acquisition of the factory. The latest balance sheet of TELCO shows that the book value of the block is Rs. 7.25 crores as at 31st March 1954, whereas investment by the Government of India amounts to only Rs. 2 crores. It cannot be stated with certainty what compensation would have to be paid by Government should they decide to acquire the factory, but it is bound to amount to a large sum of money. A decision to acquire the TELCO Factory would, therefore, lead to Government incurring considerable expenditure on the acquisition of an existing production unit when that money could be spent more usefully in augmenting production in this or any other field. This can hardly be justified.

7. There is no doubt that the boilers and locomotives manufactured by TELCO are entirely for Government purposes. Even the road-rollers and the underframes which TELCO have manufactured, as a side business, were intended for the Government. The advisability of the Government acquiring the TELCO Works for the manufacture of boilers and locomotives and running it as a State-owned industry has, however, to be considered in the background of the history leading to the finalisation of the Agreement between Government and TELCO. The Agreement for the manufacture of boilers and locomotives was signed on 20th August, 1947, with retrospective effect from 1st June, 1945, and this would remain current for 16 years from 1st June, 1945. Acquisition of TELCO Works by legislation would be a breach of this agreement. Further, even at the commencement of the agreement, it was intended that TELCO will not

be a purely locomotive manufacturing factory but one manufacturing other general heavy engineering products also. It was also contemplated that TELCO might even produce and export locomotives and boilers in excess of the number guaranteed for purchase by Government. It is in pursuance of this conception, that the Government of India have lately agreed to TELCO's undertaking the manufacture of diesel trucks in the factory. While, therefore, there is no reason to doubt that it would not have been possible for TELCO to come up to the present position, without consistent and continuous Government assistance, both financial and otherwise, it would be contrary to the original understanding under which TELCO was to function as a general engineering factory, if the Government were to decide to acquire it now and run it as a State-owned factory on the ground that it has been until now catering entirely for Government purposes. It will also be impracticable to segregate such of the assets of TELCO which will constitute the unit for the manufacture of boilers and locomotives only and acquire the same. In any case, this will throw all their other possible production programmes out of gear.

8. The Public Accounts Committee, in their Report referred to in para. 1 above, have observed that TELCO have not been able to implement the various terms of the agreement, and presumably this is the chief reason for their recommendation to acquire the Works. It is true that the period 'A' which should have been for one year from June, 1945, with a production plan of 50 boilers had to be extended up to December, 1947, with a reduced production plan of 40 boilers, but the actual out-turn during the period was only 10 boilers. Period 'B' which should have been for one year from June, 1946, with a production plan of 100 boilers actually commenced in January, 1948, with a production plan of 81 boilers, but the actual out-turn was 44 boilers only. Period 'C' which was to commence in June, 1947, with a production plan of 100 boilers a year actually commenced from January, 1949, but as the production target of 100 boilers a year was not reached, the decision to deem January, 1949, as the commencement of period 'C' was cancelled and it was decided that period 'B' should continue until a date when it was possible for TELCO to produce 100 boilers a year. However, TELCO have now reported that they produced 8 boilers a month successively from February, 1954, onwards, and they have claimed that period 'C' should now be considered as having commenced with effect from that month. This is being examined by a Technical Team appointed by the Railway Board, but *prima facie* it would appear that the production target laid down in the Agreement for the period 'C' has been reached. TELCO have also claimed that period 'Y' for locomotive production of 50 locomotives a year would commence from July, 1954. This claim is also under examination by the same Team, and is likely to be accepted.

9. TELCO's inability to maintain the targets fixed in the Agreement is ascribable to various factors, the chief of them being :—

- (a) The facilities and capacity of the plant available in the Singhbhum Shops at the time of purchase were entirely inadequate to manufacture parts and components of boilers and locomotives in sufficient quantities to meet the full requirements. This handicap continued to hamper production until the new machine shop and the new forge and smithy were constructed and equipped.

- (b) The manufacture of locomotives and locomotive boilers was complicated and constituted a new industry in India, and no experience of planning such a factory was available in the country. No ancillary industry in the country was also available from which TELCO could have drawn raw materials or components to supplement its own products for the manufacture of the required number of boilers and locomotives.
- (c) Delays in receipt of machines, components and tools from outside sources due to shortage of materials in the world market for various causes, such as War, etc.
- (d) Partition of the country caused delay in the early stages of construction and manufacture.
- (e) Original shops taken over from the ex. E. I. Railway had to be fully re-laid due to higher targets agreed upon and this necessitated construction and manufacture going side by side, which necessarily resulted in delays to manufacture of boilers.
- (f) There was a lack of trained and experienced engineers which has now been remedied with the assistance of Messrs. Krauss Maffei with whom TELCO have entered into an agreement for the training of their staff and also to supply the technical 'know-how', etc.
- (g) There were strikes in the TELCO Shops which caused delay both in the construction of the Shops and the manufacture of boilers and locomotives.

In addition to the above causes, delays also occurred due to changes in specifications and drawings from time to time. Further, it was not possible for Government to place orders for one type of boilers or locomotives to be manufactured in TELCO. Except for the first order which was for 100 SGS boilers, subsequent orders for boilers were of various types and of comparatively small numbers.

10. It can now be stated that TELCO have weathered most of the difficulties attendant on the establishment of a new and complicated industry. There is no doubt that the delay in the commencement of periods 'C' and 'Y' has had the effect of TELCO being paid on the actual cost basis for boilers and locomotives for a much longer period than originally contemplated and that this has resulted in Government paying for locomotives and boilers produced in TELCO, much more than what would have been paid if the expectations at the time of the execution of the agreement had been fulfilled. This is unfortunate, but it is considered that this fact alone would not justify the acquisition of the factory, specially when as already stated, they have reached the target of production.

11. Having regard to all the circumstances, the Government have come to the conclusion that it would not be in the best interests of the country to acquire the Loco and Boiler manufacturing unit of TELCO.

Excessive Store balances in the Posts and Telegraphs Department

R 25. The Committee note that the value of stores in stock including the value of works in progress on the 31st March, 1951 was Rs. 4.35 crores against the revised limit of Rs. 3.5 crores. They were informed that the Department had commissioned a Swiss firm of experts to advise them about the method of provisions, planning and control of stores etc. The Committee desire that the Department should arrive at an early decision to fix a limit of the balances under the various categories of stores which are at present fixed on an *ad hoc* basis. The Committee observe that the maintenance of excessive stocks involves the tax-payer in a two-fold loss. There is the loss of interest on capital unnecessarily locked up, and loss arising from the danger of the stores becoming obsolete which may become unsaleable or which may have to be disposed of at a rate lower than the cost price. The Committee commend to the Posts and Telegraphs Department to consider the desirability of adopting the Stores system existing on the Railways with necessary modifications to suit their set-up.

APPENDIX XXII TO THE PUBLIC ACCOUNTS COMMITTEE'S TWENTY-SECOND REPORT 1956-57**Memorandum from the Ministry of Communications No. N. A. 29-11-53 LA, dated 17-11-1955, regarding Posts and Telegraphs Stores Balances.**

The Public Accounts Committee desired that the Posts and Telegraphs Department should arrive at an early decision on the recommendations made by IBCON, a Firm of Experts, in the matter of fixing the maximum and minimum limits for the maintenance of stores balances under various categories and take all possible measures to bring down the stock balances without detriment to the efficient working of the Department. The Committee recommended that the P.&T. should consider the desirability of adopting the stores system existing in the Railways with necessary modifications to suit the P.&T. set-up.

2. The P. & T. Department has examined the recommendations made by IBCON in the matter of fixing the maximum and minimum limits for Stores and also the prevailing procedure in the Railway Stores Organisation. The main difference between the Railway Stores Depots and the P.&T. Stores Depots is that in the case of the Railways, the bulk of the stores in the Depots constitute maintenance requirements. The stores required for capital works are generally segregated or ear-marked for these works or issued direct to the works site, where they are held as custody stores or materials at site. It is only for the items of maintenance stores which are held in the Store Depot that maxima and minima limits have been fixed.

3. In the P. & T. Stores Organisation the Stores Depots hold not only the maintenance requirements but also the requirements of capital works. As the types of stores to meet both these requirements are more or less identical, such an arrangement allows considerable flexibility in the issue of Stores.

4. (i) As for the fixing of the maximum and minimum limits for all stores held in stock, it will be seen that while there may be no difficulty in prescribing the limits as regards maintenance stores it

will not be very practicable to prescribe the limits for stores for capital works as the quantity of Stores required will depend on the approved works programme which changes from year to year. As a matter of fact, requirements regarding maintenance stores will also change slightly in relation to the works carried out. Taking all these factors into consideration and in the light of experience gained so far, the following formula has been evolved.

Minimum working balance :—

3 months requirements of stores for both capital and maintenance works or for half the procurement time whichever higher.

Ordering level :—

Requirement of stores to cover procurement time plus one month's requirements.

Maximum level :—

Requirements of stores for 12 months.

4. (ii) A formula has also been evolved for fixing the Maximum limit of stock balance taken as a whole for all categories of stores, on the basis of the total anticipated turn-over for any year and the average time required for procurement of different categories of stores, namely, stores manufactured in the Departmental workshops, stores purchased in India and Stores imported from abroad. The maximum balance for general stores has been fixed at Rs. 4.54 crores for the two years from 1st April, 1953.

It is proposed that this limit will be revised from time to time and fixed in advance for two years at a time.

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NOTE—See P. A. C. 1945-46, P 74 (Epitome Volume I).

Recovery from Contractors employed for the handling of treasury work in the Post Offices.

R27. * * * * The Committee desire that in cases where the agency of contractors is employed for the handling of treasury work in the Post-Offices, adequate measures should be taken to ensure that in the event of misappropriation or loss of money which might exceed the amount of the security held by the Government, the entire amount could be recovered from them through a decree granted by a Civil Court. * * * *

D. G., P. & T. Memorandum No. B.27-26/54, dated the 7th January 1955

Adequate measures exist in the form of agreement executed by the Treasury Contractors to recover all losses for which the treasurer was liable under the terms of the agreement and in law otherwise.

Keeping of photostat copies of documents to be filed with a Court

R30. * * * * The Committee regret that departmental action should have been delayed because all the original documents relating to the case had been filed in the High Court, and the matter was allowed to drag on for two to three years. The Committee also understand that the Officer was in the meantime promoted to a higher and responsible post while his case for disciplinary action was pending with the U. P. S. C. The Department was very well aware that the proceedings in the Civil Courts and High Courts generally take a long time and they should have arranged to keep photostat copies of the original documents before parting with them. The Committee cannot escape the conclusion that the Department has to be blamed for the dilatory procedure followed by them in this case. To discountenance such a state of affairs and to eliminate any element of delay in instituting disciplinary action against an Officer, the Committee desire that, whenever original documents are required to be filed with a Court, the Department concerned should invariably keep photostat copies of such documents as have got an important bearing on the disposal of the case.

The Committee also deprecate the tendency of the department to promote officers to higher posts during the pendency of the disciplinary cases against them.

APPENDIX XLV TO THE PUBLIC ACCOUNTS COMMITTEE'S TENTH REPORT 1953-54 VOLUME II.

Copy of the Director General, Posts and Telegraphs letter No. SEA-6-13/53, dated 28-4-1953 to all Heads of Circles and Administrative Offices.

SUBJECT.—*Keeping of photostat copies of important documents before filing them in Court to avoid delay in disciplinary proceedings.*

In a case that came up before the Public Accounts Committee recently, it was explained that departmental proceedings could not be initiated promptly as the documents relating to that case had been filed in a court of Law. The Public Accounts Committee have therefore recommended that, in future, steps should be taken to have copies taken of such documents having an important bearing on a disciplinary case before filing them in Court and that the plea of want of these documents as the cause of delay in initiating departmental proceedings should not be accepted.

2. The officers under your control may please be instructed first to satisfy themselves whether any of the documents to be filed in Court will be required simultaneously in connection with a pending disciplinary case. If so, they should make immediate arrangements to have them copied and attested by a gazetted officer before being filed in Court. If it is further felt that it would be imperative to produce the document in original in a disciplinary case, or where the handwriting as such has to be reproduced, photostat copies should be taken of those documents. All cases where the expenditure is likely to be considerable may be referred by the subordinate

officers to you for advice. But the only criterion that should govern such a procedure is whether by the lack of photostat copies the disciplinary case is likely to be indefinitely prolonged.

* * *

Cost accounting system in the Telegraphs and Telephone Workshops

R-33. The Committee observe that the cost accounting system followed in the Workshops is not based on scientific methods as no authorised schedules of materials and labour were maintained even for standard products. * * * * The Committee desire that as a first step towards improving the state of affairs in this direction, suitable machinery should be devised for the training of the subordinate staff in the methods of workshop and store-accounting systems. The Committee find that no attention has been paid to this important aspect of training on which depends largely the efficient working of any system.

D. G., P. & T. Memorandum No. B. 27-26/54, Dated the 7th January, 1955.

As regards the question of imparting training to Posts and Telegraphs Accountants, it has been decided that Posts and Telegraphs Accountants who pass Part II of the Posts and Telegraphs Accountants examination should undergo training in Stores and Workshops accounts for six weeks before appointment as Senior Accountants.

*The Public Accounts Committee for 1957-58 (First Report, Second Lok Sabha page 14) were also informed that * * * * the preparation of labour and material schedules was in progress and the Posts and Telegraphs Department expected to complete these by * * * * December 1957.*

Audit to be apprised of financial and other aspects of all new Major works.

R34. * * * * The Committee also observe that in this case the implications of the scheme, the magnitude thereof and the details of the amount of expenditure to be incurred thereon were not furnished to the Audit. The Committee take a strong exception to this lapse on the part of the Department and recommend that in future, in all cases of major works, the Audit authorities should be apprised of the financial and other aspects thereof so as to enable that Department to organise its own accounting and audit arrangements in time. * * *.

The Public Accounts Committee for 1953-54 (Tenth Report 1953-54 Volume II page 47) were informed that the recommendation had been noted by the Posts and Telegraphs Department.

NOTE:—See P. A. C. 1945-46, R 11 (Epitome Volume I).

Policy for construction of buildings by the Posts and Telegraphs Department.

R36. * * * * The Committee note that the annual rental paid by the Department for their Offices situated in different big cities runs into several lakhs of rupees. Moreover, that accommodation provided at certain places is of very poor quality and even the Offices are scattered over a number of places which considerably hampers their

efficient working as an integral unit. The Committee suggest that a Commercial Department like the Posts and Telegraphs should formulate a more rational and integrated policy in the matter of construction of buildings for accommodating Executive, Administrative and Audit Offices and gradually as the funds permit, embark upon the construction of essential buildings. Such a course, in the opinion of the Committee, would prove more economical in the long run.

The Public Accounts Committee for 1953-54 (Tenth Report 1953-54 Volume II page 47) were informed that recommendation had been noted by the Posts and Telegraphs Department.

Prompt action on Public Accounts Committee's recommendations.

R 38. The Committee noticed that in most of the cases copies of the memoranda/notes stating action taken by the Posts and Telegraphs Department pursuant to the recommendations made by the last Committee were furnished to them only a day or two before the date on which they were to examine the Accounts relating to that Department. The Committee express their displeasure over the belated action taken by the Department. They would urge that the Department should, in future, initiate early action soon after the Report of the Committee is made available to them and all notes/memoranda should be submitted to the Committee after getting them verified by Audit well in advance of the date on which the examination of the next year's Accounts relating to the Department is put down (See also P. A. C. Sixteenth Report, 1955-56, Para 5 of Introduction.)

The Public Accounts Committee for 1953-54 (Tenth Report 1953-54 Volume II, page 48) were informed that the recommendation had been noted by the Director General, Posts and Telegraphs and all the Ministries.

NOTE:—See P. A. C. 1929-30, R 21; 1933-34 R II-15; 1944-45 R9 (Epitome Volume I.)

SIXTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1952-53 (HIRAKUD DAM PROJECT)

Examination of the accounts of the Hirakud Dam Project by the Central Public Accounts Committee.

R 2. The project for the construction of a Dam at Hirakud, is a subject which primarily falls within the sphere of the Orissa Government, but its construction has been undertaken by the Government of India at the request of the Orissa Government as an agent of that Government. This arrangement was concluded in 1948 as a result of the preliminary investigations conducted by the Central Waterways, Irrigation and Navigation Commission (now Central Water and Power Commission—CW & PC) on the feasibility of the Project.

R 3. Under agreement between the two Governments, the Commission was to undertake the construction and completion of the Project before handing it over to the Orissa Government. The Government of India were also to advance to the Government of Orissa the sums required from time to time for the execution of the Project. The sub-Committee understand, therefore, that the detailed accounts of the Project would appear in the Accounts of the Orissa State and the required sums would be voted by the Orissa Legislature. The actual responsibility for the construction of the Project has been assumed by the Government of India who have also to advance enormous sums. The Government of India and the Parliament cannot, therefore, divest themselves of their responsibility for seeing that the Project is executed efficiently and economically and that due regard is paid by the Officials of the Union Government entrusted with this work to all administrative, financial and accounting Rules.

R 4. Moreover, so long as the responsibility for the construction of the Project is vested in the Central Government and its Officers, it is only the Central Government and the Central Public Accounts Committee that can deal with the questions arising from the execution of the Project. It is not possible for the Orissa Government to defend any matters connected with the execution of this Project before the Orissa Legislature. Indeed, for these reasons, we understand that the Comptroller and Auditor-General is now contemplating that the entire expenditure should appear *ab initio* in the Central Accounts, and, that the consequential changes in the Budgets and Accounts of the Central and Orissa Governments should be made, as this would be more in accord with the chronology of facts.

Allocation of the cost of compensation for sub-merged land, reclamation and resettlement of displaced persons to Hirakud Dam Project.

R.82. The sub-Committee understand that the view has been taken by the authorities that only the cost of compensation given for sub-merged land, buildings, and trees should be regarded as a charge legitimately to be borne by the Project and that the entire cost of reclamation of the land and the resettlement of displaced persons

should be borne by the Orissa Government. The State Government are expected to reimburse themselves from the sale of land to the displaced persons and others. The Government of India have stated, however, that if necessary, they are prepared to assist the Orissa Government by the grant of a loan for the reclamation and resettlement projects as an issue separate from the Hirakud Dam Project. The sub-Committee are unable to understand the logic of excluding from the scope of the project scheme the expenditure on reclamation of land and resettlement of displaced persons, **at any rate to the extent that resettlement of displaced persons and reclamation for that purpose are inescapable.** It is the moral obligation of a civilized State to resettle cultivators and the population displaced as a result of Government submerging their land. And this is a responsibility which has been accepted by the Government in the early days of agitation against the Hirakud Dam Project. The payment of cash compensation on a basis unrelated to the cost of resettlement is not equitable, nor will it ever solve the problem. Reclamation and resettlement costs will, therefore, have to be regarded as an integral part of the cost of the project at any rate up to the extent that land has to be reclaimed for the resettlement of the displaced population.

The sub-Committee consider it necessary to be clear on this issue as otherwise, wrong policies leading to dangerous results may be followed by the Government in the planning and phasing of reclamation and resettlement. The sub-Committee desire, however, to make it clear that resettlement does not include provision of amenities not already enjoyed such as hospitals, schools, electricity, etc., but reasonable amenities such as the displaced persons are already enjoying in the displaced land, viz., houses, village roads, village communications, etc.

Copy of Government of India, Ministry of Irrigation and Power letter No. DW-II-1(46), dated the 17th June, 1953.

SUBJECT.—Scheme for reclamation of land and resettlement of persons displaced by the Hirakud Dam Project.

* * * *The scheme for reclamation of land and resettlement of displaced persons from the Hirakud area prepared by the State Government was considered at a conference held at New Delhi on the 15th May, 1953, between the representative of the Government of India and the representatives of the State Government. The following decisions were inter alia taken at that conference :—*

- (i) *that in view of the relatively small amount of excess expenditure proposed over and above what would be debitable to the Project by way of compensation, the expenditure on land reclamation may be admitted by debit to the Project Account; and*
- (ii) *that resettlement should not include provisions of amenities not already enjoyed such as hospitals, schools and electricity etc., but reasonable amenities such as the displaced persons were enjoying at present, viz., houses, village roads, village communications. * * * **

Financial, accounting and audit organisations of projects

R 85. * * * * * Long before the commencement of Hirakud and other Projects, it was recognised by the Government of India at various Departmental Conferences that it would be necessary to have a high level Financial Adviser at the Centre for all multi-purpose River Projects and that there should be at the site of each Project, a Joint Financial Adviser. There was also to be a Chief Accounts Officer functioning under the Joint Financial Adviser for each Project. This recommendation was reiterated at a high level Conference held on the 7th September 1948 at which the Auditor-General and the representatives of all the Ministries concerned were present. The sub-Committee are of the view that this recommendation should be fully implemented.

* * * * *

In this connection, as a lesson for the future, the sub-Committee would draw attention to the fact that the Public Accounts Committee have in recent years repeatedly drawn the attention of Government to the necessity and importance of planning the financial, accounting and Audit Organisation for each new project involving considerable expenditure and the fact that such arrangements should be regarded as an integral part of the planning of the execution of a project as a whole. The Comptroller and Auditor-General has also been constantly impressing this on the Central and State Governments.

R 86. *Separate and whole-time Joint Financial Adviser for each Project.*—The sub-Committee note further that the Ministry of Finance departed from their original policy decision that there must be a separate Joint Financial Adviser for each Project.

The Chief Engineer's initiative in the matter of preparation and sanctioning of detailed estimates had been restricted unduly by the orders of the Ministry of Irrigation and Power which had the effect of reducing the utility of the Financial Adviser also locally.

It would have been far more satisfactory if there had been a separate Financial Adviser from the Chief Accounts Officer in order to resolve any differences. The local Financial Adviser should have been a whole-time Officer with adequate financial powers to minimise or reduce the number of references to the Government of India.

The Public Accounts Committee for 1954-55 (Fifteenth Report 1954-55 Volume I page 228) were informed that the Ministry of Irrigation and Power had accepted the recommendation.

Functions of the Central Water and Power Commission and Chairman of the Central Water and Power Commission.

R 90. The sub-Committee recommend that the Commission should be an advisory and consultative body with authority to undertake investigation of water and power resources of India, research, etc., and should not be permitted to undertake the actual execution of projects. There are many valid reasons for this. A body which has local executive authority in any territory is in a far better position to undertake such responsibilities than a body operating from

distant Delhi. It would be extremely difficult for the C.W. & P.C. to undertake in addition to the other duties which the sub-Committee have mentioned, the actual executive responsibility for the construction of projects even if they had under their control a Chief Engineer at the site of the project. The sub-Committee are glad to note in this connection that the Estimates Committee had also reached a similar conclusion vide para. 13 of their Fifth Report, 1951-52.

The sub-Committee feel strongly also that the combination in one and the same person of the functions of the Chairman of the C.W. & P.C. and of an Additional Secretary to Government is wholly improper and incorrect and provides only an illusory safeguard. The objections are all the greater when the Chairman of the C.W. & P.C. is also the Vice-Chairman of the Hirakud Control Board, a body entrusted with the most important and intricate technical matters connected with the execution and control of the Hirakud Project. It must be remembered that the Chairman of the Control Board is an extremely busy person with multifarious other duties as a Chief Minister, and the Vice-Chairman has, therefore, a most important role. In other words, the position reached is that the same person has triple responsibilities and functions in his capacity as Chairman of the C.W. & P.C., Vice-Chairman of the Control Board and finally as Additional Secretary. Moreover, the Chairman of the C.W. & P.C. is also an extremely busy man with multifarious projects all over India. He has also international functions and has to visit foreign countries. The sub-Committee consider that nothing could be more unsatisfactory than the combination of all these functions and imposition of them in one Officer. The sub-Committee accordingly recommend that the Chairman and Members of the C. W. & P.C. should confine themselves single-mindedly to the job of Consulting Engineers and Advisers and no administrative Secretariat posts should be foisted on them. The sub-Committee need scarcely add that they are not influenced by any but considerations of propriety and efficiency in making this recommendation.****

MINISTRY OF IRRIGATION AND POWER

MEMORANDUM

While it is agreed that the Central, Water and Power Commission should not directly take part in the execution of a project, it is desirable that where assistance in the form of large loans is granted to a State for construction of a Project the Centre should not divest itself of responsibility for the proper expenditure of funds. There may be States who, owing to inexperience or for other reasons, may elect to hand over construction to the Centre.

The fact that the Central, Water and Power Commission will be divested of its responsibility for construction does not mean that it should be precluded from lending experienced staff for work on projects undertaken in the States. There should be a nucleus of experienced technical personnel in the Central, Water and Power Commission who could be lent to the projects undertaken by States who do not have a strong engineering cadre. Inter-changeability of staff between the Projects and the Commission is a desideratum.

Even before the Public Accounts Committee made its recommendation, Government had accepted the position that the Chairman, Central Water and Power Commission should not have ex-officio Secretariat status. The functions of the Chairman, Central Water and Power Commission and ex-officio Additional Secretary to Government have since been bifurcated. The Ministry is now in charge of a full time Secretary and the present Chairman, Central Water and Power Commission does not enjoy ex-officio Secretariat status.

Appointment of an Administrator in the Hirakud Dam Project.

R 91. The sub-Committee are driven to the conclusion that in the case of an enormous project of this kind undertaken by the Central Government in a remote locality, the conditions are considerably different from those of projects undertaken by State Governments under their own immediate control and observation. * * * * The sub-Committee consider that in such cases, there should be a full-fledged high level General Administrator in charge of the project as a whole, controlling all aspects including land problems, irrigation and other economic matters. The General Administrator should be a specially selected Officer of wide and varied administrative experience to exercise the maximum possible authority and powers in consultation with a Financial Officer of adequate status and powers and who could be relied upon to pay due regard to local problems and sentiments and the wishes of the State Government. Adequate Governmental and Parliamentary control can be secured by the aid of a strong Audit and other suitable measures. * * * *

MINISTRY OF IRRIGATION AND POWER

MEMORANDUM

Not accepted. The Government of India are in charge of only the construction of the Hirakud Project and other activities like rehabilitation and resettlement are in charge of the Government of Orissa. The present arrangement under which a full-time Chief Engineer is in charge of construction work under the over all control of the Central Board is considered adequate. There is, however, no objection for the Government of Orissa taking over construction of the Project and they can, if they consider it necessary, appoint an Administrator for the Project.

**SEVENTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE 1952-53 ON THE APPROPRIA-
TION ACCOUNTS (CIVIL) 1949-50 AND UNFINISHED
ACCOUNTS (CIVIL) 1948-49**

*Financial powers of the High Commissioner in U. K. and the position
of the Financial Adviser attached to the Mission.*

R 16. * * * * * The Committee considered the note showing the revised financial powers contemplated to be delegated to the High Commissioner for India in the U.K., as also the measures proposed to be taken to tighten up the internal financial control in his organisation furnished by the Ministry of External Affairs (Appendix VI on pages 70-71). The Committee feel that the delegated financial powers of the High Commissioner are too large and unreasonable in some respects. Further, in order to make the control of the Financial Adviser attached to the High Commissioner in London more effective over the financial transactions of the High Commissioner, the Committee suggest that he should be independent of the control of the High Commissioner and responsible to the Ministry of Finance in so far as tendering of financial advice is concerned and that the kinds of cases in which the concurrence of the Financial Adviser should be obligatory should be clearly defined in the rules.

**APPENDIX CXXXI TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT 1954-55, VOLUME II**

MINISTRY OF EXTERNAL AFFAIRS

*Financial powers of the High Commissioner for India in U.K. and
the control of the Financial Adviser at London.*

As a result of the recommendations of the Public Accounts Committee, the question of bringing the financial powers of the High Commissioner into line with those enjoyed by other Heads of the Missions was considered *de novo*. The High Commissioner suggested the continuance of the existing powers with slight modifications relating to expenditure on contingencies. This suggestion has been accepted by the Government of India. But in respect of other general powers relating to grant of advances, recruitment of staff, remittances, purchase of stores, etc., the modified powers recommended by the High Commissioner were accepted in respect of 26 items out of the 39 items in question and in respect of the remaining 13 items necessary action to curtail his financial powers as far as practicable is being taken.

2. As regards the question of independent position of the Financial Adviser to the High Commissioner in London, it is considered that it is not practicable for the Financial Adviser to function at a far off place as an independent officer outside the administrative control of the High Commissioner with a direct administrative tie-up with a Ministry in India. For securing adequate financial control, the High Commissioner has been provided with a competent officer to give him financial advice and this officer is provided by the Finance Ministry from time to time. Government have also decided to

demarcate clearly the kinds of cases in which the High Commissioner must take the advice of the Financial Adviser and it is considered that the following items should be included in that category :—

- (a) All matters pertaining to the placing of contracts etc., by the India Stores Department, London ;
- (b) All cases in which sanction of the Government of India is necessary under the reduced financial powers of the High Commissioner ;
- (c) All proposals of contingent expenditure exceeding Rs. 5,000 non-recurring and Rs. 1,000 per annum recurring ;
- (d) All cases of grant of 'advances' other than those in respect of which the High Commissioner has been or is being delegated amended financial powers.

In respect of cases referred by the High Commissioner to the Government of India for sanction, it has already been prescribed that such cases should be accompanied by the advice of the Financial Adviser thereon also and as a rule the Financial Adviser's opinion on such proposals is always looked for before a decision is taken in the case by Government. It is also proposed to provide in respect of the categories of cases mentioned above that in cases of disagreement between the High Commissioner and the Financial Adviser, further action should be suspended by the former till the orders of the Government are obtained, except in emergencies, where it should be obligatory on the part of the High Commissioner to report such cases with full facts, together with the views of the Financial Adviser to the Government of India immediately.

NOTE.—See P.A.C. First Report 1951-52, R. 22 (ii).

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Import of Fertilizers

R 17. **** The Committee find from the evidence placed before them that large contracts for the supply of fertilisers were given to this firm without observing the usual formality of inviting open tenders. The firm had a nominal capital of £ 1,000 and a subscribed capital of £ 999 in shares of £ 1 each. The source from which the supply came was governmental source, and it might have been possible to arrange the deed on a Government to Government basis. The present transaction which was originally expected to be of the order of £ 9 million should not have been put through intermediaries and every attempt should have been made for effecting a Government-to-Government transaction.

It is quite obvious that the unnecessary bringing in of intermediaries must result in extra cost to the State.

* * * * *

Embezzlement

R 22. There was an embezzlement of revenue of Rs. 12,736 by a Cashier who failed to deposit the amount into the Bank. The embezzlement was partly facilitated by the failure to verify daily whether the Cashier was remitting all moneys received by him promptly

to the Bank. Against this embezzlement, the Cashier's security and provident fund balance amounting to Rs. 923 had been adjusted and a claim for the recovery of Rs. 10,000 was stated to be under negotiation with an Insurance Company which had executed a fidelity bond. The Committee are informed that the Insurance Company have accepted the claim for the loss incurred on the first day only, that is about Rs. 4000 and they have repudiated the remainder of the claim on the ground that the discovery should have been made at least on the next day. The Committee desire that in order to eradicate such losses in future, only those persons who can pledge adequate securities both in the form of cash and property should be entrusted with the duties of handling the cash. Further, in accordance with the established procedure laid down in the Codes, the entire receipts should be remitted daily to the Bank immediately after these are collected. The Committee would stress the importance of all verifications of public moneys being carried out by the higher authorities with a full sense of responsibility.

APPENDIX LVI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT 1954-55, VOLUME II

MINISTRY OF FINANCE

Memorandum submitted by the Ministry of Finance (Department of Revenue & Expenditure) regarding the pledging of adequate securities by Cashiers in the form of both cash and property.

In accordance with the existing instructions in the General Financial Rules security taken from a Government officer or a contractor should be in one of the following forms :—

- (a) Cash.
- (b) Government Promissory notes, Municipal debentures or Port Trust bonds.
- (c) Post Office Savings Bank Pass Books.
- (d) Post Office Cash Certificates, Defence Savings Certificates and National Savings Certificates.
- (e) Deposit receipts of recognised banks approved by the Government for the purpose.
- (f) Fidelity bonds from Insurance Companies of reasonable financial standing in forms prescribed by Government.
- (g) Other forms of security specifically approved by Government for acceptance in any particular department, e.g., mortgages in real property, personal security, etc.

In most of the Ministries, securities are obtained in one of the forms indicated at (a) to (f) above or sometimes, partly in one form and partly in another. The Ministries do not generally favour the

pledging of property as security from Government servants entrusted with Cashier's duties. In the case of property, the work of verifying the legal title of the pledger and ascertaining whether it is free from any mortgage or other prior encumbrances would entail avoidable labour and may sometimes even lead to legal complications. Moreover, it will unduly restrict selection of suitable persons for cash work if the tendering of security in any particular form, e.g., partly cash and partly property is made compulsory in every case. The actual form in which security is held is therefore best left to the discretion and responsibility of the Ministries concerned. The need for ensuring that sufficient and easily realisable security is insisted on is, however, being brought to the notice of all Ministries concerned.

The Ministries are observing the procedure as visualised by the Committee regarding remittance of receipts to Bank. In some cases where the amount of collections is small they are being paid into the Bank weekly or at suitable periodical intervals. Embassies abroad follow a procedure specifically laid down for them which empowers them, in specific cases, to appropriate departmental receipts towards expenditure.

The Ministry of Defence have stated that so far as service personnel are concerned, they are not required to pledge security deposit or to execute bonds as they can be adequately dealt with under the Services Acts. With regard to Civilians working in the Defence Services and the Ordnance Factories necessary instructions have been issued under (i) Army Instructions No. 59 of 1956 (applicable to Director General Ordnance Factories Organisation also); (ii) Navy Instructions No. 55 of 1957; and (iii) Air Force Instruction No. 42 of 1957, which provide inter alia that unless specifically exempted under Government orders, every civilian officer who is entrusted with the custody of cash or stores will be required to :—

- (a) furnish security, the amount of which will be regulated according to circumstances and to local conditions; and
- (b) execute a security bond setting forth the conditions under which Government will hold the security and may ultimately refund or appropriate it.

4. *The security taken from a Government servant or a contractor should be in one of the following forms subject to the conditions laid down in these Regulations :—*

- (i) Cash;
- (ii) Government promissory notes, municipal debentures or Port Trust bonds;
- (iii) Treasury Savings Deposit Certificates and National Plan Certificates;
- (iv) Post Office Savings Bank Pass Books;
- (v) Post Office Cash Certificates, Defence Savings Certificates and National Savings Certificates;

- (vi) *Deposit receipts of the State Bank of India ;*
- (vii) *Fidelity bonds from Insurance Companies of reasonable financial standing in forms prescribed by Government.*

Blacklisting of contractors

R 25. ***** In order to prevent any loss of public moneys, Government should consider the expediency of blacklisting such of the contractors who fail to refund the amounts paid to them in excess and a list containing their names and addresses marked 'Secret' should be circularised to all the Ministries of the Government of India at frequent intervals. (See also P.A.C. *Eighth Report, 1953-54-R 18*).

Government of India, Ministry of Finance Letter No. D.5684-F-II/53, Dated the 9th October, 1953.

I am directed to state that in their Seventh Report on the Appropriation Accounts (Civil) 1949-50 and unfinished Accounts (Civil) 1948-49 the Public Accounts Committee recommended that in order to prevent any loss of public moneys, Government should consider the expediency of blacklisting such of the contractors who fail to refund the amounts paid to them in excess, and circulating at frequent intervals a list containing their names and addresses (marked 'Secret') to the various Ministries/Departments of the Government of India. I am, accordingly, to request that this recommendation of the Public Accounts Committee may be implemented forthwith and full particulars of the contractor or contractors so black-listed may be furnished to this Ministry, as and when such a case occurs in your organisation, so that further action may be taken in the matter.

Reciprocal arrangement with the Government of Pakistan for awarding punishment to the delinquent officials

R 26. *** The Committee wanted to know why the salvaged motor vehicles and trucks were disposed of below the guidance prices resulting in a loss to Government without the sanction of the competent authority and why no disciplinary action had been taken against the Officers concerned. They were informed that the Deputy Regional Commissioner, Kanpur, who had accepted and approved the bids of the auction had opted for Pakistan and was at present in the service of that Government. It was thus not possible to take any action against him (*Appendix XI*).

The Committee suggest that the Government of India should enter into a reciprocal arrangement with the Pakistan Government under which all cases of frauds, irregularities committed by the Officers who were serving under the undivided Government of India should be reported to the respective Governments under whom they are employed at present. The Committee feel that no Government would tolerate the presence of dishonest Officers in its Services and it is inconceivable that the Pakistan Government would be interested in hushing up the irregularities committed by its Officers.

**APPENDIX XI TO THE PUBLIC ACCOUNTS COMMITTEE'S
SEVENTH REPORT 1952-53, VOLUME I**

MINISTRY OF WORKS, HOUSING AND SUPPLY

OFFICE MEMORANDUM No. D-1(480)

Dated the 13th December, 1952.

The matter has been considered in consultation with the Ministry of External Affairs and the Government of India are of the view that the action suggested is never likely to result in any satisfactory working arrangement with the Government of Pakistan. Any recommendations we make about officers who have opted for that country, are not likely to receive any consideration and it is difficult to imagine that any action will be taken by the Government of Pakistan. In any case, they are sure to ask for their own independent enquiry before taking any action which they would not be in a position to do without access to the original papers and record. We have received no co-operation from that Government in cases which have heretofore been referred to them, and we consider that this would, in the end, turn out to be a one-sided arrangement which will serve to embarrass our Officers without producing any satisfactory result so far as officers who have opted for Pakistan are concerned. It would therefore be quite futile to try for a reciprocal arrangement with Pakistan in this matter.

MEMORANDUM

**(Received with Lok Sabha Secretariat letter No. 46(16)-FC/55, dated
27-8-55).**

MINISTRY OF HOME AFFAIRS

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2. *The procedure recommended by the Committee for dealing with employees against whom disciplinary proceedings were pending before partition was referred to the Pakistan Government for arriving at a reciprocal agreement in the matter. The Pakistan Government have declined to agree to the proposal on the following grounds :—*

- (i) *Some of the witnesses may be residing in the country in which the case originated and may be unwilling to give evidence or to go to the country in which the enquiry is held. Both the prosecution and defence will thus suffer as the enquiries will probably in all cases drag on for an indefinite period and eventually prove infructuous.*
- (ii) *The cases in question are now at least eight years old and it will be difficult to establish the facts in issue beyond reasonable doubt.*

3. *In view of the Pakistan Government's reply, it is considered that no useful purpose will be served by pursuing the matter.*

Losses due to non-observance of rules and procedure and relaxation of contract specifications

R 27. The Committee observe that the loss of public moneys can be broadly attributed to one or other of the following causes :

- (i) misuse of financial and administrative powers vested in a particular authority;
- (ii) disregard of the codal and financial rules and audit objections;
- (iii) wilful negligence in the proper spending and accountal of public funds; and
- (iv) relaxation of agreements or contracts.

The Committee feel that the relaxation of the specifications agreed upon in a contract results in the possible loss. To counter such a situation, the Committee reiterate the recommendations made in the past that the financial effect of such relaxation should be taken into account before it is agreed to; the contracts should be business-like and the drawing Officers should exercise every possible care, vigilance and prudence before they commit the Government to any financial embarrassment.

The Committee also notice that there seems to have grown up a tendency among the Executive Officers to regard the breach of rules of procedure as of little consequence and it is this tendency against which they should like to sound a note of warning. Departure from procedure should not be permitted at all as it paves the way for all kinds of evils and consequential losses, frauds, embezzlements, thefts, pilferages, bribery and corruption.

* * * * *

Classification, Control and Appeal Rules.

R 37. The Committee discussed at some length the constitutional, administrative and other implications underlying the Memorandum submitted to them by the Ministry of Home Affairs pursuant to action taken on the recommendations made in Para 48 of their First Report, 52 (Appendix XVII on pages 89-90). The Ministry have stated therein *** that it is neither possible nor desirable to simplify the existing procedure or to make it more summary.

While recognising the utmost importance of securing to the Civil Servants conditions in which they can function with independence of judgment and without fear or favour, the Committee consider it no less important that the procedural rules and regulations should not be such as to make it extremely difficult to bring to book any official who is found guilty of neglecting public interests or of dereliction of duty. The Committee would go so far as to recommend, if necessary, for purposes of achieving the objective mentioned above, an amendment to the provisions of Article 311 of the Constitution with a view to securing a fair balance between the interests of the State and the individual public servant**

**APPENDIX LXXV TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT 1954-55, VOLUME II**

MINISTRY OF HOME AFFAIRS

This has been examined and the conclusion reached is that the provisions of Article 311 (2) embody a salutary principle of justice and public policy, viz., that no man should be condemned and punished without a reasonable opportunity of defending himself and showing cause against the action proposed to be taken. There is no good reason why there should be objection to compliance with this.

The main stage is that of the enquiry when the officer is furnished with a charge-sheet evidence is recorded, and he puts forward his defence, and argues out his case. The enquiring officer after completing his enquiry submits his report. If the officer is found guilty of the charges and it is proposed to impose one of the major penalties of dismissal, removal or reduction, Article 311 (2) merely requires that he will be given an opportunity to make a representation against the specific punishment proposed. Prior to that stage, the charges are unproved, and the Government servant concerned is not in a position to show cause against the action proposed until specific findings on charges against him have been reached and the grounds for such findings are made known to him. There is no reason why there should be any delay at this stage of showing cause.

The question, however, of omitting "reduction" from the scope of Article 311(2) and of restricting this procedure to cases of "dismissal" or "removal" is under consideration.

NOTE.—See P.A.C. 1946-47, R 1 and P 40 1947-48 (pre-partition) R 2 (Epitome Volume 1) and First Report 1951-52, R 48 of this Volume.

Working of the Government Hospitality Organisation

R 38. While examining the Accounts for 1948-49 relating to the Cabinet Secretariat, the Committee wanted to know the reasons for making provisions in this behalf under the Head 'Cabinet—Demand No. 55' during the year 1952-53 instead of under the Appropriation relating to the President's Secretariat as also the functions of this Organisation and the agency responsible for exercising control over expenditure relating to it. From a perusal of the note furnished by the Ministry of Home Affairs in this connection, the Committee observe that it does not give a complete picture (*Appendix XVIII*). They should like to know the number of 'Entertainment Funds' maintained by the Government of India.

**APPENDIX XVIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
SEVENTH REPORT 1952-53, VOLUME I**

MINISTRY OF HOME AFFAIRS

Note on the Government Hospitality Organisation

A Government Hospitality Organisation was set up in the year 1948 to look after the entertainment of State and official guests of the Governor-General, Prime Minister and other Ministers. The staff and equipment required for this organisation was drawn from the 12-5 Compt. A. G./58.

then existing establishment of the Government House (now Rashtrapati Bhavan). The catering cost was to be met from a separate fund and it was proposed that a lump sum Contract Grant be made to meet this. This grant was intended to cover cost of entertainment and expenses incurred in functions organised in honour of guests at Government House or elsewhere according to convenience, as well as expenses incurred for accommodating State guests.

2. At the time of sanctioning the Government Hospitality Organisation Grant, the intention was to introduce it on the lines of the Contract Grant which was under the full control of the Military Secretary to the Governor-General. Thereafter it was considered that the Government Hospitality Organisation may work under the general control of the Military Secretary to the Governor-General, but it could not be regarded as being of the same nature as the Household and other staff of the Governor-General paid from the Contract Grant. It was, therefore, in the fitness of things that the organisation be brought under the administrative charge of one of the Ministries or Secretariats of the Government of India. The Military Secretary to the Governor-General could be *ex-officio* Controller of the Government Hospitality Organisation, and in that capacity he would be under the control of the Secretariat in charge of the Government Hospitality Organisation. It was therefore decided by the Government that for administrative purposes, Government Hospitality Organisation be attached to Prime Minister's Secretariat. The budget provision for Government Hospitality Organisation for the year 1950-51 was therefore included in the Demand for Cabinet under the sub-head "A-4. Government Hospitality Organisation". This accounts for the inclusion of the provision in regard to Government Hospitality Organisation under the Demand for Cabinet, which *inter alia* contains the provision in respect of the Prime Minister's Secretariat as well.

3. The budget of the Organisation is scrutinised by the Prime Minister's Secretariat under whose nominal administrative control the Organisation functions. The Military Secretary to the President who is the Director General of the Organisation, has been delegated the powers of the Head of a Department and he exercises full control over expenditure of the Organisation.

Measures to reduce losses on the All India Radio Journals.

R 44. In Para. 49 of their First Report of 1951-52, the Public Accounts Committee suggested that Government might consider whether by making a nominal increase in the Radio Licence Fee, and in lieu thereof, supplying a copy of the Journal (published in one of the Regional languages) gratis to the licensee, a portion of the losses at present sustained in the publication of the Radio Journals could be met. The Committee considered the note submitted by the Ministry in this connection stating *inter alia* that the cost of production of 8 lakhs or more copies of the A.I.R. Journals would be far too high to enable the loss to be made up by a token rise in the licence fee (Appendix XXIII page 90).

Explaining the practical difficulties in implementing the suggestion, the representative of the Ministry stated that these were due to the inability of the Government Press to undertake printing of

the Journals on such a large scale and; secondly, in view of the publication of the programmes in the daily newspapers, the radio listener would not have any inducement to subscribe to the 'Indian Listener' or other programme journals. The Committee suggest that Government should explore the avenues for charging the newspapers a certain amount of royalty, nominal or otherwise, for the publication of daily radio programmes. They also desire that this aspect of the matter may be considered by the Press Commission.

The Ministry of Information and Broadcasting stated (pages 222-223 of Fifteenth Report 1954-55, Volume 1) as follows:

The question of charging a royalty from newspapers publishing daily radio programmes was referred to the Press Commission for advice who replied as under :

The republication of the programme by newspapers does help readers, who are not subscribers to the programme journal, to a very great extent, and thus publicity is given to the programmes of All India Radio. It is undoubtedly true that the privilege of publishing these programmes also indirectly assist newspapers in their circulation. Although a levy of a nominal charge would probably not be objected to by the papers, the Commission does not consider that the benefit to the exchequer would be so great as to justify the charge. This Ministry agrees with the above view of the Press Commission.

NOTE.— See P.A.C. First Report 1951-52 R. 49.

Payments by All India Radio to the news agencies should be made on the wordage

R 46. From the comparative Income and Expenditure Account of the A.I.R. for the years ended the 31st March, 1950 and 31st March, 1949 the Committee find that the payments to the news agencies are rapidly going up. The Committee were informed that payments in question were made on the basis of the number of radio licences and not on the wordage supplied or used. The Committee feel that it would be more equitable and business-like if the payments are made on the basis of wordage. They desire that the Ministry should examine this point at the time of the next revision of the agreement with the news agencies concerned.

APPENDIX LXXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT, 1957-58, VOLUME II.

Copy of Government of India, Ministry of Information and Broadcasting, New Delhi, Office Memorandum No. 10(5)/56-BP, dated 10th September 1957.

The question of payment to News Agencies on the basis of wordage supplied or used has been thoroughly examined. Enquiries made in this connection reveal that no News Agency of importance is being paid on this basis for the service rendered by it. Subscriptions to News Agencies are fixed mostly on the basis of a lump-sum payment, either monthly or annually. In the circumstances, it is not considered advisable to adopt the criterion of wordage supplied or used as the basis for fixing payment to News Agencies by All India Radio.

2. No News Agency was being paid by All India Radio on the basis of the number of licences, except the Press Trust of India, who were being paid up to the 31st March, 1956, on a slab system based on the number of licences. The Press Commission who went into the question of payments to News Agencies at length, made a comparison of the payment made by the British Broadcasting Corporation to the Reuters on the basis of a proportion between newspaper copies and receiver sets and recommended that, having regard to the revenue they expected from newspapers and other considerations, a flat rate of annas ten per receiver set should be given to the Press Trust of India plus the amount fixed, ad-hoc, for external services.

It will be seen that no News Agency is now being paid by All India Radio strictly on the basis of number of radio licences although the increase in the number of licences has been taken into account. The basis of subscription is generally arrived at on the following considerations :—

- (1) the scope and utility of the service;
- (2) the standing of the agency and its reputation; and
- (3) the general level of the subscription paid for the same service by newspapers.

Maintenance of National Highways

R 51. The Committee noticed an under-budgeting in Grant No. 69—Sub-head E. 1 to the extent of Rs. 13·41 lakhs for the maintenance of National Highways and enquired from the Ministry whether it was proper to recover from the State Governments the expenditure incurred in excess of the allotments made to them by the Centre in this behalf. After considering the note furnished by the Ministry in this connection (Appendix XXVIII), the Committee observe that the agreement reached between the Central and State Governments in respect of development of national highways in 1945 should be revised in the context of the present constitutional requirements. They desire that the Ministry should ascertain the views of the State Governments and take early action towards the enactment of legislation as envisaged in item 23 of the Seventh Schedule—List I of the Constitution. *****

APPENDIX XXVIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53, VOLUME I

MINISTRY OF TRANSPORT (ROADS ORGANISATION)

Maintenance of National Highways

* * * * *

4. With regard to the propriety of making recoveries from the State Governments for expenditure incurred by them on the maintenance of National Highways in excess of the allotments intimated by the Centre, the view hitherto taken by the Central Government

was that, generally, States should restrict expenditure to the allotments available and that if they wished to incur further expenditure on their own behalf, they could do so under the provisions of Article 282 of the Constitution.

5. Clearly, a State could not be free to spend at Centre's expense any amount it wished on the maintenance of National Highways. Government cannot accept the position that excess expenditure incurred by the State Governments over the allotments placed at their disposal should be accepted by the Centre regardless of the circumstances under which the excess expenditure was incurred. The cases of the States which had exceeded their allotment are being examined individually on merits.

6. The Maintenance and Development of National Highways is being undertaken by the State and other authorities as agents of the Centre under the terms of an agreement that was generally accepted by the States at the Transport Advisory Council meeting held on the 25th-26th October 1945. The agreement as modified by the Transport Advisory Council is attached. It provides that detailed estimates for all expenditure on National Highways will be subject to the technical approval and financial sanction of the Central Government. Under paragraphs 55 and 57 of the Central P.W.D. Code, the allotment of funds operates as sanction to the expenditure to be incurred (financial sanction).

* * * * *

ANNEXURE I

Copy of Government of India, War Transport Department letter No. PL-13(20), dated the 14th September 1945.

SUBJECT:—*The National Highway Scheme.*

2. (1) Without prejudice to the constitutional position, and subject to the vote of the Legislature and to agreement being reached between the Central and the Provincial Governments in respect of the matters set out in para. 6 below, the Central Government are prepared, as part of a comprehensive policy for communications and transport and as part of their contributions to the financing of post-war developments in the Provincial fields, to accept future liability for the development and maintenance of National Highways in accordance with estimates to be approved by them from time to time and with effect:—

- (i) in respect of maintenance, from the 1st of April 1947; or
- (ii) in respect of "original works" from the date of specific sanction in each case, which date may in certain cases be prior to the 1st of April 1947.

3. * * * * * The Central Government are, unless there are special considerations in any case, prepared to class as National Highways only those roads which are of interest to more than one unit of administration in India. Consequently, only those roads in Indian

States have been included in the system which are accepted as a necessary part of the through communications of the country as a whole.

4. The continuance of allocations from the Central Road Fund to Provincial Governments for road development would, under the new conditions and having regard to the scale of assistance involved by the acceptance of National Highways as a Central liability and also to the financial assistance over the whole field of Provincial Development be an anomaly. In the circumstances the Central Government do not consider it necessary that allocations to Provinces from this Fund should continue, and they propose therefore that these allocations should be discontinued after distribution of the revenue accruing to the fund during the current financial year.

6. * * * The special arrangements which the Central Government propose in respect of the control of long distance goods traffic on National Highways have been dealt with in the "Code" and the explanatory memorandum herewith. The remaining conditions which the Central Government wish to couple with their acceptance of liability for National Highways and to embody in an agreement with Provinces are that :—

- (i) Provincial Governments will accept as final the decision of the Central Government as to the inclusion of any road in the National Highway system, the standards to which the different parts of the system are to be developed and maintained and as to the priority of execution of any work of construction or improvement.
- (ii) Detailed estimates for all expenditure on National Highways will be subject to the technical approval and financial sanction of the Central Government or the Central Road Board.
- (iii) The Central Government will have the right to employ its own agency for the development and maintenance of National Highways, but normally Provincial Governments will undertake this through their Public Works or Highway Departments.

The Central Government will reimburse Provincial Governments in respect of establishment and tools and plant charges as follows :—

- (a) where the work or maintenance is carried out by the regular Executive Divisions of the Provincial Public Works Department, at a rate of 10 per cent. on the work or repairs expenditure brought to account, and
- (b) in the case of major projects where establishment charges can be isolated, as in the case of large bridges, the actual cost of establishment employed on the work without any allowance for administration (Chief and Superintending Engineers and their offices) plus a fair allowance for wear and tear of tools and plant of 10 per cent. of the cost of the work whichever is less.

NOTE.—The status of these roads as regards the vesting of the property therein will not be effected by their classification as National Highways, and so long as the Provincial Public Works Agency is employed on their construction and maintenance liabilities attaching to ownership will remain with the Provincial Government.

- (iv) Provincial Governments will regulate traffic, prevent encroachment on road lands, and promote legislation as necessary to control roadside (ribbon) development, to restrict access to National Highways and to levy betterment (or unearned increment) value, all in accordance with the advice of the Central Government which may be given through the Central Road Board.

NOTE.—The Central Government lay no claim to receive any payment on account of levy of betterment value. They are only concerned that when roads are developed from Central funds in areas in which industrial and residential development necessarily follow, the betterment value, or a reasonable part thereof, should accrue to the public purse.

- (v) Save with the approval of the Central Government in exceptional cases, National Highways will be free of all tolls or other imposts in respect of all motor vehicles on which the vehicle tax has been duly paid in a Province or in a "reciprocating" State, that is a State issuing a certificate of registration which under Section 28 of the Motor Vehicles Act is valid in British India.
- (vi) Provincial Governments will agree to exempt from all Provincial and local vehicle taxes, and to promote such legislation as may be necessary to this end, all motor vehicles which are the property of the Central Government, other than motor vehicles used commercially.
- (vii) In consideration of the relief afforded in respect of National Highways, Provincial Governments in applying other resources available to them for post-war development, including general Central subventions, will attach particular importance to the improvement of district and village roads.

NOTE.—It is of course understood that before reaching decisions on any of the points in the foregoing conditions upon which decision would rest with the Centre, the Central Government or the Central Road Board would fully consult the wishes of the Provincial Government.

THE NATIONAL HIGHWAYS ACT, 1956

(No. 48 of 1956)

[11th September, 1956]

An Act to provide for the declaration of certain highways to be National Highways and for matters connected therewith.

BE it enacted by Parliament in the Seventh Year of the Republic of India as follows :—

1. *Short title, extent and commencement.*—(1) This Act may be called the National Highways Act, 1956.

(2) It extends to the whole of India.

(3) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint.

2. *Declaration of certain highways to be national highways.*—(1) Each of the highways specified in the Schedule except such parts thereof as are situated within any municipal areas is hereby declared to be a national highway.

(2) The Central Government may, by notification in the Official Gazette, declare any other highway to be a national highway and on the publication of such notification such highway shall be deemed to be specified in the Schedule.

(3) The Central Government may, by like notification, omit any highway from the Schedule and on the publication of such notification, the highway so omitted shall cease to be a national highway.

3. *Definition.*—In this Act, “municipal area” means any municipal area with a population of twenty thousand or more the control or management of which is entrusted to a municipal committee, a town area committee, a town committee or any other authority.

4. *National Highways to vest in the Union.*—All national highways shall vest in the Union, and for the purposes of this Act, “highways” include—

- (i) all lands appurtenant thereto, whether demarcated or not;
- (ii) all bridges, culverts, tunnels, causeways, carriageways and other structures constructed on or across such highways; and
- (iii) all fences, trees, posts and boundary, furlong and mile stones of such highways or any land appurtenant to such highways.

5. *Responsibility for development and maintenance of national highways.*—It shall be the responsibility of the Central Government to develop and maintain in proper repair all national highways; but the Central Government may, by notification in the Official Gazette, direct that any function in relation to the development or maintenance of any national highway shall, subject to such conditions, if any, as may be specified in the notification, also be exercisable by the Government of the State within which the national highway is situated or by any officer or authority subordinate to the Central Government or to the State Government.

6. *Power to issue directions.*—The Central Government may give directions to the Government of any State as to the carrying out in the State of any of the provisions of this Act or of any rule, notification or order made thereunder.

7. *Fees for services or benefits rendered on national highways.*—

(1) The Central Government may, by notification in the Official Gazette, levy fees at such rates as may be laid down by rules made in this behalf for services or benefits rendered in relation to the use of ferries, temporary bridges and tunnels on national highways.

(2) Such fees when so levied shall be collected in accordance with the rules made under this Act.

(3) Any fee leviable immediately before the commencement of this Act for services or benefits rendered in relation to the use of

ferries, temporary bridges and tunnels on any highway specified in the Schedule shall continue to be leviable under this Act unless and until it is altered in exercise of the power conferred by sub-section (1).

8. *Agreements with State Governments or municipalities.*—Notwithstanding anything contained in this Act, the Central Government may enter into an agreement with the Government of any State or with any authority entrusted with the control or management of any municipal area in relation to the development or maintenance of the whole or any part of a national highway situated within the State or, as the case may be, in relation to the development or maintenance of any such part of a highway situated within a municipal area as is referred to in sub-section (1) of section 2 and any such agreement may provide for the sharing of expenditure by the respective parties thereto.

9. *Power to make rules.*—(1) The Central Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely :—

- (a) the manner in which, and the conditions subject to which, any function in relation to the development or maintenance of a national highway or any part thereof may be exercised by the State Government or any officer or authority subordinate to the Central Government or the State Government ;
- (b) the rates at which fees for services rendered in relation to the use of ferries, temporary bridges and tunnels on any national highway may be levied and the manner in which such fees shall be collected ;
- (c) the periodical inspection of national highways and the submission of inspection reports to the Central Government ;
- (d) the reports on works carried out on national highways ;
- (e) any other matter for which provision should be made under this Act.

10. *Laying of notifications rules, etc., before Parliament.*—All notifications or agreements issued or entered into under this Act shall be laid before both Houses of Parliament as soon as may be after they are issued or entered into and all rules made under section 9 shall be laid for not less than thirty days before both Houses of Parliament as soon as may be after they are made, and shall be subject to such modifications as Parliament may make during the session in which they are so laid or the session immediately following.

Illegal placing of large amounts under 'Suspense'

R 67. The Committee note that the following irregularities have taken place in this case:

- (i) illegal placing of large amounts under Suspense thus avoiding a vote of Parliament as required under Article 114 (3) of the Constitution.

* * * * *

R 68. The Committee further agree with the views of the Comptroller and Auditor-General that in case a scheme of manufacture has to be undertaken on behalf of several indentors, the proper course would be for the Ministry concerned to evolve a suitable scheme for financing such a scheme including provision for recovery of advances from the parties concerned.

APPENDIX XXXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1952-53, VOLUME I

MINISTRY OF TRANSPORT

Note on the scheme of bulk ordering of road rollers

A note on the scheme of bulk ordering of road rollers prepared by three senior officers of the Audit Department, appointed by the Comptroller and Auditor-General for this purpose, is attached (Annexure I). The facts on which the note has been based may be taken as accepted by the Ministries concerned, viz., Ministries of Works, Housing and Supply, Transport and Finance.

ANNEXURE I

* * * * *

Large Expenditure Irregularly kept under 'Suspense'.

Under Article 114(3) of the Constitution of India, moneys cannot be withdrawn from the Consolidated Fund of India except when they are voted by the Parliament and included in the Appropriation Act. In this case, an expenditure of Rs. 3 crores was incurred during the course of several years and the amount was illegally kept under Suspense, thus avoiding a vote of Parliament.

Till recently, this constitutional position had not been sufficiently or correctly appreciated with the result that expenditure on certain projects for which budget provision should have been made was kept under Suspense for a number of years pending their clearance. One such instance is that of "Steel Suspense" which was strictly a State Trading Scheme. It was only in 1949 that the Steel Suspense was abolished and provision for funds was made under State Trading Scheme in 1949-50. It is essential that the correct constitutional position in this matter should be understood by all. Government should take special steps to see that similar irregularities do not occur. They should make it clear to all the indenting Departments that they should accept the full financial commitment in respect of their indents and all expenditure incurred on their behalf by the Director General, Supplies and Disposals, should be accepted by the indentor, without question or reservation.

Before taking action on an indent which will involve progress payments during the course of manufacture it would be preferable if the Director General, Supplies and Disposals, gets a definite acceptance of the indenter that he will agree to accept debits in regard to all progress payments as well. In case a Scheme of manufacture has to be undertaken on behalf of several indentors the appropriate course would be for the Ministry concerned to sponsor a State Trading Scheme and obtain funds for meeting the expenditure under the Scheme, pending recovery from the various indentors after supply of finished articles.

Inclusion of interest and other overheads in calculating Profit and Loss of State Trading Schemes.

R 80. The Committee came across certain instances where the Ministry of Finance had not taken into account the element of interest on capital outlay and other overhead charges involved in the running of a particular scheme while calculating the amount of profit or loss accruing therefrom. This method is opposed to the normal commercial practice and is susceptible of giving only an illusory picture of the real state of affairs. So long as there is a small plus, it is very easy to say that a scheme is being run at a profit. The Committee should, therefore, like to impress upon the Ministry of Finance and other Ministries sponsoring State Trading Schemes that no departure should be made from the commercial trading principles in the case of all trading operations undertaken by the State. They consider that from the point of view of the economic working of any State enterprise, financial and accounts control and presentation and preparation of accounts from a commercial point of view is *sine qua non* to its efficient and successful management.

Copy of Government of India, Ministry of Finance (Department of Economic Affairs) Office Memorandum No. F-10(37)-B/54, dated the 30th May 1956.

SUBJECT.—Adjustment of interest on capital invested in Departments or undertakings declared as commercial.

* * * * *

2. The question of adopting a uniform procedure in regard to the adjustment of interest on Capital invested in commercial departments or undertakings has been under consideration for some time. The following decisions have been taken in consultation with the Comptroller and Auditor General.

For purposes of adjustment of interest, commercial departments and undertakings, covered by Article 61 of the Account Code, Vol. I, may be divided into the following three main categories :—

- (i) Departments etc. of some standing or those that have already started functioning and for which regular capital and revenue accounts are being maintained, so that the results of their working are available on the face of Government Accounts;
- (ii) Departments etc. in the process of construction or development but which when start functioning or going into full production would bring in substantial income or revenue and where opening of a revenue account is a question of time only.

(iii) Departments etc. which from the very nature or scope of their operation are incapable of yielding regular revenue or being a source of sustained income and for which the maintenance of a revenue account is considered neither necessary nor desirable e.g., State Trading Schemes declared commercial.

3. Established Commercial Departments like Railways and Posts and Telegraphs etc. fall under category (i) above. In their cases, interest on capital must be adjusted in the revenue account of the Department concerned by credit to the head "22-Interest on Debt and other obligations-D-Transfers" to comply with the concepts of commercial accounts. Where the practice is not in conformity with this principle, the interest on capital invested should be adjusted in the revenue account of the undertaking with effect from the accounts for 1956-57 under intimation to this Ministry.

4. As regards departments covered by category (ii) above, the adjustment of interest will in effect mean capitalisation of such charges. As such each such case would have to be decided on its merits but where interest is capitalised it should normally be written back to revenue after the project goes into production and surplus revenue becomes available.

5. The Departments falling under (iii) above generally comprise Departments designed not to create permanent or semipermanent assets or what are called Schemes of Government Trading or Schemes for stocking essentials for production, classified in the accounts under the major head '87'. The debit to the capital head is, in such cases, justified only by the magnitude of the outlay involved. Adjustment of interest would, therefore, in the absence of a revenue account result in overcapitalisation of these schemes. It has accordingly been decided that as an exception to Article 61 of Account Code Vol. I, no account adjustment should be made in respect of interest on capital invested in these schemes; but in order to disclose the true result of the working of such schemes the interest on capital and other overhead charges should be taken into account in the pro-forma and subsidiary account maintained outside Government account for these schemes.

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Inclusion of financial results of the Working of State enterprises in the Explanatory Memorandum on the Budget.

R 81. * * * * The notes on 'Important Schemes' financed by Government and in respect of which expenditure has been provided for during the year 1953-54, as set forth in Section III of the Explanatory Memorandum on the Budget for that year, do not indicate the return yielded or expected to yield in the course of time from the investment made by Government in respect of a particular scheme. To enable the Members of Parliament to properly appraise the financial working of any State enterprise and to judge the productivity of expenditure involved in it, the Committee suggest that the details of the provision of funds made in the Budget in this respect should invariably be accompanied by a statement of the financial results of the working of that enterprise for the previous year.

The Public Accounts Committee for 1954-55 (Fifteenth Report 1954-55 Volume I page 195) were informed that the recommendation had been noted by the Ministry of Finance.

Internal audit of accounts of the Embassies and Missions abroad

R 83. * * * The Committee are glad to learn that as a result of the recommendations made by them the Ministry of External Affairs have decided to set up a Foreign Service Inspectorate with a view to conduct an internal audit of the Accounts of these Missions etc. The Committee desire that in order to make this internal check effective, the Ministry should appoint, as the Head of this Organisation, an Officer of the Foreign Service who may be fully conversant with the technique of administration and also have a financial outlook.

* * * * *

Copy received with Ministry of External Affairs U.O. No. F. 4-39/Aud/58, dated 17-11-58.

3. *The Foreign Service Inspectorate consisting of two officers of the status of Joint Secretary was set up in May, 1954. Both the Inspectors are senior officers of Foreign Service, who have long experience of work both at the Headquarters of the Ministry and in missions abroad and one fully conversant with the technique of administration and have a financial outlook. Associated with them is a senior officer of the Ministry of Finance, he is also of the status of Joint Secretary, and a qualified S. A. S. Accountant.*

Audit of accounts of Council of Scientific and Industrial Research by the Comptroller and Auditor General of India and the submission of the audited accounts and the Audit Report to Parliament.

R 86. * * * Under the Rules and Regulations of the Council, the Accounts of the Society are subject to the audit of the Comptroller and Auditor-General of India on a consent basis.

The Committee were informed that the Accounts of the Council were post-audited by the Accountant-General, Central Revenues and the pre-audit was done by one of the officers of the Council.

The Committee, however, note that under the present arrangements, the audit of Accounts of the Council is being conducted on a 'Consent basis' only. In order to place the whole matter on a statutory basis, the Committee recommended that its Accounts should be audited by the Comptroller and Auditor-General of India. They also suggest that audited Accounts of the Council along with the Audit Report should be placed on the Table of the House along with the Annual Accounts of the Government of India. (See also PAC. Sixteenth Report, 1955-56, R 98.)

Functions of the Central Water and Power Commission.

P 131. The Committee desired to know precisely the functions of the Central Water and Power Commission. The Additional Secretary to the Ministry stated that the main object of the Commission when it was set up was to make an appraisal of the resources of the country and to see how best they could develop them for the benefit of the nation. It dealt with the river valley projects also. He further stated that is entailed various stages before proceeding with any project. The first was the planning and, the second was the investigations; some times investigations might come first and then planning. It went on to the formulation of the project which included design features, the economics of the scheme, construction features and other matters,

Basically, planning and investigation went together and that was a matter for which the C.W.P.C. wanted considerable staff, not only to do the field work, but also to think out the details at Headquarters. So far as the organisation of the C.W.P.C. was concerned, the bulk of it was meant for planning, investigation and designs, i.e., it had a permanent staff with a very small nucleus which had been sanctioned for construction. If and when the Commission undertook any major construction then temporary staff was appointed for that purpose. Most of the States also, he said, came to the Commission for technical advice.

NOTE.—See P.A.C. Sixth Report, 1952-53, R-90.

Administrative Audit System

P 134. The Committee desired to know what action had been taken by the Ministry of Irrigation and Power in consultation with the Ministry of Finance to introduce the 'Administrative Audit System' in respect of the various projects under their control. The representative of the Ministry of Finance stated that it had been proposed that there should be an Administrative Cost Control Officer who would work under the Chief Engineer in-charge of the Project. This Officer would be independent of the Construction Engineers and would get all the data from them and prepare muster rolls and make payments of the contractors' bills. This proposed system, he further stated, was in the process of implementation so far as Bhakra-Nangal project was concerned. But the question whether it should be extended to other projects was something which they would consider. The representative of the Ministry undertook to go deeply into this question and submit a report to the Committee in due course * * * *. (See also P.A.C. Eleventh Report, 1953-54, P 57.)

APPENDIX XLVII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1957-58, VOLUME II

SUBJECT.—*Introduction of the Administrative Audit System in various multi-purpose river valley projects*

1. * * * The Ministry of Irrigation and Power have examined the question of introduction of the Administrative Audit System in the various multi-purpose river valley projects in consultation with the project authorities and the views of Government are explained in the succeeding paragraphs.

2. The Administrative Audit System envisages the setting up of an organization in each multi-purpose project, independent of the project executive, for carrying out an internal audit of the project transactions. This organization will be in addition to the normal accounting and auditing organisations under the control of the Comptroller and Auditor General. The system is intended to ensure an effective control on costs at every stage of construction of the project. According to the proposals drawn up by the Chief Engineer, C.P.W.D., Ministry of Works, Housing and Supply, who had accepted the original recommendation of the Public Accounts Committee, the functions of the internal audit organization will be briefly:—

- (i) Scrutiny of contracts entered into by the executive formations from a technical point of view, with particular reference to the rates accepted;

- (ii) Examination of the administration of contracts paying special attention to unauthorised and/or uneconomical deviations, issue of stores and machinery to contractors, and observance of time for completion stipulated in the contract for various items of work and phases;
- (iii) Site check of work to ensure that materials and workmanship provided by the contractor are in accordance with the contract specifications;
- (iv) Technical examination of the contractor's bills, after payment, to ensure that payment is made only for the actual work carried out in accordance with the conditions of the contract; stores issued to the contractors are only those authorised in the contract and are properly accounted for, etc.; and
- (v) To check muster rolls and C. P. bills for departmentally employed labour, the progress of work done by the labour and to see that departmental labour is not employed in excess of requirements or on work which would more economically be executed by contract.

The organizations in river valley projects will have such other similar functions as to suit the nature of work done in these projects.

3. The comments of the Central Water and Power Commission and the project authorities and State Governments addressed by this Ministry are summarised below :—

Central Water and Power Commission.—The creation of an internal audit organization will mean unnecessary extra expenditure. Confusion will be caused in the accounts and payments will be delayed by too many people doing the same job of auditing. Further, the persons to be selected for the organization shall have to be men of high integrity and experience in their profession and there is at present an acute shortage of engineering personnel especially of the type required to man the organization.

Damodar Valley Corporation.—The main point for consideration is whether in the present set-up with its foreign Chief Engineer and a quality control team under Harza Engineering Co., and at this late stage of the works, it is really feasible or necessary. On a balance of considerations, the Corporation sees no objection to trying the system in a limited way in the Panchet Hill Project.

Bhakra Nangal Project.—The Punjab Government do not consider it necessary to introduce this system in the Bhakra Nangal Project for the following reasons :—

- (a) The works at Nangal which were in an advanced stage of construction have since been completed;
- (b) As regards Bhakra Dam, there is already an Inspection Directorate and this organization is responsible to see that the work is done according to specifications and designs by the Construction Directorate. The designs are prepared by the Bhakra Dam Designs Directorate which sees that the work is done according to the sanctioned plans;
- (c) The entire execution at Bhakra is carried out departmentally and not through any contractor who may like to make money by ignoring specifications; and

- (d) The introduction of this system would increase the cost without any corresponding benefit.

Tungabhadra Project (Board Area).—The Board considers that the introduction of the administrative audit system on this project is unnecessary at this stage when it has almost been completed.

Koyna Project.—The State Government do not consider it necessary to introduce the system in the river valley projects which are being executed in the State, so long as works are being carried out through the agency of the contractors. The question of introducing this system will be considered if and when any large river valley project is undertaken by the Bombay P.W.D. for departmental execution.

Kosi Project.—In view of the great dearth of experienced staff and other complications involved, the Kosi Control Board considers that the introduction of the system in the Kosi Project is not feasible.

Hirakud Dam Project.—At Hirakud, sufficient safeguards, relating to financial control exist. The view of the Chief Engineer is that the works on the project are concentrated within a region of manageable area under the direct supervision of the Chief Engineer, that sufficient checks regarding financial control already exist and that the proposed system is likely to lead to delay in the execution of work. The first stage of the project is nearing completion.

Rihand Project.—The State authorities have reported that there is already an organization going by the name of 'Design and Test Directorate' whose functions cover all that the 'Administrative Audit' is intended to carry out. The functions of the Administrative Audit System are already provided for in the organizational set-up of the Department and, where the construction of a river valley project is undertaken by a long established engineering department of the State Government, there is no need to have an additional arrangement for 'Administrative Audit'.

Nagarjunasagar Project.—The Control Board considers that as the project is in the initial stages the question of introducing the system may be postponed till after the tempo of work had increased sufficiently. In the meantime, the Board agreed that the Chief Engineer could introduce such measures of supervision as he considered necessary purely as an internal arrangement.

Chambal Project.—The Government of Madhya Bharat (since integrated in Madhya Pradesh) and the Government of Rajasthan have no objection to the introduction of the system in the Chambal Project. The Chambal Control Board desired to know the reactions of the State Governments concerned and the position in regard to the introduction of the system in other projects. The Board's comments are awaited.

It will be seen from the above that Madhya Bharat (since integrated with Madhya Pradesh) and the D.V.C. to a limited extent are agreeable to introducing the proposed system and that the Nagarjunasagar project authorities are not against it. All the others, namely, Kosi, Rihand, Tungabhadra, etc., have either expressed themselves against the proposal or do not find it necessary.

5. According to the scheme proposed by the Chief Engineer, C.P.W.D., the main functions of the "Technical Examiner's Organisation" will be as indicated in para 2 above. The functions of the "Surveyor of Works" Organization are as follows :—

- (i) Preparation of preliminary estimates for all works for which administrative approval is required;
- (ii) Preparation of detailed estimates for all works costing above Rs. 40,000. In respect of works costing Rs. 40,000 and below though detailed estimates will be prepared by the Executive Engineer, some check shall be exercised by the Surveyor of Works Organisation that the procedure followed in the Executive Engineer's office both with regard to preparation of estimates and the drawing up of agreements etc., is correct;
- (iii) Preparation of N.I.T. papers and contract documents in respect of works costing above Rs. 40,000. In respect of agreements within A.C.E.'s power of sanction the scrutiny shall be done in consultation with F.A. to A.C.Es. They will also scrutinize final agreements when received from the lower formations;
- (iv) Checking of the additional items pertaining to works which are beyond the powers of the Executive Engineers;
- (v) Planning and designing of important works;
- (vi) Preparation and examination of schedule of rates and specifications ;
- (vii) Dealing with legal notices, and suits filed in courts arising out of disputes pertaining to contracts. Advise the executive formations at all levels on arbitration cases; and
- (viii) Fixing and revision of minimum fair wages.

The main functions of the Chief Technical Examiner's 'Cell' are :—

- (i) Inspection of important works after completion as also during progress for ensuring (a) quality to specifications, (b) execution to schedule, and (c) no undue deviations during construction;
- (ii) Inspection of works carried out departmentally for ensuring no excess use of materials and labour;
- (iii) Checking a percentage of concluded contracts for ensuring reasonable rates and no ambiguity in conditions, description and specifications with particular reference to negotiated contracts;
- (iv) Checking a percentage of bills after payment with reference to measurement books as also check on measurements and quality of works executed; and
- (v) Generally to help the Ministry of Works, Housing & Supply, Audit and A.G.C.R. on technical points in audit objections, draft paras, bills, contracts, etc.

The 'Surveyor of Works' organization has been set up under the Chief Engineer, C.P.W.D. and the Chief Technical Examiner's 'Cell' in the Ministry of Works, Housing & Supply.

6. In respect of river valley projects, the recommendation is that there should be one organization for the Administrative Audit System. The functions of such an organisation will as indicated earlier be more or less on the lines of those of the "Technical Examiner's Organisation". The States cannot be compelled to adopt the new system but that it was open to the Central Government provided they were satisfied that the existing arrangements were inadequate, to commend for the consideration of the States the adoption of such a system. Further one important development has to be taken into consideration in this connection, namely, the introduction of cost control in the multi-purpose projects. The Estimates Committee of Parliament in their Fifth Report had recommended that a cost accounting organization for each project should be set up as soon as a scheme was sanctioned and that it should act as a "search-light", point out the "bacilli of waste" and the direction in which improvement was needed. The authorities of the multi-purpose projects were requested to set up cost accounting cells. The cost accounting procedure has been in force on the D.V.C. and Hirakud projects. A cell was started in Bhakra towards the end of 1955. At Chambal, the necessary staff has been sanctioned and further action is being taken. At Kosi, the accounts organization is being formed. A beginning has been made at the Nagarjunasagar and Rihand Projects. Koyna is only in the preliminary stage of construction and cost accounting cells are expected to be opened at the appropriate time. A cost control unit is also being set up in the C.W.P.C. in order to co-ordinate the work in the projects, watch the trend of costs of river valley projects, give directions to the project units, where necessary, etc. One Cost Engineer and one Cost Accountant are being recruited for the purpose.

7. At the same time, with a view to evolving a uniform cost accounting organization, the Rates & Costs Committee set up by this Ministry, were asked to go into the question and make suitable recommendations. This Committee have defined the functions of the cost control organization as follows :—

"The cost section is to function as an independent fact-collecting agency and compiling data for presentation to executive in a form most serviceable to them. Its major objectives are, (i) to furnish the maximum amount of information from both operation and cost angles, (ii) to present in the most practical way the facts that reveal actual performances and to aid in the attainment of high standards of efficiency and therefore, of realisation of maximum economy, and (iii) to aid in determining operational policies. In short, cost accounting would aim at accounts for operators and project managers instead of accounts for accountants. It is thus more an adjunct to Engineering Departments particularly of estimating and planning than to the general accounting department."

The Committee have also laid down the following as essential conditions for an efficient costing system;

- (i) that arrangements and designing of the cost accounting system should be suited to the organizational set-up and the methods of construction on a particular project, at all levels of management down to the smallest field of activity;

- (ii) that the costing organization should be conversant with technical aspects of the work to detect flaws in the original data and to offer constructive criticism to improve efficiency;
- (iii) that promptitude and utmost regularity in the supply of data to the organization should be ensured; and
- (iv) that where the availability of actual data is not possible in time, best approximation should be made and subsequently corrected.

The Committee have also recommended that the cost organization should be headed by a competent cost engineer assisted by trained staff and that he should be able to comment on (i) the operations which are costing more than the estimates, (ii) the possible avenues of saving, and (iii) the ultimate cost of the project. This organization it is envisaged, should be independent of the executive organization but be responsible to the Chief Engineer of the project.

8. Further, the high-level committee on Plan Projects set up by the Government have appointed a team to undertake a detailed study of the Chambal and Lakkhavalli Projects. The terms of reference of the Team, which includes top ranking engineers in the country, are as follows :—

- (1) To study all aspects of the Project having a bearing on economy and efficiency with special reference to :
 - (a) Utilisation of trained personnel and materials;
 - (b) Utilisation of machinery and equipment;
 - (c) Construction Plant lay-out;
 - (d) Adequacy of original estimates and designs as evidenced from actual construction of the project;
 - (e) Phasing of construction with a view to studying whether
 - (i) timely utilisation of benefits accruing from the Project has been ensured;
 - (ii) it is possible to accelerate accrual of benefits;
 - (iii) benefits could be increased by rephrasing the project at this stage;
 - (f) Sufficiency of investigations conducted at the planning stage with a view to the formulation of Project Estimates;
 - (g) The effect of the above study on the financial results of the Project, if any.
- (2) Generally to assess the progress made in construction, the reasons for shortfall, if any, and to suggest measures for improvements in the future.
- (3) To examine the possibility of decreasing dependence upon imported materials and equipment required for the project.
- (4) To examine whether adequate steps have been taken by the authorities concerned for fixing and realising the contemplated water rates, betterment fees and/or any other rates, cesses or taxes.

- (5) Any other recommendation that the team may like to make in order to ensure economy and efficiency in the construction of the Project.

It will be observed that the above terms cover some of the important functions of the proposed Administrative System. The recommendations of the Team in the matter of efficiency and economy will be implemented not only in the particular projects investigated but also in other major projects in the country.

9. The Government of India have examined the matter carefully and, in the light of the position explained above, come to the conclusion that the purpose for which the Administrative Audit System has been recommended can be met by amplifying the functions of the cost control organization in the projects in such a manner as to provide for spot check of quality and quantity of work and scrutiny of contracts from the technical point of view. In other words, the duties of the Technical Examiner envisaged under the Administrative Audit System and those of the Cost Engineer will be combined in one and the same officer. This arrangement will make for economy without, in any way, affecting the implementation of the essential principles underlying the Administrative Audit System. As indicated in para 6 above, the system modified on the lines indicated above will be commended to the D.V.C., Tungabhadra Board and the State Governments through the respective Control Boards for adoption.

NOTE.—See P.A.C. 1947-48(Post-partition) R-10.

Notes/Memoranda for Public Accounts Committee to be signed by Secretary or Joint Secretary.

P 249. * * * * The Committee directed that instructions should be issued to all the Ministries that the Notes/Memoranda submitted to them should invariably be signed by the Secretary or the Joint Secretary of the Ministry concerned, as the case might be.

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Copy of Lok Sabha Secretariat Office Memorandum No. 65(3)-FC/55, dated the 13th October 1955.

In quite a number of cases notes/memoranda submitted by the Ministries concerned pursuant to action taken by them on the recommendations of the Public Accounts Committee or in pursuance of the undertakings given by their representatives, while they appeared before the Committee, to furnish information on points arising during meeting are :—

- (i) not signed by the Secretary or Joint Secretary.
- (ii) not shown to audit before submission to the Committee.

Non-compliance with the instructions issued in this connection lead to avoidable delay and result in the wasting of time of the Public Accounts Committee. It is, therefore, requested that all Ministries should ensure that the instructions are complied with.

**EIGHTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE 1953-54 (DISPOSAL OF
TYRES AND TUBES)**

Irregular transfer of contracts.

*Para 3. (Introduction).—***The Committee consider that Government should take serious notice of cases in which it comes to light that the contracts in favour of the firms nominated by the successful tenderers have been or are being accepted by the Officers concerned without prior approval of Government.*

The Committee also suggest that early steps should be taken to issue appropriate instructions to the Officers concerned dealing with contracts so that public money is not lost by such irregular transfer of contracts.

* * * * *

Item 4 of Appendix CXLVI of Fifteenth Report, 1954-55, Vol. II

4. The recommendation has been accepted and instructions have issued to the Director General, Supplies and Disposals that in future no transfer of contracts should be authorised unless the antecedents and the financial stability of the firm have been checked to the satisfaction of the Director General.

Splitting up of big contracts involving sale of goods into sizeable lots.

R 17. The sub-Committee desired to know whether the possibility of splitting up the stocks of tyres and tubes in question into sizeable lots with a view to attract more bidders was considered by the then Director-General, Disposals. * * * The Secretary, Ministry of Works, Housing and Supply, agreed that normally in cases of big disposals it would be desirable to split up the sales into sizeable lots. This method should normally fetch better prices and should also protect Government from having to deal with only one man who might prove difficult afterwards. In order, therefore, to prevent such losses being caused to the Exchequer in future and to ensure the best return for the disposal of Government stores, the sub-Committee recommend that all contracts involving the sale of goods worth lakhs of rupees should be split up into convenient lots at different places and separate tenders for each lot should be invited. Such a course, the sub-Committee consider, would be more advantageous to Government as any element of competition between two or three bidders would result in better terms being secured.

**APPENDIX CXLVI TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT 1954-55 VOLUME II**

MINISTRY OF WORKS, HOUSING AND SUPPLY

This recommendation has been accepted and instructions have issued that as a rule such contracts should be split up into sizeable and convenient lots at different places. Where the value exceeds

Rs. 25 lakhs (book value and, where book value is not available, assessed market value) and it is not proposed to split up the sale, the D.G.S. & D. have been instructed to take orders of Government.

It has been noticed, however, that sometimes in respect of some stores, price realisations are higher if lots are bigger. In such cases, several smaller lots are combined at the auction and sold as one. Sometimes in the interest of expeditious disposal, to clear covered accommodation required urgently by the stockholder for the storage of new stock it may be of advantage to sell in bulk.

Verification of the antecedents of the tenderers and blacklisting of contractors with bad record.

R 18. The sub-Committee note that the Director-General, Disposals did not verify the *bona fides* of the firm, before accepting their name in place of the successful tenderer. When the sub-Committee pursued this point with the representative of the Ministry, they were informed that in the case of Disposals stores where cash was realised in advance of the deliveries, no such enquiries were instituted. The sub-Committee would, however, suggest that in the case of big contracts like the one under report, Government should invariably insist upon the institution of detailed enquiries regarding the antecedents and financial standing of the firms tendering for the Disposals goods. They also suggest that Government should consider the desirability of black-listing contractors with bad record on the 'Disposals' side also as is being done on the 'Purchase' side.

APPENDIX CXLVI TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT 1954-55 VOLUME II

MINISTRY OF WORKS, HOUSING AND SUPPLY

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The recommendation has been accepted in principle and instructions are being issued that in contracts for sale of surplus stores involving substantial amounts, the following procedure should be adopted :—

(1) *Financial Standing*.—In the tender form inviting offers for purchase and removal of large volume of surplus stores, a condition will be stipulated under which the tenderers will be required to indicate the name of their Banker. Immediately on opening of the tenders, an enquiry will be made from the Bankers indicated by the tenderers regarding the financial standing of the tenderer. The bank report(s) will be taken into consideration at the time of the acceptance of the offers.

(2) *Verification of antecedents*.—Under the existing procedure, the D.G.S. & D. maintains a list of firms black-listed and those with whom business has been banned or suspended. This list will be consulted *vis-a-vis* the tendering firm at the time of considering the tenders. The Supplies Wing who maintains a list of registered firms will also be consulted. It has also been decided to maintain in future a Performance Register indicating the name and address of the

purchaser, the value of the contract and whether or not satisfactorily completed. This register would in due course, afford facilities for verification of antecedents.

The existing procedure also contains safeguards to protect the interests of the Government. Each tender for the sale of surplus stores has to be accompanied by a Deposit-at-Call Receipt of 10 per cent. of the tendered value as earnest money which is liable to forfeiture in the event of tenders not complying with the terms of the contract. No part of the stores is released unless the entire sale value of the stores is deposited with the Government.

The above procedure will be applicable to all sales except those effected by auction, where generally comparatively smaller amounts are involved. In the case of auction sale, a deposit of 25 per cent. of the accepted bid is obtained as earnest money on the fall of the hammer. The firms are usually required to deposit the balance of the sale value, i.e., 75 per cent. of their accepted bids within 7 days of the auction sale. Bids at auction sale are to be accepted or rejected on the spot and therefore, there is no time to make enquiries about financial standing etc.

Where payments are staggered at the request of the purchaser, Government asks for a suitable bank guarantee to safeguard itself against possible loss in the event of the whole sale not materialising.

3. Instructions have issued that contractors with bad records on the Disposal side should also be put on the black-list or otherwise penalised as is the case with the Purchase side.

NOTE.—See P.A.C. Seventh Report, 1952-53, R 25.

Write-off of irrecoverable dues

R 19. While discussing the question of write-off of the value of tyres and tubes destroyed by fire amounting to Rs. 12,65,000, the sub-Committee enquired whether any maximum monetary limit for sanctioning a write-off by the Officers at various levels had been fixed by Government and whether cases involving writes-off beyond a certain limit were put up before the Cabinet for approval. The sub-Committee were informed that the write-off was sanctioned by the administrative Ministry in consultation with the Ministry of Finance and when both the Ministries agreed to the proposed write-off, regardless of the status of Officers in the Ministry of Finance and the administrative Ministry who have agreed to such write-off, it implied that the Government of India had sanctioned it. The sub-Committee, however, consider that in order to ensure that sanctions to write-off of losses of stores, cash etc. are accorded at appropriate levels and also to safeguard the interest of the Public Exchequer, a definite procedure should be laid down specifying the limits upto which the Officers at various levels in the Ministry of Finance and the administrative Ministry shall be competent to write-off losses within the overall limit fixed for the purpose. Approval of the Cabinet may be prescribed for the write-off of losses beyond a certain limit, say, Rs. 5 lakhs.

**APPENDIX LXVIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT 1954-55 VOLUME II****MINISTRY OF FINANCE**

SUBJECT.—*Sanctions to the write-off of losses at appropriate levels both in the administrative Ministries and in the Ministry of Finance.*

The present position is that the administrative Ministries are empowered to write-off losses upto Rs. 10,000 in each case, but if the losses are in respect of irrecoverable value of Stores not due to theft, fraud or negligence, the monetary limit is Rs. 25,000. Proposals involving write-off of amounts exceeding these limits require the concurrence of the Ministry of Finance. In the administrative Ministries as well as the Finance Ministry, a convention has been established that officers at suitable levels deal with such cases, depending upon the seriousness of the various considerations involved. The seriousness does not merely depend upon the amount involved. In the circumstances, it is felt that it is perhaps unnecessary to lay down rigid limits, based upon the amount of the loss, for determining the level of Officers who should deal with such cases.

It may be observed that the powers of the administrative Ministries are already restricted. So far as the Finance Ministry is concerned, we have further laid down a procedure that all cases involving a loss of over Rs. 5 lakhs would be dealt with under the orders of the Deputy Minister, Finance. The Administrative Ministries have also been requested that all such cases *i.e.*, those involving a loss of over Rs. 5 lakhs should, in future, be dealt with under the orders of their Deputy Ministers or Ministers before the cases are referred to this Ministry for consideration.

NINTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1953-54 ON THE APPROPRIATION ACCOUNTS (DEFENCE SERVICES) 1949-50 AND 1950-51

Losses in the Stores Depots—Report to the Police.

R 16. * * * In order to prevent recurrence of such cases, the Committee recommend that the Ministry of Defence should issue instructions that all cases involving material loss or destruction of property as a result of fire, theft etc., in the Defence Stores Depots and Installations should also be reported to the Police for investigation.

The Committee would suggest to the Ministry of Defence to examine the point whether under the existing rules regulating the constitution of the Boards of Inquiry, it is open to Government to pursue the matter further in case they feel dissatisfied with their findings. They should like to know, in due course, the views of the Ministry of Defence in the matter.

The question is under the consideration of the Ministry of Defence.

Functions of the High Commissioner of India in U. K. Vis-a-Vis the Central Ministries

R 17. For some time past, there has been some obscurity in defining the exact scope of powers and functions of the High Commissioner for India *vis-a-vis* the India Stores Department, London, in the matter of purchase of stores etc. When the Committee took up consideration of the contracts for the purchase of jeeps and other Defence Stores etc., entered into by the High Commissioner for India in London, they pursued this question with the representatives of the Ministries of External Affairs and Works, Housing and Supply. From a statement showing the various Departments of the High Commission of India in London and their controlling authorities in India furnished by the Ministry of External Affairs (*Appendix V*), the Committee note that the Ministry of Works, Housing and Supply are the controlling authority of the India Store Department.

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The India Stores Department, London makes purchases of Stores against cross-mandates placed on the Department by the Director-General, Supplies and Disposals.

APPENDIX V TO THE PUBLIC ACCOUNTS COMMITTEE'S NINTH REPORT 1953-54 VOLUME II

MINISTRY OF EXTERNAL AFFAIRS:

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2. A statement showing the various departments of the High Commission of India in London and their controlling authorities in India is enclosed. It will be seen that, although the High Commissioner for India in London is under the general administrative control of control of the various technical and specialist departments of the High Commission vests in the respective Ministries and Departments of the Government of India, and *not* in the Ministry of External Affairs.

3. The Ministry of External Affairs directly controls only the Central Departments of the High Commission, e.g., the Chancery and the Accounts, External, Consular, Establishment, Organisation and Methods, General, Legal and Publicity Departments. This Ministry has little to do with the internal administration and activities of the technical and specialist departments. The subjects mentioned in the Audit Reports of the Accounts of the Defence Services referred to above concern the Ministry of Defence on whose behalf the stores were purchased, and the Ministry of Works, Housing and Supply who control the India Store Department. In a note on co-ordination and a detailed scrutiny of the budget estimates of the High Commission of India in London, forwarded to the Parliament Secretariat in December 1952 for submission to the Public Accounts Committee, it was made clear that the External Affairs Ministry is *not* in a position to comment usefully on the technical requirements of other Ministries and Departments and that there would be no special advantage in introducing a system giving the External Affairs Ministry a theoretical overall control over the entire budget estimates of the High Commission. The same principle applies to the financial and general activities of the High Commission.

* * * *

Statement showing the various Departments of the High Commission of India in London, and their controlling Authorities in India

Serial No.	Name of the Department	Budget Demand in which included	Controlling authority in India
1	Auditor, Indian Accounts	Demand—Audit	Comptroller and Auditor General of India.
2	(i) Central Department Including Chancery.	Demand—External Affairs	Ministry of External Affairs
	(ii) Legal Adviser's Department.	Do.	Do.
	(iii) Publicity Organization in London.	Do.	Do.
3	Indian Scientific Liaison Office.	Demand—Scientific Research.	Ministry of N. R. & S. R.
4	Education Department	Demand—Education	Ministry of Education.
5	Medical Adviser's Department.	Demand—Medical	Ministry of Health.
6	India Stores Department.	Demand—Supplies	Ministry of W. H. & S.
7	Commerce Department	Demand—Commercial Intelligence and Statistics.	Ministry of Commerce and Industry.
8	Military, Naval, and Air Adviser's Deptts.	Defence Services—Effective Army, Navy and Air Forces.	Ministry of Defence.

Inspection of Defence Stores purchased abroad

R 19. As the Rules did not make any mention about the arrangements that existed in the India Stores Department, London, for the inspection of Defence Stores, such as arms and ammunition, purchased in the U. K. and the Continent an enquiry on that point was made by the Committee from the Ministries of Defence and Works, Housing and Supply. In reply, the latter Ministry has stated 'that the arrangement for the inspection of various categories of Defence stores, is not always uniform. There are no technical officers on the staff of the I.S.D., London, with knowledge of modern weapons. * * *'. The Committee desire that Government should consider the question of adequately equipping the I. S. D., London for carrying out the inspection of such stores as well.

The Ministry of Defence have stated (Fourteenth Report 1954-55 Volume I Pages 78-79) as below :—

This Ministry do not consider it practicable to appoint Defence Inspectors on the ISD, London for inspecting the arms and ammunition, etc., purchased abroad. Our major purchases abroad are through the Government of the foreign country concerned and in the U. K. particularly through the Government of the U. K. In such cases, inspection is carried out by the U. K. Government agency on our behalf and there is normally no need for any separate inspection by our own inspectors. Where trade purchases are made through the D. G. I. S. D. of arms and ammunition and other such military stores, the purchases are so varied in nature that we would require a number of Inspectors specialised in different items to inspect the stores properly. In such cases, wherever possible, we engage the inspectors of the U. K. Govt. or send our own inspectors from India. In the case of M. T. stores, this Ministry has agreed to provide an Army Officer for posting in the I.S.D., London. This Ministry do not think it is either necessary or practicable to do so in respect of purchases of arms and ammunition.

The Ministry of Works, Housing and Supply concurred with the above view of the Ministry of Defence (Fourteenth Report, 1954-55, Volume I, pages 79-80).

Procurement and manufacture of common-user items in India

R 20. From para. 11 of Chapter III of the Report of the India Stores Department, London, for the year 1951-52, the Committee note that the various service Departments in India forward indents to the I.S.D., London for such items as are quite easy to procure in India and were in fact, in production during the last war. The Committee could not examine the Ministries of Defence and Works, Housing and Supply on the comments made in this para. (reproduced below for ready reference) for want of time :

"In conclusion the desirability of establishing manufacture of common-user items must again be emphasised. * * * There appears to be no doubt that if these stores are produced in India the cost will be much less. Indents for some

of the items under this category were referred back to the Indentors to investigate local purchase and in some cases the items were withdrawn. It is, therefore, considered most desirable that all defence demands, before being transferred to U.K. for procurement should be carefully screened with a view to omitting those items which can be manufactured in India."

The Committee would like to know in due course the comments of the above Ministries in this behalf. In the meantime, they would stress the desirability of procuring the common-user items for the use of Defence Services in India as such a course would not only give a fillip to the indigenous industries but also conserve our foreign exchange resources.

The Ministry of Defence have stated (Fourteenth Report 1954-55 Volume I pages 80-82) as below :—

Demands for Defence stores are normally placed sufficiently ahead of the period for which the stores are required. In accordance with the procedure now in vogue, chances of demands for defence stores which are produced indigenously being placed on overseas countries have more or less been eliminated. In order to ensure that this is done, all demands are vetted by technical authorities before being placed on overseas countries. Items which in their knowledge can be procured indigenously are deleted from the demands. A copy of all demands placed abroad is also forwarded to the Director General Ordnance Factories, Director General, Supplies and Disposal and the Ministry of Commerce (Development Wing) (if the value exceeds Rs. 10,000) in order to enable them to explore the possibility of indigenous production and advise the indentors whether the items can be procured or manufactured within the country. Based on their advice, trial demands are placed on indigenous sources of supply and if the stores supplied against these trial indents are found acceptable, then further demands for the items in question are placed on the indigenous source of supply even if a higher price has to be paid, and action is taken to cancel supplies from foreign sources to the extent possible. All local resources are also tapped in respect of items of simple and petty nature before they are demanded from abroad. All the important and costly indents are placed with the prior concurrence of the Ministry of Defence and Finance (Defence).

The problem of attaining self-sufficiency in respect of Defence requirements of stores is continually under active consideration of the Government of India. There is a standing Committee called the Imported Stores Screening Committee, which is engaged in the examination of all categories of Defence Stores which are procured from abroad with a view to examining the possibility of their indigenous production/procurement. In this task, the Committee is assisted by various Sub-Committees which include representatives of the DGS. & D., D.G.O.F. and Ministry of Commerce and Industry (Development Wing) in addition to the representatives of the Defence indentors.

The Imported Stores Screening Committee recently directed its various Sub-Committees to draw up agreed lists of stores which could continue to be imported because their manufacture in India has not been established. These lists are nearing finalisation. Once they have been finalised, Service authorities will not be allowed to indent on D.G.I.S.D., London or on the I.S.M., Washington for stores not included in the lists. It is also intended that the lists should be revised annually so as to make sure that meanwhile capacity for some of the items included in the lists has not been developed in India. When those lists come into force, there should be little chance of orders being placed abroad for items which can be produced in this country".

The Ministry of W. H. & S. have stated (Fourteenth Report 1954-55 Volume I pages 82-83) as below :—

It is only in order to obviate possible delay in routine indents for imported stores through the D. G. S. & D. that Defence indentors have been permitted to place indents for stores known to be procurable only in the U. K./U.S.A. on the I. S. D./India Supply Mission direct. They are, however, required in such cases to record a certificate to the effect that the stores involved are not procurable from indigenous sources. Even so, copies of such indents are required to be sent to the D.G.S. & D. so that a further check regarding availability from indigenous sources can be carried out before a commitment is made by the I.S.D./I.S.M. Despite these precautions there is a possibility of cases arising in which stores available indigenously are included in indents placed on U.K./U.S.A. mainly by oversight. In order to obviate such contingencies in future, a list of such items as are definitely known to be not procurable in India is being compiled by the Imported Stores Screening Committee, which includes a representative of the D.G.S. & D. and the Development Wing of the Ministry of Commerce & Industry. This Committee is also compiling a list of items for which it is desirable to develop indigenous capacity. Once these lists are compiled and the Defence Indentors also act on the basis of the lists, the chances of indigenously produced articles being indented for from abroad will be eliminated. The Ministry of Defence have also been asked to consider what further action can be taken by them to tighten up the screening of indents pending compilation of list of items which alone have to be imported from abroad and to establish manufacture of common-user Defence items.

Destruction of files regarding purchase transactions

R 41. * * * * The files regarding purchase transactions should be kept for longer periods so that Government could be in a position to resist any claims from suppliers at a later date. The Committee recommend that the existing instructions regarding destruction of files should be carefully examined and modified to ensure that Government interests are not jeopardised by premature destruction of files. (See also P.A.C. Tenth Report 1953-54 R. 26. Thirteenth Report. 1954-55 P. 190.)

Copy of instructions issued under Ministry of Defence U. O. No. F. 7(5)/1154D (Coord), dated 8-2-55.

****The existing instructions are already comprehensive enough and ensure that important files are retained for five years or more as considered necessary. However, in view of the specific recommendation of the Public Accounts Committee, the Ministry of Defence wish to emphasize on all concerned that files relating to purchase transactions should be retained for a minimum period of five years and in the case of important purchases, the files might be retained for a further period upto 10 years, if considered necessary. Before files relating to purchase transactions are destroyed, orders of the senior officer of the status of General or equivalent (or an Under Secretary in the Ministry of Defence in the case of the files belonging to the Ministry) should be obtained.

The Ministry of W. H. & S. have stated (Fourteenth Report 1954-55 Volume I page 85) as below :—

According to the existing instructions, no purchase files can be destroyed until three years after due completion of the contract. This period should normally be sufficient for audit scrutiny to be carried out. Instructions have, however, been issued to the Purchase Organisations that cases which are the subject matter of audit objections should not be destroyed until the necessary review has been made by the Public Accounts Committee.

Purchase of Stores

R 43. * * * The Committee wish to lay down for the guidance of various Ministries in future that no contract should be negotiated through intermediaries having little or no standing or which appear to have been formed a few months before the contracts are negotiated. It is also essential that in all cases where contracts or transactions are entered into with private firms, every care should be taken to verify their financial position through Banker's reference or by consultation with the Government concerned. It is always desirable when dealing with private firms in a foreign country to take both our Ambassador in that country as well as the Government concerned into confidence particularly as in these days supplies of Defence stores are not possible from a foreign country without the concurrence and co-operation of the Government of that country.

The Public Accounts Committee, (Fourteenth Report, 1954-55, Vol. I page 85) were informed that the Ministry of Works, Housing and Supply had already issued instructions to their purchasing organisations. So far as the Defence Ministry was concerned the observations of the Committee would be borne in mind.

Payments relating settlement of cases out of Court

R 46. ***** A rule similar to Law Officers Rule No. 173 of the Government of Bombay which provides that "no suit or other civil proceeding is to be settled out of Court or compromised in the Court without the express orders of Government" should be adopted by the Government of India in order to avoid recurrence of such cases in future.

Copy of Office Memorandum No. 1432/55-Adv. dated 29-3-1955 from the Government of India, Ministry of Law, to all Ministries of the Government of India.

SUBJECT.—*Instructions regarding compromise of cases of the Government of India*

In order to define clearly the authority of advocates and other legal practitioners to compromise cases on behalf of the Government of India, the following instructions are issued.

2. *Advocates or other legal practitioners engaged on behalf of the Government of India should not settle out of court or compromise any suit or other civil proceeding without the express sanction of the Government save in exceptional circumstances when there is not sufficient time to consult appropriate authorities of the Government of India and when not to settle or compromise the matter would be definitely prejudicial to the interests of the Government. When in exceptional circumstances such compromise or settlement is made without the express authority of the Government of India, the advocate or other legal practitioner engaged on their behalf should record in writing special reasons for entering into the compromise or settlement on his own authority. Similar instructions would apply to reference of a case to arbitration except that as such a course is not required to be taken urgently the advocate or legal practitioner engaged on behalf of the Government of India should, in each case, obtain the previous sanction of the Government before agreeing to arbitration on their behalf.*

3. *If Vakalatnama or Power of Attorney is to be executed in favour of the advocate or other legal practitioner to be engaged on behalf of the Government of India care should be taken to incorporate the above condition therein.*

4. *All Ministries of the Government of India are requested to bring the above instructions to the notice of advocates and other legal practitioners who are engaged on behalf of the Government of India in any suit or other legal proceeding. It is also proposed to communicate the instructions to those State Governments which undertake the conduct of litigation of the Government of India through their law officers.*

Copy of Office Memorandum No. 3826/56-Adv. (B), dated 24-7-1956 from the Government of India, Ministry of Law, to all Ministries of the Government of India.

SUBJECT.—*Instructions regarding compromise of cases of the Government of India*

Attention is invited to paragraph 3 of this Ministry Office Memorandum No. 1432/55-Adv., dated the 29th March 1955, which requires that the restrictions laid down in paragraph 2 thereof should be incorporated in the Vakalatnama or power of attorney, if executed. Accordingly a form of Power of Attorney embodying the required condition is enclosed herewith, which may be used in all courts other than the Supreme Court. All Ministries of the Government of India are requested to bring the above instructions to the notice of their attached offices.

Before

in the Court of

.....

Plaintiff	/	Claimant
Defendant	/	Appellant
		Petitioner
Versus		
Defendant		Respondent
Plaintiff		

The President of India doth hereby appoint and authorise Shri to appear, act, apply, plead in and prosecute the above described suit/appeal/proceedings on behalf of the Union of India, to file and take back documents, to accept processes of the Court, to appoint and instruct Counsel, Advocate or Pleader, to withdraw and** deposit moneys and generally to represent the Union of India in the above described suit/appeal/proceedings and to do all things incidental to such appearing, acting, applying, pleading and prosecuting for the Union of India SUBJECT NEVERTHELESS to the condition that unless express authority in that behalf has previously been obtained from the appropriate officer of the Government of India, the said Counsel/Advocate/Pleader or any Counsel, Advocate or Pleader appointed by him shall not withdraw or withdraw from or abandon wholly or partly the suit/appeal/claim/defence/proceedings against all or any defendants/respondents/appellants/plaintiffs/opposite parties or enter into any agreement, settlement or compromise whereby the suit/appeal/proceedings is/are wholly or partly adjusted or refer all or any matter or matters arising or in dispute therein to arbitration PROVIDED THAT in exceptional circumstances when there is not sufficient time to consult such appropriate officer of the Government of India and an omission to settle or compromise would be definitely prejudicial to the interest of the Government of India the said Pleader/Advocate or Counsel may enter into any agreement, settlement or compromise whereby the suit/appeal/proceedings is/are wholly or partly adjusted and in every such case the said Counsel/Advocate/Pleader shall record and communicate forthwith to the said officer the special reasons for entering into the agreement, settlement or compromise.

The President hereby agrees to ratify all acts done by the aforesaid Shri in pursuance of this authority.

IN WITNESS WHEREOF these presents are duly executed for and on behalf of the President of India this the _____ day of _____ 195

(Designation of executing officer)

* Here insert the name of the court or tribunal followed by the full description and number of the proceeding.

** Omit "withdraw and" except in cases of standing counsel and Government Pleaders.
N. B.—Inapplicable alternatives should be scored off.

Periodical verification of cash balances with the Imprest Holders etc.

R 57. The Committee understand that the Imprest and cash balances of the Units are checked quarterly by an Audit Board consisting of senior Officers of different units. In addition, periodical surprise checks of cash balances by senior administrative/executive officers are also carried out and irregularities, if any, are reported to the Station Commander. The Committee, however, desire that the local Audit Officers of the Defence Accounts Department should also carry out surprise checks of cash with the Imprest Holders and the Defence authorities should render them all necessary facilities to carry out such checks.

R 58. The Committee note that despite the existence of the Quarterly Regimental Boards, cases of defalcations, misappropriation of cash etc. were not infrequent as disclosed in the Accounts for the years under report. The representative of the Ministry of Defence stated that there had been a steady improvement in this respect and he assured the Committee that the defects would disappear gradually.

The Committee, however, desire that the Ministry of Defence should examine the adequacy of the various internal checks including checks by the Defence Accounts Department, on the cash accounts in consultation with the Controller General of Defence Accounts, the Ministry of Finance (Defence) and Comptroller and Auditor General and suggest improvements, if necessary.

APPENDIX XI TO THE PUBLIC ACCOUNTS COMMITTEE'S NINTH REPORT 1953-54 VOLUME II

MINISTRY OF DEFENCE

* * * * *

2. Under the existing regulations all public accounts (including imprests) and cash balances of units are checked quarterly by an audit board consisting of senior officers of different units. In addition, periodical surprise checks of cash balances by senior administrative/executive officers are also carried out and irregularities, if any, are reported to the Station Commander.

3. In view of the above and the fact that officers of the Defence Accounts Department have to give advance intimation of their arrival in the units and they have no executive authority over the officers operating the accounts, surprise check by them, as suggested by the Committee, was not found either necessary or practicable. Under the existing rules, however, local audit officers of the Defence Accounts Department are already vested with the power to check cash balances of the units whenever they find the accounts to be unsatisfactory and feel the necessity for such a check. The Government are satisfied that the existing arrangements are adequate.

APPENDIX XII TO THE PUBLIC ACCOUNTS COMMITTEE'S NINETEENTH REPORT 1955-56 VOLUME II

MINISTRY OF DEFENCE

The recommendation has been carefully examined in consultation with the Ministry of Finance (Defence) and the Controller

General of Defence Accounts. Our view is that the responsibility for the verification of cash with imprest holders should rest fully and squarely on the administrative authorities rather than on the audit authorities. It is understood that, on the civil side also a similar view prevails. No surprise check of cash balance is done on that side and even ordinary check of cash balance during the course of audit is discouraged.

3. The Controller General of Defence Accounts has examined the administrative and financial implication of the measures that would have to be adopted if his Department were to carry out surprise checks on Imprest Cash balances. His views are summarised below :—

- (i) It is very difficult to ensure a strictly surprise check by the Local Audit Officer. If his programme is advertised beforehand, even by so much as an hour, the element of surprise disappears correspondingly.
- (ii) The moves undertaken in pursuance of surprise checks of cash will interfere with the normal programme of inspection and review which receives advance concurrence of the Controllers. Alternatively, if such moves are also to be provided for in the programme, there is no element of surprise. Besides, surprise checks may have to be conducted according to exigencies of particular situations and it would be impracticable to provide them in the normal programme.
- (iii) Assuming that the surprise check of cash balances will have to be carried out once a year, it will be necessary to substantially augment the cadre of the Local Audit Officers. Besides an increase in the complement, considerable extra expenditure on travelling allowances will also have to be incurred.

The Controller General of Defence Accounts is of the opinion that judging by the extent of fraud in cash accounts disclosed during the last few years and the checks exercised by the administrative authorities and having regard to the administrative and financial implications of the proposal, as detailed above, it does not seem really necessary to superimpose audit check on cash balances, as recommended by the Public Accounts Committee.

Ministry of Finance (Defence) also agree with the views of the Controller General of Defence Accounts.

Note.—See P. A. C. 1947-48 (Post-partition) P20.

APPENDIX XIII TO THE PUBLIC ACCOUNTS COMMITTEE'S NINETEENTH REPORT 1955-56 VOLUME II

MINISTRY OF DEFENCE

1. The following steps have been taken to ensure adequate checks of the cash accounts of units and to avoid losses of public money :—

- (a) The maximum amount of cash balance that can normally be held at any time by an Imprest Holder is to be fixed by Brigade or equivalent Commander in consultation with the Defence Accounts authorities.

- (b) The amount in hand of an Imprest Holder is to be restricted by the sanctioning authority to actual and immediate requirements and is not normally to exceed 10 days' requirements. Cash for payment of normal pay and allowances in the first week of a month is to be obtained on as required basis.
- (c) Use of Emergency Cash Requisitions is to be restricted only to very exceptional and emergent cases.
- (d) Cash balances of public and regimental funds, when kept in the same treasure chest, are to be kept separately and separate cash accounts are to be maintained for each.
- (e) At the end of each quarter, the Officer Commanding Station is to convene a Station Audit Board consisting of three senior officers of different units, or such less number as the Area Commander may direct, to check all public accounts, including imprest and cash balances.
- (f) Officers commanding units/formations, Heads of offices and Inspecting Officers are to conduct surprise checks of cash balances. This is also to be done by senior officers.

2. Local Audit Officers of the Defence Accounts Department already carry out periodical checks of cash accounts and have also got discretionary power to check cash balances whenever they find the accounts to be unsatisfactory and feel the necessity for such a check. The question whether it is necessary to introduce any further measures of check by the administrative and/or Defence Accounts authorities has been considered in consultation with the Ministry of Finance (Defence), Controller General of Defence Accounts and the Director of Audit, Defence Services. It is felt that the existing procedure is satisfactory and that the cases of fraud, financial irregularities, loss, etc. that occur are more due to failure in the human machinery rather than any defect in the system. To further tighten up the efficacy of the check of cash balances by the Defence Accounts Department, the Controller General of Defence Accounts, however, is issuing general instructions that the discretionary power of the Local Audit Officers to check balances should invariably be exercised whenever they are found to be heavy.

Copy of the Controller General of Defence Accounts letter No. 7110/AT-S, dated the 30th August 1955.

SUBJECT.—*Inspection of cash accounts units and formations by Local Auditor Officers*

*The question of tightening up the efficiency of internal check exercised by the Defence Accounts Department in the light of the recommendations of the Public Accounts Committee was examined. In this connection a reference is invited to the Provisions in Section I of Local Audit Officer's Hand Book Part II. It will be seen from paragraph 4 of that Section that Local Audit Officers are vested with discretion under certain circumstances with the powers to carry out a verification by actual counting of the cash balances in units and formations. With a view to further tightening up the check, it has now been decided that Local Audit Officers should invariably carry out such verification also in cases of units/formations where the cash balances are found to be heavy. * * * **

Absence of control over production costs in Naval Dockyards

R 63. * * * While the Committee recognise that at present there is an acute shortage of personnel trained in the Cost Accounting work in the country, they would recommend that Government should take steps to train sufficient manpower in Cost Accounting and estimating work not only for the Naval Dockyards but also for employment in other Governmental Industrial Undertakings.

The Committee are further of the view that if the initial accounts are kept on sound lines, things cannot go wrong at a later stage. According to them, Cost accounting is very necessary in cases where jobs are executed for outside parties and cost has to be recovered from them. It is also necessary for watching economy in the Department itself, as a kind of index or barometer to see how the business is being done. The absence of estimates provides opportunities for all kinds of evils.

Fixation of the amount of Imprest and use of emergency cash requisition

P 85. * * * A maximum limit in regard to the amount of money that an Imprest Holder could draw had been fixed on an *ad hoc* basis. The Controller-General of Defence Accounts informed the Committee that the recommendations of the Public Accounts Committee that the use of emergency cash requisitions should not be resorted to had been accepted and that the rules had been amended accordingly.

Advance payments to the U. K. Government for supply of stores

P 115. The Comptroller and Auditor-General, pointing out the advance payments made to the U.K. Government for the supply of certain stores to the Government of India, observed that such advance payments should not normally be made. These arrangements, he added, should be on a reciprocal basis and in the past the U.K. Government had not advanced any sums to the Government of India for services rendered to the latter. This matter, it was suggested, should be taken up by the Ministry of Works, Housing and Supply with the U.K. Government in consultation with the Ministry of Defence (See also P.A.C. Sixth Report 1957-58 R 71).

Ministry of Defence has observed (Fourteenth Report 1954-55 Volume I—pages 93 and 94) as follows:—

The matter was taken up by the High Commissioner with the U. K., Government and the Ministry of Supply U. K. proposed on 19th January, 1953 that in future :—

(a) 80% advance payments should continue to be made for short term delivery orders, i.e., where delivery will not be later than 12 months ; and

(b) in the case of long term delivery orders, pre-payment will be of expenses of U.K. Government incurred from date of placing of order till delivery begins and thereafter pre-payment of 50% per annum of value of deliveries in a given year; the balance to be paid against documents.

The Ministry of Supply explained that they had to have these advances in order to provide for supplies, which are made either for production by Government Ordnance factories or purchases from the trade and sometimes from stocks. The Ministry has to make payments for purchase of raw material, labour charges, etc. and their budgetary grants are not sufficient to provide for their own supplies and to meet demands for procurement made on them. The payments they receive from us and similar customers are taken in reduction of the expenditure and the vote of U. K. Parliament is sought only for the net amount.

This matter was carefully examined by this Ministry in consultation with the Ministry of Finance (Defence) and it was accepted that there is no alternative to making advance payments as required by the U. K. Government but our High Commission in London was asked to ensure that the system of advance payments applied to us is the same as that applied to other Commonwealth Governments. The advances should be the minimum necessary for the purpose and should not remain unadjusted for long periods. We wanted the High Commission to lay down a procedure in consultation with their Financial Adviser indicating the broad basis for calculating the amount of such advance payments and also the period on the expiration of which the stores should materialise or the advance should be refunded. Ministry of W. H. & S. has also agreed with the above view, which has since been communicated to our High Commissioner in London.

Standardization of contract forms

P 167. * * * * * The Committee considered the note furnished by the Ministry of Defence (Appendix XXII). The Defence Secretary informed the Committee that the question of drawing up of standard forms of contracts was considered in consultation with the Ministries of Finance and Law and the view taken was that it was impossible to lay down a uniform contract form for the use of all the Ministries. However, the amendments proposed to be carried out in the contract forms pertaining to the M.E.S. Organisation appeared to be on the lines desired by the Committee. Since then, he added, efforts were being made to finalise the outstanding amendments in consultation with the Ministries of Finance and Law and certain important amendments had already been finalised and issued.

APPENDIX XXII TO THE PUBLIC ACCOUNTS COMMITTEE'S NINTH REPORT 1953-54 VOLUME II

MINISTRY OF DEFENCE

1. While recommending that urgent steps be taken to draw up suitable forms of contracts providing adequate safe-guards to protect Government interests for use by Purchasing Organizations, the P.A.C. drew attention to Para. 6 of their Report on the Accounts for 1947-48 (Post-partition) wherein the desirability of prescribing standardised forms of agreements drawn up by committee consisting of the representatives of the Ministries of Finance, Defence and Law, after review of the existing ones, were to be brought into use.

2. In so far as the Contract forms in use in the M.E.S. are concerned, they are generally on the model of War Department contracts and provide reasonable safe-guards to protect Government interests. As a result of their use over a considerable length of time before and during the last War, however, these forms were revised in 1947 in consultation with the Ministries of Finance (Defence) and Law. Since these forms were taken in use in early 1948, it was found necessary to further amend them. As a result some amendments were finalized and incorporated in these forms during 1948 to 1950. Certain further amendments were drafted and sent to the Ministry of Finance (Defence) in batches during September to November 1951, but were held up in view of the P.A.C.'s recommendations to set up a Committee *vide* para. 1 above. The question was considered in consultation with the Ministries of Finance and Law, and the view taken was that it was impossible to lay down a uniform contract form for the use of all the Ministries nor did it seem to be intention of the P.A.C. However, the amendments proposed to be carried out in the Contract Forms pertaining to the M.E.S. Organisation appeared to be on the lines desired by the P.A.C. Since then efforts are being made to finalize the outstanding amendments in consultation with the Ministry of Finance (Defence) and Law, and already certain important amendments have been finalised and issued.

3. A statement showing the defects removed by these amendments is attached as annexure 'A'.

ANNEXURE 'A'

Note on Defects remedied by important Amendments. Defects removed

Amendment.
No.

-
10. Contractors are now under obligation to pay "Fair Wages" to the Labour, due to specific provision being made in the Contract.
 12. Contractor's agreement to issue old serviceable materials in respect of Term Contract, is not necessary. The Garrison Engineer may issue such materials if available.
 15. Supply of water for construction etc., from MES sources did not form part of the contract and was previously treated as a separate transaction. The uncertainty about MES water supply to contractor, at the tender stage, was treated as a gambling element by the contractor. The amendment removes this defect and provides for issue of water, available, from MES sources, at a stipulated rate.
 19. Tools and Plant were previously issued on *loan* to the contractor and the rate covered the wages of crew, fuel and lubricants only. Therefore, there was no incentive on the part of the contractor to use T. & P. efficiently.

The amendment carried out provides the issue of T. & P.

on *Hire* and the rates cover Depreciation, Interest, Maintenance, Crew, Fuel and Lubricants etc. The *Hire* rates being much greater than the rates on loan, the contractors do not allow the T. & P. remaining idle.

22. Periodical Services, *viz.*, painting, white washing etc., have been excluded from the scope of the Term Contract and are being carried under a separate contract at rates cheaper than those under the Term Contract.

26. No provision existed for Extension of Contract period due to :—

(i) delay in issue of Govt. stores, or

(ii) reasons beyond contractor's control.

Non-issue of Government stores is tantamount to a breach of contract by the MES and it is not equitable to refuse extension to contract period for reasons which are entirely beyond the control of the contractor.

The amendment provides the remedy.

27. The amendment removes the ambiguity and clarifies the position for delay when the buildings are phased or grouped for the purpose of completion dates.

28 and 29. The contract could not be cancelled by the MES prior to the expiry of contract period even if the contractor did not proceed with the works, with due diligence.

The amendment provides for cancellation in such circumstances and also in the event of death of the contractor. It also provides for cancellation of contract in part or in full, for default on the part of contractor.

32. The Amendment makes the contractor responsible for supplying wholesome drinking water for the labourers.

33. The definition of "Fair Wage" has been revised, due to discontinuation of Nerrick rates of labour.

35. "MES Contractor's Labour Regulations" have been incorporated in the conditions of Contract.

NOTE.—See P. A. C. 1947-48 (Post-partition) R6(1) and 17.

**TENTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE 1953-54 ON THE APPROPRIATION ACCOUNTS (RAILWAYS) AND (POSTS AND TELEGRAPHS) 1950-51**

Improvement in the overall budgetary control over expenditure on the Railways

R 13. * * * * * The Public Accounts Committees of recent years have found occasions to comment on the financial administration of the Railways. They observe that although the Audit and Accounts were separated long ago, there is not the necessary co-ordination between the Railway Administrations and the Accounts Offices in the formulation of estimates etc. They also feel that the Railway Accounts Officers should be further strengthened and re-organised, if necessary.

The Committee, therefore, desire that the Railway Board should ****exercise a rigid overall control at the time of consolidating the Budget Estimates submitted by the Railways. They feel that the overall budgetary standard and control over expenditure on the Railways need improvement and should, therefore, like to know the measures evolved by the Railway Board to set matters right in this direction.

**APPENDIX XIX TO THE PUBLIC ACCOUNTS COMMITTEE'S
THIRTEENTH REPORT 1954-55 VOLUME II**

Memorandum on Budgeting and Control over Expenditure

* * * * *

2. (a) *Strengthening and re-organising Railway Accounts Offices*

The Railway Board have been taking steps to tone up the efficiency of the Railway Accounts Offices from time to time. The system for imparting proper training to staff in the Railway Accounts Offices by conducting regular courses was introduced in 1951, which is still in vogue. The programme of training consists of lectures by the Training Accountants followed by intensive training in the practical working of the various branches of Railway accounting. Recently, a special conference of the Financial Advisers and Chief Accounts Officers of the Indian Railways was convened by the Railway Board with a view to finding out further directions in which improvement could be effected. The chief cause contributing to deterioration in efficiency in the Railway Accounts Offices *inter alia* was the poor quality of new recruits to the clerical grade and dilution resulting from the taking over of the ex-State Railway staff of low calibre. After taking into consideration the views of the F.A. & C.A.Os. regarding toning up the efficiency of work, it has been decided :

- (i) to strengthen the cadre of clerk Class I by resorting to direct recruitment of Graduates preferably First and Second Division M.A., M.Sc., M.Com. and Honours Graduates to the extent of 20 per cent. of the annual permanent vacancies.

- (ii) to fill up vacancies even in higher posts wherever necessary, namely those of the Junior Accountants, Junior Inspectors of Station Accounts and Stock Verifiers by direct recruitment on Railways to meet the shortage of staff.
- (iii) to train new recruits to the Accounts Departments in regular training schools and test them before they are put on working posts.

Further, in order to keep a watch on efficiency of internal check in the Accounts Offices of the Railways, the Railway Board have strengthened the Inspection Organisation in the Board's Office under the Director, Finance (Accounts). This has been done with a view to conduct more intensive inspection of the various accounting units on Railways by devoting nearly two months in a year to examine the accounts of each Railway Administration. It is hoped that this step will go a long way in improving the efficiency of the Railway Accounts Offices.

(b) *Improvement in the overall budgetary standard and control over expenditure on the Railways*

***. It may be pointed out that consequent on Regrouping of Railways, a separate Finance Branch under a Deputy Financial Adviser working under the control of the F.A. & C.A.O. has been set up on each Railway. The Deputy F.A. is either closely associated with the compilation of the Budget Estimates or directly controls the same on behalf of the General Manager, functioning as a Co-ordinating Officer between the various Departments of the Railway.

As regards measures to improve budgeting, Railway Board would point out that elaborate instructions are already contained in State Railway Accounts and General Codes for the guidance of the Railway Administrations for the booking of expenditure immediately after it is incurred and for watching the progress of expenditure under each Grant and Sub-Head of Grant with reference to voted Grants. Monthly Reviews of expenditure and earnings are also prescribed and the Accounts Officer is required to see periodically that the expenditure booked is in accordance with the allotments made. Further the F.A. & C.A.Os. are required to keep a special watch on the progress of expenditure in the last quarter of the financial year and the attention of the Controlling Authority is drawn to the necessary appropriations withdrawals or additional funds, as the case may be. An overall control is exercised by the Railway Board through Reviews during the year—

- (i) in the month of August;
- (ii) the Revised Estimates in December; and
- (iii) Final Estimates in March.

It will thus be observed that the procedure on Railways in regard to control over expenditure is comprehensive. The Committee would, no doubt, appreciate that in such a vast organisation as Railway's with hundreds of Officers dealing in the preparation of Estimates and the numerous factors affecting the working of a Commercial undertaking, such as, increase in expenditure due to fluctuations in prices and traffic levels and other uncontrollable causes such as damages by floods, earthquakes etc., it is not possible to

avoid small variations. The Railway Board would, however, constantly endeavour to maintain and improve the efficiency of the Railway Accounts Offices and the standard of budgeting and control over expenditure.

NOTE—See P. A. C. Second Report 1951-52, R 14 (sub-para 2).

Adjustment of expenditure under "Suspense" instead of the relevant grant

R. 14. *Suspense Balances.*—From the statement of important misclassifications and other important mistakes detected as contained in Annexure J of the Appropriation Accounts 1950-51, Part II page 342), the Committee note that on the B. N. Railway, an expenditure amounting to Rs. 4.39 lakhs was adjusted under "Suspense" instead of the relevant Grant thereby avoiding the Parliamentary control.

In this connection, the Committee would draw the attention of the Railway Board to the recommendation made by them in Para. 16 of their Second Report wherein they emphasised that 'Suspense Heads' should not be treated as a 'cloak' to cover transactions which have not been properly budgeted for. The Committee reaffirm the views which have been expressed by them on a number of occasions in the past that it is highly undesirable that large sums should be lying under 'Suspense' and not charged to the proper heads of accounts. They observe that such a procedure, if followed indiscriminately, will vitiate Parliamentary financial control which the Committee desire should be zealously safeguarded by the spending Departments.

Railway Board had observed (Thirteenth Report 1954-55 Volume I—page 89) as follows :—

The extant rules contained in Chapters 10 & 16 of the Indian Railway Accounts Code Vol. 1 cover the recommendations of the P.A.C. In order to ensure speedy clearance of Suspense Balances the Railway Board have also arranged for—

- (i) *A review in the Railway Boards Office of the Balances under all Suspense heads every half year.*
- (ii) *Examination in the Railway Board's Office of the statement of balances under seven important heads every month.*
- (iii) *Periodical inspection by Director, Finance (Accounts) Railway Board to see that these instructions are being carried out.*

NOTE.—See P. A. C. 1922-23, R 32 (Epitome Volume I) and Second Report, 1951-52, R-16 of this volume.

Co-ordination between the different Directorates in the Railway Board's Office

R 17. * * * The decision to purchase an equipment was taken by the Railway Board without financial concurrence. The Committee understand that it was due to an omission on the part of the Engineering Directorate in the Board's Office to show the relevant file to the Finance Directorate. When the case came to the notice of the Finance Branch of the Railway Board in October, 1951, they did not approve of the action of the Board in the purchase of

such a large number of Locopulseur Pulso at one time for experimental purposes when experiment could have been carried on with a lesser number of such equipment.

* * * * *

The Committee hope that a closer co-ordination shall subsist in future between the different Directorates in the Railway Board's Office in handling these cases and that these instances involving irregular spending of public money shall not be repeated in future.

Railway Board had observed (Thirteenth Report 1954-55 Volume I—page 90) as follows :—

Public Accounts Committees' observations on the case have been duly brought to the notice of Officers and staff in Railway Board's Office for future guidance.

Remission of outstanding demurrage and wharfage charges

R 22. The Committee ***recommend that a paragraph on the subject should be included yearly in the Railway Board's Review on the Annual Appropriation Accounts indicating the results achieved.

APPENDIX XII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTEENTH REPORT 1955-56 VOLUME II

MINISTRY OF RAILWAYS (RAILWAY BOARD)

Memorandum on the reasons accounting for the high percentage of remission of wharfage and demurrage charges

* * * * *

2. During recent years a number of directives have been issued to Railways by the Railway Board on this subject with a view to tightening up the check and supervision in the matter of remission of wharfage and demurrage charges. The Committee will note from the figures given below that the instructions to reduce the extent of remission of wharfage and demurrage have resulted in a substantial reduction in the percentage of remission.

1950-51	45	per cent.
1951-52	41	per cent.
1952-53	22.97	per cent.
1953-54	20.54	per cent.

As already pointed out in the memorandum (on page 127-129) presented to the Committee, remissions are made only on exceptional considerations, such as cases in which wagons have been held up on the border for customs clearance, or, having been received at destination, the contents cannot be unloaded and delivered for want of connected invoices or other relevant booking particulars, or because the nature of the load is such that it has to wait for a railway crane to arrive for unloading it. (Although Railways may not be legally bound to supply cranes and do not accept any responsibility for detention on this account, some allowance has to be made for the impossibility of unloading in case in which the cranes had been indented for but did not arrive in time). There are also cases in which delay occurs in delivery on account of disputes between the consignee and the railway in regard to the condition of the goods or the correctness of weight or charges. Insistence in such cases on recovery of the full wharfage or demurrage dues may not only result in further deterioration of the condition of the consignment and a claim for a

higher amount of compensation, but may also create a situation where the railway has little chances of recovering even the freight, when the consignment is finally sold in auction. Circumstances also occur which preclude the consignee from removing the consignments in time, such as floods or breaches, illegal strikes, civil commotion etc., or the detention of a consignment under instructions from the Police connected with the investigation of a crime, or breach of restrictions on movement of certain types of traffic etc. In such cases, considerations of maintenance of the goodwill of the trading public make a certain degree of relaxation desirable.

3. A strict watch will, however, be kept on the scale of remissions in relation to the accruals of demurrage and wharfage. The actual percentage of remissions will be reported to the Public Accounts Committee through the Railway Board's review of the Appropriation Accounts, as desired by them.

NOTE.— See P. A. C. Second Report 1951-52, R 17(iv).

Destruction of documents which form the subject matter of correspondence

R 26. * * * * The Committee observe that it is a very dangerous practice to destroy any documents which are the subject matter of correspondence and on which objection has been raised and which remains unsettled. * * * (See also P.A.C. Thirteenth Report 1954-55, P. 190).

ANNEXURE TO APPENDIX XXXII TO PUBLIC ACCOUNTS COMMITTEE'S THIRTEENTH REPORT 1953-54 VOLUME II

Copy of Railway Board letter No. 54-B(C)-2498(14), dated the 15th October, 1954 to All Indian Railways etc.

SUBJECT.—*Destruction of documents which are subject matter of correspondence*

* * * * *

The destruction of records appears to have been carried out merely on the mechanical basis on the expiry of the period prescribed in the Accounts Code for preservation of those records without reference to the fact that they formed the subject matter of some correspondence and should therefore have been kept intact until the matter was finalised. The Board would like to draw the attention of the Administrations to the remarks of the Public Accounts Committee and trust that they will not give any occasion for such adverse comment in future.

NOTE.— See P. A. C. Ninth Report, 1953-54, R-41.

Execution of emergent works

R 30. * * * The procedure followed generally for departing from the long established rules regarding the execution of works, contracts, and the preparation of various documents, such as measurement books, etc. and justification for rates paid in the case of negotiated contracts, work orders, etc. leaves much to be desired. An

emergency is no justification for such wholesale failure to record contemporarily the reasons and justification for what has been done. The Comptroller and Auditor-General suggested that where an established procedure was not followed in regard to the tenders etc., it was vital that the Department should ensure that there were adequate contemporary records and documents from which correctness of the action of the executive authority could either be established or disapproved; otherwise the risk of malpractices and losses to Government was obvious. There might equally be the risk of Officers getting into difficulties and blame even though there might have been no actual loss or malpractice. The Committee desire that Government should, therefore, take adequate steps to prescribe a comprehensive procedure which should be followed in cases in which a strict adherence to the normal rules may not be wholly practicable.

**APPENDIX XXXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
THIRTEENTH REPORT 1954-55 VOLUME II**

MINISTRY OF RAILWAYS (RAILWAY BOARD)

* * * * *

2. On the basis of the recommendations contained in the Investigation Team's Report comprehensive instructions were issued to the Railway Administrations. These covered *inter alia* the following two points which have been specifically touched upon by the Committee :—

- (i) the necessity for recording in the files, full justification for accepting rates obtained by open tender or otherwise;
- (ii) the need for obtaining the previous sanction of the Railway Board in cases in which strict adherence to normal code rules may not be practicable.

3. * * * The authority competent to authorise any major deviations from the code rules is the Railway Board itself. The extent of relaxation will naturally have to be decided on the merits of each case, depending on the degree of emergency considered vis-a-vis the importance of the rules which will vary on the facts of each case and it is not possible for the Railway Board to envisage and provide in advance for a situation, where substantial or fundamental departures from the code rules would be necessary. In the circumstances, no further general instructions are proposed to be issued on the subject. The observations of the Public Accounts Committee will be borne in mind if and when relaxation is sanctioned in any particular case.

NOTE.—See P. A. C. 1943-44, P8 (Epitome Volume I) and Fifth Report 1952-53, R. 12 of this Volume.

Separation of Financial and Accounts Functions on the Railways

R 32. The Committee discussed this question at some length with the representatives of the Railway Board and asked them to furnish a note stating the position of the Financial Adviser and Chief Accounts Officer in the integrated set-up of Finance and Accounts on

the Railways with special reference to the writing of the Confidential Reports on the work of the Financial Adviser and Chief Accounts Officers by the General Managers concerned (Appendix XLIII).

During the course of the discussion, the Financial Commissioner, Railways expressed his complete agreement with the Committee that the Railway Accounts Organisation needed to be strengthened further in view of the many irregularities such as budgetary defects, misclassification of expenditure and an alarming rise in the items placed under Suspense etc., disclosed in the Accounts under review.

The Financial Commissioner, Railways also agreed with the Committee that the Financial Adviser and Chief Accounts Officer on a Railway might work with the General Manager but need not be under his control and some reform could be made in this direction.

The Committee, therefore, desire that the Railway Board should discuss this matter with the Comptroller and Auditor-General and submit to them a comprehensive Memorandum at the time they next take up consideration of the Railway Accounts.

APPENDIX XLIII TO THE PUBLIC ACCOUNTS COMMITTEE'S TENTH REPORT 1953-54 VOLUME II

Financial Adviser and Chief Accounts Officer's position in the Railway Organisation

* * * The Financial Adviser and Chief Accounts Officer is one of the principal officers on each Railway. He is responsible for the internal check and compilation of Railway Accounts and acts as the Financial Adviser to the General Manager. In regard to technical accounting matters, he cannot be over-ruled without reference to higher authorities. As regards financial advice, which involves scrutiny of the financial implications of all proposals involving expenditure and/or receipts, before the same is incurred or commitments entered into, financial concurrence is required to be accorded by the F.A. & C.A.O. or on his behalf by the Deputy Financial Adviser, who is in charge of the Finance Wing of the Administration. The Deputy Financial Adviser, like other Deputy Chief Accounts Officers, is subordinate to the F.A. & C.A.O. and functions under his directions. Sanctions to proposals are accorded by the General Manager or the principal officer concerned within the powers delegated to them with the concurrence of the Finance Branch controlled by the F.A. & C.A.O. Though technically the financial powers have been delegated to the General Managers, they are, by convention, at present exercised with the concurrence of the Financial Adviser.

The F.A. & C.A.O. like other Heads of Departments, is administratively subordinate to the General Manager, who writes Confidential Reports on his work as an Administrative Officer under his control. He is not independently reported on professionally by any higher authority. The reports recorded by General Managers are submitted to the Financial Commissioner and other Members of the Board for information.

**APPENDIX XXXIV TO THE PUBLIC ACCOUNTS COMMITTEE'S
THIRTEENTH REPORT 1954-55 VOLUME II**

MINISTRY OF RAILWAYS (RAILWAY BOARD)

* * * The position of the F.A. & C. A. O. in the set-up of each Railway Administration was discussed by the Chairman, the Financial Commissioner for Railways and other Members of the Railway Board, with the Comptroller and Auditor-General of India in August, 1954 and February, 1955. It was generally agreed that the Director, Finance (Budget) [now re-designated as Director, Finance (Accounts)] should be enabled to maintain an intimate liaison between the Railway Board and the F.A. & C.A.O. so that the professional efficiency of the latter can be closely watched by the Railway Board and the independent outlook of the F.A. & C.A.O. maintained. This objective has been sought to be achieved by—

- (i) enabling the Director, Finance (Budget) [re-designated as Director, Finance (Accounts)] to undertake regular and systematic inspection of Railway Accounts Offices and thus establish personal contacts with F.A. & C.A.Os. To assist him to carry out inspections intensively, he has been afforded substantial relief by the appointment of a Joint Director, Finance (Budget) and an Inspection Organisation has been set up in the Board's Office, which should be able to devote about two months in a year to inspecting the work of the Accounts Department of each Railway Administration. The inspection of Railway Accounts Offices will, it is hoped go a long way to tone up their efficiency and ensure that Board's orders on various matters issued from time to time are properly implemented by the Railway Administrations.
- (ii) the Director, Finance (Accounts), initiating the confidential reports on the F.A. & C.A.Os. so far as they relate to their technical competency and forwarding them to the General Managers for their observations on the work of the F.A. & C.A.Os. to the extent to which they are in a position to do so. The report recorded by the Director, Finance (Accounts) and the remarks of the General Managers would be seen by the Financial Commissioner for Railways who would record his final opinion after which it will be seen by the whole Board.

NOTE.—See P.A. C. 1930-31, RII-22 and 1946-47, P.24 (Epitome Volume I) and 1947-48, (post-partition) R. 22 and P. 51 of this Volume.

Reference of cases to arbitration in which "No Claim" certificate had been signed by the contractors

R 35. In Para. 11 of their Fifth Report, the Committee adversely commented on the mistake on the part of the Railway Administration to have referred to arbitration the two cases reported in Para. 19 of the Railway Audit Report, 1951 in respect of which the contractors had signed 'no claim' certificates.

****The Committee suggested that the question should be further examined as to whether the contingency of Railways having to contest such cases before an arbitrator could not altogether be avoided by a suitable clause in the contract itself. The Railway Board, after consultation with the Ministry of Law, have accordingly submitted to them a Memorandum (Appendix XLIV). The Committee have considered this Memorandum at some length, especially the implications of the concluding sentence thereof which reads as below:

“If the Committee approves, it is proposed to explore the possibility of putting a clause in the agreement to the effect that once a contractor gives a no claim certificate, he is debarred from invoking the arbitration clause of the agreement.”

The Committee feel that such a clause would not at all be required; nor would its absence force the Government to agree to arbitration. As ‘No Claim Certificates’ had been obtained in these two cases, there was hardly any justification for referring them to arbitration. (See also P.A.C. Thirteenth Report 1954-55, R 84).

APPENDIX XLIV TO THE PUBLIC ACCOUNTS COMMITTEE'S TENTH REPORT 1953-54 VOLUME II

* * * * *

The Ministry of Law, Government of India, which was consulted, have expressed the opinion quoted below *in extenso* for the information of the Committee :—

“The utmost that one can do is to put a clause in the agreement, that once a contractor gives a No-claim certificate, he is debarred to invoke the arbitration clause of the agreement. Even then, if such contractor chooses to institute proceedings before the Arbitrator, the Railway shall have to appear and question the jurisdiction of the Arbitrator to decide the matter. If that is not done, the case of Railway may go by default, and the contractor may get an *ex parte* decision in his favour.

2. The contractor having been debarred to institute proceedings before the Arbitrator may file a civil suit for recovery of dues, which according to him are payable by the Railway in spite of a No-claim Certificate. In that case also, the Railway shall have to put in a defence in order to prove that nothing remains to be paid and a genuine No-claim Certificate has been obtained.
3. To us, then, it appears, the contingency of a Railway having to contend cases before an Arbitrator, cannot altogether be avoided. However, it can appreciably be diminished, if a clause as referred to in pre-para. No. 1 is added in the contract.
4. We may also point out that no clause can be put saying that a No-claim Certificate shall debar all legal proceedings in the matter, because that would amount to an agreement in restraint of legal proceedings which is void under section 28 of the Indian Contract Act, 1872.”

If the Committee approves, it is proposed to explore the possibility of putting a clause in the agreements to the effect that once a contractor gives a No-claim Certificate, he is debarred from invoking the arbitration clause of the agreement.

NOTE.— See P.A.C. Fifth Report 1952-53, R 11.

Telephone Development Fund

R 43. **** During their examination of the Accounts, the Committee were informed by the representative of the P. & T. Department that the Telephone Development Fund was merged with the general revenues. In the opinion of the Committee, this raises a fundamental principle of administration of a public utility concern. They are not quite sure whether this is a sound financial scheme or arrangement which involves appropriation of future revenue for current expenditure. They, therefore, desire that the P. & T. Department should look into this matter in consultation with the Ministry of Finance (Communications) and Audit and submit to the Committee a report in due course.

APPENDIX XVI TO THE PUBLIC ACCOUNTS COMMITTEE'S THIRTEENTH REPORT 1954-55 VOLUME II

Copy of Government of India Ministry of Communications (Posts & Telegraphs) Office Memorandum No. B 27-14/54, dated the 1st February, 1955.

2. The matter has been examined as desired by the Committee and the position is explained below :—

In order to help telephone expansion, which would not have been ordinarily possible owing to financial stringency, and also to provide telephones to the businessmen in large cities, a scheme known as 'OWN YOUR TELEPHONE SCHEME' was introduced in December, 1949. Under this scheme advance rentals at the rate of Rs. 2,500 per connection in Bombay and Calcutta and Rs. 2,000 in other places were realised to cover the capital cost of the telephone connection. The advance rentals thus realised are credited to revenue receipts, while an equivalent amount is contributed from Working Expenses to the Telephone Development Fund created for the purpose of financing the capital expenditure incurred for the extension and development of telephone services. Like any other fund, the balance in the Telephone Development Fund is merged in the general revenues. The advance rental of Rs. 2,500/2,000 referred to above is treated in the same way as the capitalised value of the annual revenue which in some States, kisans are permitted to pay in lump sum for which they are, afterwards, exempted from paying to Government any further annual land revenue. The lump sum so collected is taken either under the head 'VII—Land Revenue' or if the State Government desire to keep the same separate under the head 'LI—Extraordinary Receipts'. There is, thus, nothing wrong in Government crediting the advance rental on account of telephones to Revenue. When once this is done, it is left to Government to decide as to how

best the capital expenditure for installing new telephones should be financed *viz.*, whether from borrowings or from the revenue collections. Instead of borrowing and having to pay interest thereon, Government have in this case, preferred the latter course. The action taken by Government does not therefore, infringe the accepted principles of sound finance and both the Ministry of Finance and the Comptroller and Auditor-General have concurred in this view.

Postal Life Insurance Fund

R 53. The Committee recommended that with a view to regulate the working of the expenditure from the Postal Life Insurance Fund on proper commercial basis, the P. & T. Department should either put an Insurance Expert as the head of the Postal Life Insurance Organisation or run it as a Corporation constituted under an Act of Parliament. They desire that the P. & T. Department should examine this suggestion in consultation with the Ministry of Finance and apprise them, in due course, of the decision arrived at in the matter.

APPENDIX XV TO THE PUBLIC ACCOUNTS COMMITTEE'S TWENTY-SECOND REPORT 1956-57

Copy of Government of India, Ministry of Communications (Posts and Telegraphs) Memorandum No. F. 74-51/54, Dated the 15th May, 1956.

2. Postal Life Insurance is a facility offered mainly to Government employees and since the P.L.I. Organisation is run by the Government, the method of working of the fund differs from that of insurance companies in some important respects like collection of premia, maintenance of accounts etc. Notwithstanding such points of difference, however, steps have been taken from time to time to commercialise the method of working as far as possible, by introducing the following facilities to Insurants and the following changes in the system of working to bring it in line with normal commercial practice :—

- (a) The concession of grant of loans against policies has been allowed since 1st September, 1949, on the analogy of similar concessions allowed by Insurance Companies.
- (b) The policy of "selling" of Insurance by employment of canvassers, giving talks, advertisements, publications of prospectuses, etc., has been adopted.
- (c) Regulation of expenditure on commercial lines by reduction of the overall expense ratio in Postal Life Insurance, which compares favourably with the Renewals Expense ratio in Private Insurance Companies. The overall expense ratio in the Postal Life Insurance also shows a downward trend, from 13.81 per cent in 1951-52 to 13.02 per cent in 1953-54.

3. In 1952 the Comptroller and Auditor-General made a proposal to transfer the control of the office to the Department of Insurance under the Ministry of Finance. After careful consideration in consultation with the Ministry of Finance, Government decided that the present arrangement should continue.

4. As regards the alternative suggestion of the P.A.C. for running the Postal Life Insurance Organisation as a statutory Corporation, it may be stated that Government have since nationalised Life Insurance in the country and necessary legislation has been introduced. They, therefore, feel that expert advice would now be readily available for the management of the Postal Life Insurance. It is, therefore, not proposed to make any change in the present arrangements for the management of the Postal Life Insurance business.

Implementation of the recommendations made by the Committee

R 55. The Committee observe that instead of merely noting the various recommendations made by them from time to time, the Ministries concerned should specifically state the action taken by them in the matter of implementation thereof.

Inspection of stores purchased overseas by Indian Telephone Industries through Automatic Telephone and Electric Company Ltd.

R 66. (i) The Committee find that there is at present no provision in the agreement regarding the inspection of goods supplied by the Automatic Telephone and Electric Company before their shipment to India. They were given to understand that practically the whole of the equipment that was manufactured was checked by the British Post Office authorities. The Committee regard this as both inadequate and unsatisfactory and observe that a specific provision regarding inspection by our own agency before shipment should have been made in the agreement. They also suggest that the expediency of an independent inspection being carried out by the I.S.D., London may be considered by the Ministry of Communications.

Ministry of Communications had observed (Thirteenth Report 1954-55 Volume I-page 84) as follows :—

The inspection of the highly specialised stores required by the Indian Telephone Industries cannot be done satisfactorily in the U. K. The experience of the Post and Telegraph Department with regard to such inspection in the U. K. has not been very happy. For a satisfactory inspection of these stores, it would be necessary to employ a very large team of technical officers the cost of which would be incommensurate with the results achieved and further this would absolve the Automatic Telephone Electric Co. of any responsibility if the stores on receipt in India are found to be defective. The Indian Telephone Industries have entered into an arrangement with the Automatic Telephone Electric Co. regarding the rejection and shortage in the supply received from Automatic Telephone Electric Co. Under the arrangement, any rejections above 1.25% of stores have to be replaced by the Automatic Telephone Electric Co. Ltd. The normal terms of supply of the Automatic Telephone Electric Co. are F. O. B., but in case of bulk rejections, the Automatic Telephone Electric Co. are required under these arrangements to replace the Material free at site. These concessions would not be possible under the arrangement, for inspection in the U. K. In view of the above reasons it would not be advantageous for the Indian Telephone Industries to provide for inspection in the U. K. by D. G., I.S.D., London.

Verification by the Comptroller and Auditor General of the reasonableness of the prices charged by Automatic Telephone and Electric Company

R 66. (ii) Another point that emerged from the discussion which the Committee had on this subject was that in regard to the verification of the reasonableness of the prices charged by the Automatic Telephone and Electric Company the Government of India relied upon the certificate furnished by the firm's auditors. The Committee observe that this does not ensure that a fair price has been paid. They are of the view that the Comptroller and Auditor-General should have been consulted before entering into a commitment like this.

Ministry of Communications had observed (Thirteenth Report 1954-55 Volume I-pages 85-86) as follows :—

The Agreement with the Automatic Telephone and Electric Company Ltd. does not provide for any certification of the prices for the equipment supplied by them to the Indian Telephone Industries. The arrangement regarding certification is an informal arrangement between the Automatic Telephone and Electric Co. and the Indian Telephone Industries. At the request of both the A.T.E. and the I.T.I. the British Post Office have agreed to give a certificate in respect of prices charged to the Indian Telephone Industries for particular types of equipment which are also supplied to the British Post Office on the understanding that the cost of certification is reimbursed to it by the Automatic Telephone and Electric Co. and Indian Telephone Industries. Where for equipment or material, no B. P. O. prices exist, it has been arranged with the Automatic Telephone and Electric Company Ltd., that their auditors would certify that the prices charged to the Indian Telephone Industries are the lowest that have been charged to any other customer. It will, therefore, not be reasonable to ask the B.P.O. to have their prices verified by the audit officers of the Government of India. It would also be unreasonable to demand from the Automatic Telephone and Electric Co. that their books should be examined by our Auditor Officers. Certification of the prices by the Company's own auditors is probably the farthest limit up to which a supplier can reasonably be expected to go.

Provision for future revision of agreement

R 68. The Committee observe that the agreement between Indian Telephone Industries and Automatic Telephone and Electric Company Ltd., does not contain any provision for future revision, should a need for this arise. They desire that such a clause providing for revision whenever considered necessary according to circumstances by the contracting parties, should invariably be made in all such agreements entered into by the Government in future.

Ministry of Communications had observed (Thirteenth Report 1954-55 Volume I-page 86) as follows :—

The recommendation of the Committee has been brought to the notice of the officers in the Ministry (main) and the offices attached and subordinate to it for guidance.

Depreciation Reserve Fund should form part of the Consolidated Fund of India

P 109. The Committee further pointed out that the Depreciation Reserve Fund should not be kept apart from the General Revenues but should form part of the Consolidated Fund of India as envisaged in Article 266 of the Constitution. The representative of the Railway Board undertook to look into this aspect.

Copy of Government of India Ministry of Railways (Railway Board) No. 52ACII/1/1 Dated 3-9-1954.

SUBJECT.—*Exhibition in accounts of adjustments between the Consolidated Fund of India and the Public Account regarding expenditure from various Reserves created out of Railway revenues.*

With a view to have Parliamentary Control over the expenditure to be incurred from the Railway Funds viz., the Depreciation Reserve Fund, the Railway Revenue Reserve Fund and the Development Fund, which form part of the "Public Account" it has been decided, in consultation with the Ministry of Finance and the Comptroller and Auditor General of India, that an accounting device should be adopted by means of which the expenditure should first be treated to have been incurred from the "Consolidated Fund" and the "Consolidated Fund" being recouped by transfer of an equal amount from the "Public Account". Accordingly the following accounting instructions are laid down :—

(1) *Depreciation Reserve Fund.*—In the monthly accounts the gross amount of working expenses, including the expenditure from the Depreciation Reserve Fund, will be shown against the major head XVA-Indian Railways—Commercial Lines—Deduct—Working Expenses or XVB-Indian Railways—Strategic Lines—Deduct Working Expenses and the amount of expenditure chargeable to the Depreciation Reserve Fund will be shown also against a new minor head to be opened—"K—Deduct—amount met from Railway Depreciation Reserve Fund".

There will be no change in the schedule of transactions under XVA or XVB or in the maintenance of the registers of works, etc.

(2) *Railway Revenue Reserve Fund for Railway Board's Office only (ACI Branch).*—The withdrawals from this fund to meet the deficit in working will be treated as receipts and credited to the existing major head—XVI-B-Transfers from Railway Revenue Reserve Fund. In the case of loans to Branch Line Companies from Revenue Reserve Fund, the expenditure should, in the first instance, be booked under the head "Q—Loans and Advances by the Central Government" under Consolidated Fund, and simultaneously transferred to the Revenue Reserve Fund through a deduct entry under the former.

(3) *Development Fund.*—The nomenclature of the major head 15-1—Open Line Works—Revenue should be changed to "Open Line Works" and the under-noted group minor heads and the minor heads thereunder opened.

15-I—Open Line Works—

Revenue Works

- A. Staff amenities.
- B. Staff quarters.
- C. Operating improvements.

Development Fund Works

- I. Amenities to passengers.
- II. Labour Welfare.
- III. Operating improvements.
- IV. New Lines.

Deduct—amount met from Railway Development Fund

The amount of expenditure chargeable to the Development Fund will be initially booked against the major head 15-I—Open Line Works and also shown against the deduct entry head specified above. There will be no change in the schedule of transactions relating to this major head or in the registers of works, etc.

These instructions will have effect from 1-4-1954. Necessary corrections to Code will issue in due course.

ELEVENTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE, 1953-54 (HIRAKUD DAM PROJECT)

Presentation of the Champhekar Committee Report on the Mahanadi Bridge (Hirakud Dam Project) to Parliament before consideration by the Public Accounts Committee

P 16. The Committee took up consideration of the Champhekar Committee Report on the Mahanadi Bridge (Hirakud Dam Project). They pointed out that as that Committee had been appointed by Government in pursuance of the recommendations made by the Public Accounts Committee in para. 48 of their Sixth Report, the copies of the Report furnished to them by the Ministry of Irrigation and Power should not have been marked as 'Secret'. Further, in accordance with the established Parliamentary convention, the Report, in question should have been submitted to the Committee, in the first instance, along with Government's remarks on the findings set forth therein as also the views of the Comptroller and Auditor-General. They further felt that it was in contravention of the Parliamentary practice that the Report should be laid on the Table of the House before giving an opportunity to the Committee to consider it first.

P 17. The Committee then drew the attention of the representative of the Ministry of Irrigation and Power to the principles enunciated in paragraphs 51—53 of the Second Report of the Public Accounts Committee in the U.K. (1884) and the late Finance Department Resolution of 1930 (*vide* pages 183—186 of Epitome Vol. I) for dealing with the Reports of the Public Accounts Committee.

The representative of the Ministry of Irrigation and Power stated that there had been some misunderstanding in their Ministry in properly appraising the position as to how the Champhekar Committee Report should be treated.

P 18. When asked to explain whether the Ministry of Finance had been consulted before the Ministry of Irrigation & Power decided to place the Report in question on the Table of the House, the representative of that Ministry stated that they had advised the Ministry of Irrigation & Power that they must first consider the desirability of placing it before the Public Accounts Committee before presenting it to Parliament.

P 19. At this stage, the attention of the representative of the Ministry of Irrigation & Power was also drawn to the Speaker's directive (circulated *vide* Parliament Secretariat Office Memorandum No. 87-FC/53 dated the 4th December, 1953 to all Ministries of the Government of India) that in cases where Government were not in a position to implement a recommendation made by a Financial Committee of Parliament and Government had reasons to disagree with the recommendations of the Committee, the Ministry concerned should in consonance with the well-established Parliamentary practice place their views before the Committee which might, if they thought fit, present a further report to the House after considering Government views.

Extract of paragraphs 51-53 of the Second Report of the Public Accounts Committee, 1884 in U. K.

Procedure when Departments do not agree with Committee

51. The Committee in 1883 reported, in concurrence with the views of the Treasury and of the Comptroller and Auditor General that, as the law then stood, "the receipts for books in addition to all other receipts from the children should be included in the 9d. fee".

52. This report was founded on the suggestion of a Departmental Committee. Yet books are expressly excluded from the 9d. limit in the Education Code for 1884.

53. Your Committee consider that if the Education Department thought that this report ought not to be carried out on the grounds of public policy, the alteration in the Code should have been brought specially before the attention of Parliament, particularly as it involves an expenditure of public money that may be considerable, in direct opposition to the expressed opinions of the Treasury of the Comptroller & Auditor General, and of the Public Accounts Committee.

The opinion of the Committee of Public Accounts on points of financial order ought on every occasion to receive the most respectful attention from the Departments concerned. Upon points which my Lords admit to be doubtful, they as a rule defer to the opinion of the Committee. If a question of importance arises upon which they are unable to agree with the Committee, they think it their duty to suspend decision until they have had an opportunity of laying before the Committee the reasons which lead them to differ from the Committee's opinion. If the Committee should still adhere to their original opinion, my Lords in ordinary cases yield, but if they hold the point of difference to be sufficiently important, they would endeavour to bring the question before the House of Commons in a form that will place before the House unreservedly the argument on both sides; the ultimate decision then rests with Parliament.

My Lords prescribing for themselves this line of conduct, could not but notice with regret the different course taken by the Education Department when it presented to Parliament in the Code of 1884 an article directly overriding the recommendation of the Committee, without (so far as my Lords are aware) any special note or explanation to inform Parliament that there had been a difference of opinion between the Committee and the Department upon the point. Such a course of action seems likely to weaken the confidence of Parliament in the proposals submitted by the Executive Government, and to impair the relations between the Committee of Public Accounts and the Departments.

My Lords are ready to believe that the omission is due only to a misapprehension of the effect of a new edition of the Code as in itself a complete notice of everything connected with it. But the method by which the Education Department obtains Parliamentary sanction to its Minutes, departmentally called the Code, imposes special obligations. A long and technical document is laid before Parliament, and, unless an independent member is interested in noticing it, it becomes equal to Statute Law, as the Department contends *sub-silentio*. But the sanction of Parliament has to be obtained in a very

different way before a Bill becomes law. The passing of a Bill is guarded by scrupulous precautions to ensure full consideration, and to prevent legislation by surprise. My Lords have no hesitation in saying that the method in which the Education minutes now obtain the approval of Parliament is not likely to last if the Department ever departs seriously from the rule of notice.

Copy of Parliament Secretariat Office Memorandum No. 87-FC/53, dated the 4th December 1953.

SUBJECT.—*Implementation of the recommendations made by the Financial Committees of the Parliament*

The Speaker has directed that in cases where Government are not in a position to implement a recommendation made by a Financial Committee of Parliament, viz., the Estimates Committee or the Public Accounts Committee—and Government have reasons to disagree with the recommendations of the Committee, the Ministry concerned should in consonance with the well-established parliamentary practice place their views before the Committee which may, if it thinks fit, present a further report to the House after considering views of Government in the matter.

NOTE.—See P. A. C. 1927-28 R-30 (Epitome Volume I).

Appointment of Chief Technical Examiner for large spending Ministries and big projects

P 57. The Committee then recommended the appointment of a Chief Technical Examiner for such Ministries as incurred large amount of expenditure on major works and big projects. The Chief Technical Examiner should be directly responsible to the Ministry and he should go and inspect the works on the spot on the Ministry's behalf. In the case of the Ministry of Irrigation and Power, he should be independent of the Central Water and Power Commission as well as the Chief Engineer of the Project concerned and should in no way be responsible for the execution of works himself. The representative of the Ministry of Finance informed the Committee that as a result of similar recommendations in the past, a post had been created in the Central Public Works Department and the Department was in the process of finding further personnel.

NOTE.—See P.A.C. 1947-48 (Post-partition R10; and Seventh Report 1952-53, P 134).

TWELFTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1953-54 (1) FERTILISER DEAL, AND (2) PASHA BHAI PATEL IMPLEMENTS

Changing of specifications in a contract requires sanction of the Head of the Department

R 3. **** The Committee desire that changing of specifications involving huge financial commitments should not be decided upon at the level of Junior Officers but in each case sanction of the Head of the Department should be obtained who should in turn consult the accredited Financial Advisers before arriving at a final decision.

The Public Accounts Committee for 1955-56 (Sixteenth Report 1956-56, Volume II, pages 24-25) were informed that the Ministries had noted the recommendation and had brought it to the notice of all concerned.

Procedural irregularities in purchase of stores from abroad

R 8. (Introduction.) The sub-Committee referred to some of the grave procedural irregularities that were committed by the authorities concerned in the matter of purchase of Fertilisers from Messrs. Kenbanks, Ltd., by the High Commissioner for India in the U.K. They would observe that this was not the only instance of bypassing the specially appointed authorities in the India Stores Department London for the purpose of procurement of stores from the U.K. and other continental countries. They find that the firm of Messrs. Kenbanks Ltd. had only an authorised capital of £ 1,000 and it was indiscreet to enter into this contract of the order of £ 9 million with such a firm. The sub-Committee desire that in future such transactions should not be entered into except through the Officers appointed for the purpose and departures should be supported by adequate justification for which sanction of the competent authority should be taken. The sub-Committee are of the opinion that the procedure followed by the High Commissioner for India in London in the matter of purchase of fertilisers was not correct. As Russia was the source of supply in this case, the Ambassador for India in that country should have been the proper authority through whom negotiations should have been carried on with the parties concerned. The sub-Committee would point out that there was clear non-compliance of the standing rules regarding the purchase of stores from abroad in pushing through this deal. They should like the Government to take suitable steps to prevent the recurrence of such cases.

The Public Accounts Committee for 1955-56 (Sixteenth Report 1955-56, Volume II, pages 26-27) were informed that the Ministries had noted the recommendation and had brought it to the notice of all concerned.

NOTE.—See P.A.C. Ninth Report 1953-54, Volume I, R 43.

**THIRTEENTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE, 1954-55 ON THE
APPROPRIATION ACCOUNTS (POSTS AND
TELEGRAPHS) AND (RAILWAYS) 1951-52 AND 1952-53**

Ex-post-facto Sanctions

R 4. An important question of principle came up for consideration before the Committee when para. 18 of the Audit Report (Railways), 1954 was under discussion. The question of proper action to be taken when expenditure had been incurred without the sanction of the competent authority and *ex-post-facto* sanction thereof was refused by the Ministry of Finance was gone into by the Committee. The subject was subsequently discussed by the Comptroller and Auditor-General with the Finance Secretary and the Financial Commissioner for Railways. The Committee are assured that the matter is engaging the attention of Government and that in the case of the Ministries where the accounts functions have been separated from audit and arrangements exist for prior scrutiny of expenditure in accounts, such a situation, *viz.*, failure to obtain financial concurrence for the expenditure before it is incurred, would not arise, as the Accounts Officers have been definitely directed not to make any payment unless there is proper sanction. The Ministry of Finance propose to go into this matter in greater detail and submit a note to the Committee for their information in due course.

Copy of U. O. No. 14 (13)-E.II(A)/55, dated 6-3-1957, from the Government of India, Ministry of Finance (Department of Expenditure) to the Lok Sabha Secretariat

SUBJECT.—*Procedure for dealing with proposals made to the Finance Ministry for according sanctions to expenditure ex-post-facto.*

In paragraph 4 read with paragraph 234 of the Thirteenth Report of the Public Accounts Committee, Volume I, the Committee had dealt with the general question of the action to be taken in cases in which ex-post-facto sanctions were refused by the Ministry of Finance and had desired to be furnished with a note on the subject embodying the conclusions reached by the Ministry of Finance after discussion with the Comptroller and Auditor General. The practice hitherto followed by the Ministry of Finance of refusing to accord ex-post-facto sanction in cases of expenditure involving serious breaches of financial principles or other irregularities has been reviewed in consultation with the Comptroller and Auditor General and it has been agreed that the practice should be discontinued as no longer compatible with the concept of collective responsibility of a Cabinet system of Government.

2. The necessity for evolving a suitable internal procedure to ensure that instances of serious irregularities are taken cognizance of at an adequately high level has also been examined and it has been decided, with the concurrence of the Comptroller and Auditor General to prescribe the following procedure for dealing with cases requiring ex-post-facto sanctions.

Cases requiring ex-post-facto sanctions will continue to be dealt with in the same manner as original proposals from administrative Ministries. Where the irregularity is technical or does not involve flagrant violations of rules and regulations, there is no objection to ex-post-facto sanction being accorded after differences, if any, have been resolved by discussion at appropriate levels in the administrative and Finance Ministries. In cases, however, in which no agreement is reached between the Administrative and Finance Ministries at the Secretariat level, the Ministry of Finance will obtain the orders of the Finance Minister on the proposal to accord ex-post-facto sanction and refer the matter to the Cabinet, where considered necessary. When such orders are issued, Government as a whole will accept responsibility for the decision to regularise the irregularity in question. The present practice of the Ministry of Finance refusing to accord ex-post-facto sanction in cases of this nature will, therefore, be discontinued.

NOTE.—See P.A.C. 1945-46, P 5 (Epitome Volume I).

Non-budgeted works

R 10. During the course of their examination of the reasons advanced by the Posts and Telegraphs Department for undertaking a large number of works without the necessary budget provision, the Committee were informed that the Department was faced with unforeseen and very urgent demands from certain Ministries such as the Railways and the Defence which necessitated the construction of the works in anticipation of the budget provision. The Committee feel that the Department could have taken up these works by obtaining supplementary grants or utilising the savings by taking a token vote. Under the rules no work can be commenced unless funds have been provided, and the present practice of executing works without funds by the P. & T. Department is most unsatisfactory as it affects the efficiency of Parliamentary control. The Committee hope that the Posts and Telegraphs Department would take necessary steps to avoid a repetition of such irregularities. (See also P.A.C. *Seventeenth Report*, 1955-56, R. 8).

APPENDIX XIX TO THE PUBLIC ACCOUNTS COMMITTEE'S TWENTY-SECOND REPORT, 1956-57

Copy of letter No. P. 63/53, dated the 19th November, 1955 addressed to all Heads of Circles and Administrative Offices. The Additional Chief Engineer, T. & D. Circle, Jabalpur.

SUBJECT.—Unsanctioned and Non-budgeted works—irregularity in incurring expenditure on.

It has been observed that in spite of the D.G.'s orders conveyed in this office letter No. B.27-41/52 of 5th November, 1952 and the Chief Engineer's instructions to the Heads of Circles *vide* paras (a) (iv) and (d) of his letter No. P. 153/53 dated the 31st March, 1953, expenditure is still being incurred by the Divisional Engineers, or by the officers of equivalent rank, on unsanctioned or non-budgeted works in contravention of the provisions contained in paras 141

to 147 of the P. & T. Manual X (P. I.). The Public Accounts Committee have also very adversely commented in para 10 of their 13th Report on the Appropriation Accounts, 1951-52 and 1952-53, for executing works without providing for funds, as it whittles away Parliamentary control. The Committee desire that the P. & T. Department should take necessary steps to avoid repetition of such irregularities.

2. The Director General, therefore, desires to impress on the Heads of Circles that no expenditure should be incurred, in future on works—

- (i) which have not been duly sanctioned by the competent authority and provided for in the Budget Estimates of the particular year in which expenditure is desired to be incurred,
- (ii) which though sanctioned, in the previous year do not find a place in the Budget Estimates of the particular year in which expenditure is proposed to be incurred unless such carried over Major Works have been included in the Regrant of Lapses statement, or
- (iii) which are not covered by proper allotment of funds.

3. In case expenditure on such a work, beyond the power of the Head of Circle, is considered necessary, a complete proposal, giving full reasons for the inescapability of the expenditure, should be submitted to this office, for obtaining prior concurrence of the Ministry of Finance (Communications). Expenditure in such cases should be incurred only after the financial concurrence has been obtained and communicated to the Head of the Circle concerned and allotment of funds made.

4. It should be clearly noted that no allotment will, henceforth, be made for works which are executed in contravention of these orders.

5. It may, however, be added that these orders do not apply to the emergent works mentioned in the note below para 143 of P. & T. Manual Vol. X(P.I.) or to the emergent defence works in which cases instructions contained in A.G.'s secret D.O. No. Eng. 590/W (97)/51 dated the 18th April, 1952 and communicated to the Heads of the Circles under this office secret letter No. P. 525/51 dated the 18th April, 1952 are applicable.

6. Necessary instructions should be issued to all concerned under your control, for guidance.

APPENDIX XX TO THE PUBLIC ACCOUNTS COMMITTEE'S TWENTY-SECOND REPORT, 1956-57

3. It is relevant to mention in this connection that the ceiling limit of minor works which was fixed at Rs. 20,000 nearly 20 years ago, has in consideration of the fact that the cost indices of manpower and material have gone up by 300 to 400% over the figures of the thirties, been raised with effect from 1-4-1955 to Rs. 1 Lakh. In view of the increased limit now applicable to minor works, it is expected that in the years to come, the number of non-budgeted

works will be reduced considerably although they cannot be altogether eliminated as some short notice demands must continue to come in after the Budget Estimates got finalised and the P. & T. has got to comply with them.

NOTE.—See P. A. C. 1923-24, R 20 (Epitome Volume I).

Departmental proceedings may precede the police investigation

R 13. This para contains a review of a number of cases of reinstatement of Posts and Telegraphs Department employees under suspension for a long time in which the Department had to incur considerable infructuous expenditure either because the original order of suspension had to be rescinded or because of the procedural delay in issuing the final order. The Committee noticed that in these cases the prosecution was launched without sufficient evidence even for departmental action. In the case referred to in sub-para (c) of para. 16 of the Audit Report, criminal prosecution was attempted even though only a petty sum of Rs. 17 was involved. The Committee feel that there is something inherently wrong either in the existing procedure or in the rules on the subject which appeared to be unduly rigid. In their opinion, the existing procedure, which requires that in every case where a criminal act is in question the departmental proceedings should be held up pending the result of the criminal prosecution, needs revision as this leads to delays in the disposal of disciplinary cases against delinquent official. These delays, the Committee apprehend, often enable the officials concerned either to tamper with or even to concoct evidence and thus escape punishment. In this connection, the Committee would draw the attention of the Government to the judgment of the Supreme Court in the case of 'S.A. Venkataraman vs. The Union of India and Another' (1954) wherein it has been pointed out that the words "prosecution" and "punishment" have no fixed connotation. According to the Supreme Court's ruling, the departmental proceedings may be completed and appropriate penalties under the Service Rules may be awarded, and thereafter, it would be quite correct to prosecute the Government servant concerned in a criminal court if the circumstances warrant such action. Further, Government are fully competent to impose any penalty on the accused officially within the meaning of the Civil Services (Classification, Control and Appeal) Rules in their capacity as employer in respect of servants employed by them. In view of this ruling, the Committee would urge Government to re-examine the matter with a view to amending the existing rules so as to enable Government to take suitable departmental action against their employees in cases of irregularities committed by them without having to wait for the outcome of the prosecution that may be launched in such cases. The present rules, the Committee feel enable departmental authorities to disown responsibility for their inaction over long periods. They also feel that if the rules were amended as suggested by them, there would not be any scope for the type of cases mentioned in the para. under consideration.

Ministry of Home Affairs had observed (Twenty-second Report 1956-57, Appendix XXII, page 96) as follows :—

This recommendation of the Public Accounts Committee has been accepted and necessary changes have been made in the existing procedure vide Ministry of Home Affairs Office Memorandum No. 39/30/54-Ests. (A) dated the 7th June, 1955-(Annexure I).

**ANNEXURE I OF APPENDIX XXII TO THE PUBLIC ACCOUNTS
COMMITTEE'S TWENTY-SECOND REPORT, 1956-57**

Copy of office Memorandum No. 39/30/54-Estt., dated the 7th June, 1955 from the Ministry of Home Affairs.

**SUBJECT.—Government Servants involved in criminal misconduct—
Departmental proceedings and prosecution**

In the Home Department letter No. F. 312/35-Public, dated the 15th November, 1935, it has been laid down that in a case where it was intended to prosecute an employee for acts committed by him as a Government servant, everything should be done to carry the departmental proceedings to as advanced a stage as possible before prosecution began. It was also laid down that the finding and the penalty in the departmental proceedings should not be recorded till after the disposal of the criminal case. This matter has been reviewed. The postponement of decision in the departmental proceedings till after the criminal case is finally disposed of, leads to undue delay in the completion of the proceedings. Moreover, if the officer is placed under suspension, he has to be paid subsistence allowance during the entire period of prosecution, and if there is an appeal against the conviction, till the appeal is decided. If action is taken immediately after the conviction in trial court, difficulties sometimes arise when the conviction is appealed against. In order to avoid these difficulties, as well as to ensure the earliest possible decision in such cases, it has now been decided that the following procedure should normally be adopted in cases of alleged criminal misconduct of Government servants.

2. As soon as sufficient evidence is available for the purpose in the course of investigation in cases of misconduct, whether such investigation is conducted departmentally or through the police (including the Special Police Establishment), action should be taken under the Civil Services (Classification, Control and Appeal) Rules or other appropriate disciplinary rules, and disciplinary proceedings should be initiated forthwith. Such departmental proceedings need not interfere with the police investigation, which may be continued, where necessary. After the departmental proceedings are concluded, and the penalty, if any, imposed as a result thereof, the question of prosecution should be considered in the light of such material as may have become available as a result of the investigation.

3. In suitable cases, criminal proceedings should thereafter be initiated. Before initiating such proceedings, advice on evidence should be obtained from Government Counsel, and in more important cases from the Attorney General or the Solicitor General. Where the conduct of an Officer discloses a grave offence of a criminal nature, criminal prosecution should be the rule and not the exception. Where the competent authority is satisfied that there is no criminal case which can be reasonably sustained against such Officers criminal prosecution should not, of course, be resorted to, but prosecution should not be avoided merely on the ground that the case might lead to an acquittal.

4. Should the decision of the trial court or the appellate court, as the case may be, lead to the acquittal of the accused, it may be necessary to review the decision taken earlier as a result of the

departmental proceedings. A consideration to be taken into account in such review would be whether the legal proceedings and the departmental proceedings covered precisely the same ground. If they did not, and the legal proceedings related only to one or two charges, i.e., not the entire field of departmental proceedings, it may not be found necessary to alter the decision already taken. Moreover, it should also be remembered that while the court may have held that the facts of the case did not amount to an offence under the law, it may well be that the competent authority in the departmental proceedings might hold that the Government servant was guilty of a departmental misdemeanour and he had not behaved in the manner in which a person of his position was expected to behave.

5. In this connection, attention is invited to the requirements of Article 311(2) of the Constitution in regard to penalties of dismissal or removal or reduction in rank. This Article provides that no person, who is a member of the Civil Service of the Union or holds a civil post under the Union, shall be dismissed, removed or reduced in rank *until he has been given a reasonable opportunity of showing cause against the action proposed to be taken in regard to him.* A proposal to amend Article 311(2) is under consideration, but pending such amendment the provisions of this clause as judicially interpreted must be strictly followed. According to judicial pronouncements, these provisions are mandatory and the words underlined contemplate that after the inquiry against the accused officer has been completed and the competent authority has come to provisional conclusions regarding the action to be taken against him, he should be given an opportunity of showing cause against such action, if it is dismissal, removal or reduction in rank. For this purpose, he should be supplied with a copy of the report of the inquiring authority and be called upon to show cause within a reasonable time against the action proposed to be taken. Any representation submitted by him in this behalf should be duly considered before final orders are passed. Failure to observe these statutory requirements renders the orders passed null and void and, therefore, legally inoperative. In case of such failure, the Government servant concerned is deemed to have continued in service, or in the grade from which he was reduced, and subject to compliance with the provisions of any rules regarding allowances, he is entitled to the pay and allowances he would have drawn if such action had not been taken. According to the ruling of the Supreme Court in the case of Abdul Majid, it would be open to him to obtain a decree from a civil court against the Government for payment of these amounts. It is, therefore, necessary for the competent authority to observe strictly the statutory requirements of Article 311(2) in all cases in which it is attracted. This should be impressed on all concerned. Compliance with these requirements is not, however, required in cases covered by clause (a), (b) or (c) of the proviso to that Article. Where, however, action is taken under clause (a) of this proviso on the basis of the conviction of a person in a court of law and the conviction is set aside on appeal, the orders passed under the proviso automatically become inoperative. If departmental action against him is considered desirable, it will be necessary to follow the provisions of the relevant disciplinary rules and, where necessary, the substantive provisions of Article 311(2).

Copy of Office Memorandum No. 39/54-Ests(A), dated the 20th October 1955, from the Government of India, Ministry of Home Affairs to the Comptroller and Auditor General of India, etc. etc.

SUBJECT.—Government servants involved in criminal misconduct Departmental proceedings and prosecution.

Attention of the Ministry of Finance etc. is invited to the instructions contained in this Ministry's Office Memorandum of even number dated the 7th June, 1955 on the subject noted above which lays down inter alia that as soon as sufficient evidence of criminal misconduct of Government servants is available in the course of investigation either departmentally or through police, action should be taken under the C.S. (CCA) Rules or other appropriate discipline rules to initiate departmental proceedings and only after such proceedings are completed, the question of prosecution should be considered in the light of such evidence as may have become available as a result of such investigation. All earlier instructions issued by this Ministry on the subject including those contained in the directive enclosed with Ministry of Home Affairs Office Memorandum No. 22/1/50-P. II, dated 14th January, 1954 regarding procedure in cases dealt with by the Special Police Establishment should be deemed as superseded to this extent.

2. Where the necessary papers are to be obtained from the Special Police Establishment, the Vigilance Office concerned may contact the Special Police Establishment direct. As regards investigations conducted by the State Police, State Governments are being requested to ask District Magistrates and the Police authorities to assist in giving effect to this policy.

Irregular closure of inoperative work orders in the Posts & Telegraphs Workshops, Alipore

R 20. Para 20 of Audit Report 1953.—This para discloses that the accounts of over a thousand inoperative work orders for jobs undertaken and completed during the pre-Partition period from 1942 to 1947 could not be closed in the Alipore Workshops due mainly to a heavy variation of over Rs. 18 lakhs between the actual charges debited to these jobs and the value of the stores as challaned on their despatch after manufacture. The reasons for this heavy variation were stated to be (i) defective estimating or failure to revise the challaned rate to accord with the steep rise in the cost of raw materials and labour during 1942-47, and (ii) irregular booking of charges against work orders due to concurrent running of various work orders for the manufacture of the same kind of stores.

The Committee do not see why work orders should be kept open for such long period. They suggest that to ensure detection of irregular allocation of expenditure between work orders (as in the case under consideration), the bulk orders on workshops should be split up into smaller items. This would also enable the respective work orders being closed at the end of each half-year and the correct position assessed at more frequent intervals than is possible under the existing arrangements.

The instructions had been issued in Director General, Posts and Telegraphs Letter No. N.A.-61-1/53/B, dated the 8th November 1955, (Appendix XXIV to the Public Accounts Committee's Twenty-second Report, 1956-57) to split up large work orders and to clear them within three months and in any case before the end of the financial year.

Cost accounting System in Posts and Telegraphs Workshop

R 22. The Committee would like to mention that no method of checking up employees or of preventing waste in materials, whether intentional or accidental, can be carried out without an effective cost system providing for the comparison between the limits fixed in respect of labour and materials for each item of work with the actual performance. The system actually adopted may take any shape that may be found suitable to local requirements but its essential feature should be the estimating, in advance, of the time that should be spent and the materials that should be used and the systematic comparison of the results of actual performance with such estimates.

NOTE.—See P.A.C. Fifth Report, 1952-53, R-33.

1. *Fictitious adjustment in accounts.*
2. *Telephone instructions to be confirmed in writing.*

R 24. *Para 26(a) of Audit Report, 1954.*—This Para disclosed one of the numerous instances in which stores were accounted for as issued to the Engineering Divisions although they remained in the Depots pending despatch for quite a long time thereafter. In this manner, the Engineering Divisions prevented lapse of 'unspent' funds and reduced the book balances of stores held in the Stores Depots. It came to the notice of the Committee that this practice was resorted to on some telephonic instructions on the 30th March, 1951 from a junior Officer in the Directorate General of Posts and Telegraphs. The irregularity arose out of a misunderstanding of the telephonic instructions. The Directorate have observed that the Officer should have recorded his orders in writing and confirmed the same.

R 25. *** The Committee note that the Director-General, Posts & Telegraphs has since issued suitable instructions to all concerned to ensure that this kind of irregularity does not occur in future and that the issue of stores in the month of March is confined to what can reasonably be expected to be despatched before the end of that month.

ANNEXURE TO APPENDIX IV TO PUBLIC ACCOUNTS COMMITTEE'S THIRTEENTH REPORT, 1954-55, VOLUME II

Copy of P. & T. Department Office Order No. 14, dated the 12th April, 1954

An instance has recently been brought to notice in which a Sectional Officer of the Directorate issued certain telephonic instructions

to an officer in a Circle Office but failed to confirm the same in writing. The omission left room for misunderstanding particularly as they related to a matter on which the officer concerned in the Directorate was not competent to take a final decision or issue final orders. The result was that the instructions led to serious irregularities which were commented upon adversely in the Audit Report and formed the subject of criticism by the Public Accounts Committee later on. It is, therefore, hereby ordered that Sectional Officers of the Directorate should act with the due caution and ensure that telephone instructions where these are necessary, are followed immediately by written confirmation and that written orders of the competent higher authority are invariably obtained in all cases where instructions which are not in conformity with the existing rules are issued to Circles.

Concessions in contracts to be made not through exchange of letters but by specific provision in the original or supplementary agreement.

R 57. The Committee learnt from the Comptroller and Auditor-General that when the agreement was concluded originally on the 20th August, 1947, it did not make any provision for the inclusion of initial depreciation and double depreciation, but this was done subsequently by exchange of letters. While the Committee agree that the underlying idea of giving this concession was to give a fillip to new industries and rehabilitate old ones, it would have sufficed if a supplemental agreement had been entered into with the TELCO according to which the initial and double depreciation were allowed to be carried over until the profit potential of the Company developed. While the Committee do not want to re-open the question, they would, nevertheless, desire that Government should take such a precaution while entering into all such contracts in future and instead of giving any concession through letters, they should invariably make specific provision either in the agreement itself or execute a supplemental agreement, if need be.

Ministry of Home Affairs had observed (Twenty-second Report 1956-57 Appendix XXII page 96) as follows :—

This has been brought to the notice of all concerned.

Reference of cases to arbitration in which "No Claim Certificate" had been signed by the contractors

R 84. As desired by the Committee, the Railway Board have submitted to them a Memorandum (Appendix XXIII) on the question of reference of claims to Arbitration in respect of which 'no claim certificate' had been tendered by the contractors. In view of the opinion given by the Law Ministry as set forth in the concluding sub-para of the Memorandum, that if a contractor chose to prefer a claim after giving a 'no-claim certificate' and pressed for the appointment of an Arbitrator, the Railway should appear but question the jurisdiction of the Arbitrator, lest the case of the Railway should go by default, as it was not possible to prevent a case from going at all either before an arbitrator or a court of law, the Committee have no comments to make.

**APPENDIX XXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
THIRTEENTH REPORT 1954-55, VOLUME II**

MINISTRY OF RAILWAYS (RAILWAY BOARD)

MEMORANDUM

* * * * *

The question whether reference of cases to arbitration could be prevented when no claim certificates have been given, arose out of an Audit Para on the "abandoned Locomotive Building Works Project at Kanchrapara" where two claims relating to items in respect of which contractors had signed 'no claim' certificate previously, were referred to arbitration. In considering this particular case, the Public Accounts Committee observed in para 11 of their Fifth Report that the Railway Administration should have insisted on the exclusion of these cases from the claims before agreeing to arbitration. In pursuance of this recommendation of the Committee, instructions were issued to Railway Administrations on the 24th August, 1953 directing them to refuse to agree to arbitration unless those items were excluded from the Statement of Contractors' claims, instead of contesting them in the counter-statement filed with the Arbitrator. On receipt of these orders, some Railway Administrations under the advice of their Solicitors represented to the Board that such a refusal by the Railway might jeopardise the interests of the Railway themselves, as the arbitration proceedings would be *ex parte*. At this stage, the advice of the Law Ministry of the Government of India was sought, who observed as below:—

"The plea of the Railway Administration that no claim receipt fully absolves them from any liability from payment would not go to suggest that no dispute had existed between the parties for which the arbitration clause could be invoked. This is so because the contractor does not admit the no claim receipt and is prepared to meet it. The Railway Administration has to appear before the Arbitrator to say that the receipt is genuine and prove that no claim is sustainable."

The above opinion of the Law Ministry was brought to the notice of the Public Accounts Committee at the meeting on the 26th of December, 1953, by the Financial Commissioner. It was suggested at the meeting that the case should be examined further to see how far the contracts could be amplified so that the Railways will not be obliged to contend cases before an Arbitrator once a no claim certificate had been given. The Financial Commissioner promised to investigate the case further in consultation with the Law Ministry. This was done and a further Memorandum (under comment) was placed before the Public Accounts Committee incorporating the views of the Law Ministry. The suggestion contained in the Memorandum for inclusion of a clause to the effect that a contractor, who has given a no claim certificate, would be debarred from invoking the arbitration clause, has not been favoured by the Committee presumably because from the legal stand point, the contingency of Railways having to contend cases before an Arbitrator cannot be avoided even in such cases. The Committee have, however, re-stated the view that there was hardly any justification for referring the particular case to Arbitration and desired to know the action taken by the Railway Board against the officers responsible for referring these two cases to arbitration.

The Railway Administration have explained the position as under :—

- (i) Before agreeing to arbitration, the contractors' claims in respect of these two cases were repudiated in definite terms.
- (ii) Arbitration was insisted upon by contractors and the general and special conditions of the contract did not contain any clause debarring such items (where no claim certificates had been given) going to arbitration; if the Railways refused to nominate an Arbitrator, the contractor might have got an *ex-parte* decision in his favour.
- (iii) The Railway Administration also thought that refusal to refer to arbitration might not be prudent in view of the possibility of the contractors taking the entire claim to a court of law.
- (iv) The Railway Administration, after having considered all possibilities, had no alternative but to agree to include the two cases for arbitration, but a counter-statement was filed by the Railway before the Arbitrator, which brought out in no uncertain terms that the contractors had no claim against the Railway.

The Ministry of Law have also advised that if a contractor chooses to prefer a claim after giving a no claim certificate and presses for the appointment of an Arbitrator, the Railway should appear but question the jurisdiction of the Arbitrator. If that is not done, the case of the Railway may go by default. The contractor can in any case file a civil suit in spite of a no claim certificate in which case the Railway will have to put in a defence and contest the case. It is, however, not possible to prevent a case from going at all either before an arbitrator or a court of law.

NOTE.—See P.A.C. Fifth Report 1952-53, R11 and Tenth Report 1953-54, R35.

*Period of retention of files relating to compensation claims on
Railways*

P 190. *Para 37 Railway Audit Report, 1953.*—This para disclosed that the position regarding the supply of relevant files by some of the Railway Administrations had not been quite satisfactory and in many cases, Audit was ultimately told that some of these had either been destroyed under the time-limit laid down for their preservation or were not traceable.

P 191. The Committee desired to know what steps had been taken to retrieve the position. The representative of the Railway Board stated that now all records relating to compensation claims were to be preserved for a period of one year by the Railway Administration after the last payment was made and that a proper record of the files destroyed should be maintained. He added that the cases regarding compensation claims were not likely to go on for more than a year. He promised to examine the question whether it would not be better to preserve the files for 3 years in cases where there was a decree or settlement out of Court.

**APPENDIX XXIV TO THE PUBLIC ACCOUNTS COMMITTEE'S
SEVENTEENTH REPORT, 1955-56, VOLUME II**

Copy of Ministry of Railways (Railway Board) letter No. 6724-TC, dated the 13th February, 1956 to all Indian Railways re: Preservation of records relating to cases of compensation claims.

During discussion at the meeting of the Public Accounts Committee in connection with Audit reports 1953 and 1954, a question was raised regarding destruction of claims cases which after the party goes to a Court of Law, are settled either by negotiations or by meeting the Court's decree. The Committee felt that the period for the retention of such files should be more than one year after the payment or meeting the decree, as legally a decree may be executed within three years and it is likely that these papers may be required in connection with execution of proceedings etc.

The matter was referred to the Commercial Committee who discussed it at their meeting held at Bombay and the resolution recorded at the meeting is reproduced below :—

“The Commercial Committee are of opinion that, for the purpose mentioned by the Public Accounts Committee (i.e., in respect of claims cases which, after the party goes to a Court of Law, are settled either by negotiation or by meeting the Court's decree), it will suffice if a certified copy of the decree and relevant papers showing that the decree is satisfied, are preserved for three years from the date of the decree instead of preserving complete files.”

The Railway Board have accepted the recommendation and desire that in future action should be taken in terms of the aforesaid Resolution.

NOTE.—See P.A.C. Ninth Report 1953-54, R 41 and Tenth Report 1953-54, R 26.

*Review of outstanding items of previous reports of the Public
Accounts Committee*

P 235. The Committee considered the question of the procedure to be adopted in reporting their review of outstanding items of previous reports. It was decided that wherever the action of the Ministries was to be concurred in and no further action was called for or no comments were to be expressed, there would be no need to refer to these items in the current Report of the Committee. These items may, however, be included in the statements of review of outstanding items attached to the current Report. It was also agreed that wherever matters of principle were involved, however, the review together with the comments of the Committee may be included in the body of the current Report.

**FOURTEENTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE, 1954-55 ON THE
APPROPRIATION ACCOUNTS (DEFENCE SERVICES),
1951-52 AND 1952-53**

*Periodical review of stock balances and the system of procurement,
stocking and accounting of stores*

R 11. *** The Committee were informed by the Comptroller and Auditor-General that stores were indented for even when large surpluses existed in some depots or others. They, therefore, think that a periodical review of stocks is necessary to avoid large resources being immobilised, and recommend that the Ministry of Defence should review the whole position regarding the procurement, stocking and accounting of stores and set it on a more rational and scientific footing. They should like to know, in due course, the action taken in the matter.

R 12. *Para 10(e), (f) and (g) of Audit Report, 1954 Over-indenting of stores.*—These paras afford striking instances of overprovisioning and overindenting of stores, both indigenous and foreign, which resulted not only in unnecessary and appreciable dissipation of the country's resources but also indicated lack of planning and co-ordination between the different branches of the Defence Services. The Committee think it more important that action to indent stores should be initiated only after firm and final decisions have been reached on the type and quality of equipment and stores required.

The Committee heard the Master General of Ordnance regarding the method followed by his organisation in the matter of provisioning of stores and its periodical review. In the course of his evidence, he stated that he was not quite satisfied with the existing position. He further informed the Committee that the possibility of centralising provisioning as it used to be before the War was under examination, although the question of manpower and economy stood in the way. The Committee stress the need for overhauling the system of provisioning for stores so that surpluses do not occur.

The Ministry of Defence had observed (Nineteenth Report, 1955-56, Volume I, pages 82-85) as follows :—

As regards periodic review of stocks to avoid placing of indents for items or stores where surpluses exist, the existing procedure provides for periodic reviews of stocks and their comparison with liabilities with a view to assessing whether a fresh demand should be placed or not. Where large surpluses are revealed as a result of the reviews, action is already being taken to declare the surpluses for disposal, so as to prevent unnecessary locking up of funds and to clear storage space. The attention of all concerned is, however, again being drawn to the necessity for this procedure being carried out systematically and to take action for cancellation of the indents in time, if stores surplus to requirements are revealed.

Provisioning is strictly based on the data relating to strength and composition of the Army, the various reserves and other commitments approved by the General Staff with the concurrence of the Ministry of Defence and the Ministry of Finance (Defence) every year. The requirements in respect of main equipments/stores/vehicles are calculated on the basis of various scales (initial and

wastages) authorised to units in their peace establishments/war establishments or peace equipment tables/war equipment tables and the wastage scales issued by General Staff with the concurrence of the Ministries of Defence and Finance (Defence). As regards spares and other items, the maintenance requirements are based on the past average issues; the detailed calculation and the ultimate demands are vetted by the Ministry of Finance (Defence) in each case and where the cost of item exceeds Rs. 5 lakhs. the approval of the Ministry of Defence is also obtained before the demands are placed.

The basis of provisioning is worked out 2 years in advance taking into account the expected strength of the Army during the period for which provisioning is carried out. Projected increases or decreases are also taken into consideration to avoid over-provisioning. Only the actual requirements of a unit in accordance with its operational or non-operational role is taken into account. The use of 'in lieu' items wherever possible is also insisted upon. The scales of equipment are constantly reviewed to ensure that they are reduced to the inescapable minimum. In case surpluses are revealed as a result of previous reviews due to reduction in scales/wastages/reserves or change in equipment policy, immediate steps are taken to reduce/cancel outstanding demands, if any, without financial repercussions and these items are put to alternative use or maximum quantities thereof are retained commensurate with their shelf life for utilisation towards foreseeable requirements. The balances, if any, are offered to other Defence Services before they are finally declared surplus for disposal.

Ad hoc reviews are also carried out, as and when the stock position undergoes a radical change, during the course of the year. In addition, a review of outstanding indents on various sources of supply is carried out periodically with a view to progressing supply and/or cancelling/reducing demands if surplus in requirements is revealed. This enables adjustment of anticipated liabilities against existing assets, namely, stocks plus outstanding demands previously placed on various agencies and placing/adjustment of demands in suppliers for the relevant financial years.

It will be seen from the above that ordinarily there should not be any over-provisioning except due to error of judgment. It is only if certain reductions or reorganisation which affects the store requirements are decided upon, as a matter of policy, after provisioning action has been initiated the stores already demanded may be found unnecessary. In such cases, steps are taken to cancel the demand or where this cannot be done, every attempt is made to make use of the stores. It is felt that barring failure of the human agency the existing system of provisioning described above is already very comprehensive and systematic.

The above describes the procedure mainly in regard to Ordnance Stores.

Further observations made by the Ministry of Defence received with Lok Sabha Secretariat letter No. 168 P.A.C./56 dated 25-8-56 are as below:

The procedure which is being followed by Services Headquarters and the D. G. O. F. in regard to the provisioning of other stores was also examined in detail by this Ministry in consultation with the

Ministry of Finance (Defence). The existing procedure was found satisfactory and it was decided that it should be allowed to continue. In order to avoid over provisioning of stores, the following further steps have, however, been decided upon :—

- (a) *As soon as a major policy decision on provisioning is taken, a special review will be ordered.*
- (b) *The special review will be conducted in the same detail and with the same care as the regular provision review.*
- (c) *If surpluses are noticed, immediate intimation will be sent to the procuring agency to suspend further action on the indents.*
- (d) *Final decision either to cancel the order or to continue the order will be taken without undue delay.*

Commencement of work without administrative approval

R 15. *Para 8 of Audit Report, 1954—Commencement of Works without technical sanction.*—This para discloses that in contravention of the prescribed procedure for the execution of the Defence Works, tenders were called for in the case of 93 contracts costing about Rs. 46.4 lakhs before technical sanction had been accorded. In respect of one work contract costing Rs. 10.65 lakhs, the sanction came in at a very late stage when a major portion of the work amounting to Rs. 10.56 lakhs had already been completed. In extenuation, it was explained that a number of works were executed in one of the Commands in great hurry at the instance of the Executive Officers who were not aware of the importance of obtaining prior technical sanction. The Committee note that the authorities have now agreed that the works will be administratively approved at least 6 months before funds are allotted and actual construction work is taken in hand. During this period of 6 months, the Engineers would have an opportunity to prepare the designs in detail and to get the contract documents, drawings, etc., ready.

The Committee would suggest that it would be desirable in the interest of the Defence Services as well as the Ministry of Defence to have a forward programme of works prepared indicating approximately how much funds would be available for the execution of various works during a given period and a general overall picture on the basis of which the services could prepare their plans and estimates. The Committee shall be glad to know in due course the action taken by the Ministry to implement this suggestion.

The Ministry of Defence had observed (Nineteenth Report, 1955-56, volume I, page 87) as follows :—

The Services Headquarters have been advised to plan ahead and to submit their proposals for works projects to be undertaken during the three years from 1958-59 to 1960-61 by October, 1957. This will indicate that every endeavour is being made to advance the actual issue of administrative approvals so that the Engineers have plenty of time to plan out the details of projects for execution.

To assist the Services, to plan ahead, the probable size of the Capital Works budget for the next five year period (subject of course to the approval of the Parliament) has been indicated.

Cost of production by the Ordnance Factories

R 30. During the course of the evidence given by the Engineer-in-Chief in connection with the utilization of the equipment and articles manufactured by the Ordnance Factories, it was brought to the notice of the Committee that the cost of supplies obtained from these Factories was considerably higher than the cost at which similar supplies could be procured from other sources. The Committee feel that as these Factories are also under the control of the Ministry of Defence and they have to be maintained not only as a war potential, but also on a care—and—maintenance basis, some formulæ should be evolved by that Ministry in consultation with the Financial Adviser, Defence Services under which these Factories made supplies not only to the M.E.S. but to other Defence and Civil Organisations at competitive rates treating the difference in the cost as a standing charge of the Factory concerned.

The Ministry of Defence had stated (Nineteenth Report, 1955-56. Volume I, Pages 92-93) as follows :—

The position regarding these is fully explained below :—

(a) Supplies to the Defence Services.

Instructions already exist that Defence Services will not place orders outside the Ordnance Factories for items for which capacity exists in the Ordnance Factories. That being the position, it does not matter what prices are charged by the Ordnance Factories to the Defence Services. If lower prices were charged than their full cost of production, while the stores portion of the Defence budget would show a saving, the Ordnance Factories portion of the budget might show a loss, the net result to the Defence budget as a whole being "nil". In practice under the stabilised 'on cost' system certain fixed overhead charges of the Ordnance Factories are not levied on the stores supplied, these charges being treated as the fixed over-heads (unabsorbed) of the Factories.

(b) Civil indentors, Government or private.

The costs of items to be supplied are first worked out on two bases.

(i) Minimum costs.—These include direct labour, direct materials and variable overheads. In cases where the load in any of the sections concerned with the manufacture is less than 75% of the capacity load, the percentage of variable charges to be levied will be further scaled down by the ratio which the actual load of the section concerned bears to 75% of the capacity load.

(ii) Maximum costs.—These include all charges, including overheads excepting that portion of fixed charges kept under-absorbed. Factories are empowered to quote any suitable price between the minimum and the maximum against civil order, having regard to competitive market price.

Set up of the Canteen Stores Department

R 40. It has been pointed out in the Audit Report that the Canteen Stores Department was being run as a Government commercial undertaking but its receipts and expenditure were still being

kept outside the Government Accounts (Consolidated Fund of India) in contravention of the provisions of Article 266 of the Constitution. The effect of this irregular procedure has been that expenditure incurred on this Organisation and sums appropriated out of its profits for the purpose of welfare and amenities to troops from time to time had not been submitted to the vote of Parliament. The Committee are informed that the whole matter regarding the future set-up of this Organisation is under consideration of Government. They should like to know in due course the decision arrived at in the matter. (See also P.A.C. Sixth Report, 1957-58 R 74.)

APPENDIX VIII TO THE PUBLIC ACCOUNTS COMMITTEE'S FOURTEENTH REPORT 1954-55, VOLUME II

MINISTRY OF DEFENCE

Note stating the set-up of the Canteen Stores Department as also the steps taken to give it a statutory existence.

1. SET-UP.

The Canteen Stores Department (India) is an undertaking run on behalf of and for the benefit of the personnel of the Armed Forces under the general supervision of the Ministry of Defence.

The affairs of this organisation are managed by a Board of Control on which all the three Defence Services are represented. In addition, there is a Board of Administration with its Headquarters at Bombay which is responsible for the day-to-day management of the Department subject to the policy laid down by the Board of Control.

Objects

The aim of the C.S.D.(I) is to supply canteen goods to Defence Services personnel near their "lines" and at a reasonable and uniform price all over India.

Funds

The funds of the C.S.D.(I) were drawn partly from the profits of the old C.S.D. which was run as a Government Department and partly from some loans taken from Government. The loans were later repaid with interest.

Accounts

The accounts of the Department are maintained on commercial lines. The receipt and expenditure accounts are subject to detailed audit by a firm of Chartered Accountants appointed by the Board of Control. The accounts at present are also subject to the Local Test audit, by the Assistant Director of Audit, Defence Services and appear in the Commercial Appendix to the Appropriation Accounts of the Defence Services.

Profits

It is the policy of the Board of Control that the Department should work on as small a margin of "profit" as possible consistent with the efficient functioning of the Department. A part of the

"profits" is distributed among the three Services for providing amenities to Service personnel. Thus, unlike commercial undertakings in the private sector, this Department is not run with any "profit motive" in the usual sense of term and any profits made ultimately go to provide amenities to members of the armed forces who form its only clientele.

2. STATUTORY BASIS

From the facts given in the preceding paras., it will be seen that the C.S.D.(I) although supervised by a Board of Control consisting of official members is a commercial undertaking and that it is necessary and desirable that the existing character of the Department and the present system of keeping its accounts on commercial lines be retained as far as possible. The question of giving this undertaking a statutory existence is under consideration.

Proforma preparation of accounts of respective wings of Hindustan Aircraft Ltd.

R 41. * * * The Committee feel that departmental accounts should be maintained viz., Aircraft, Railway Coaches and Bus Bodies so as to facilitate a comparison and scrutiny of the operational efficiency of the respective Wings. They would also suggest that a fuller Report embracing the various activities of this concern as also its Balance Sheet and Profit and Loss Accounts, separately for each Department, should be made available to Members of Parliament annually for their information.

The Ministry of Defence had observed (Nineteenth Report, 1955-56, Volume I pages 104-105) as follows :—

In consultation with Audit, the question of the separation of the accounts department-wise of the Hindustan Aircraft Limited was examined. A complete separation of the initial accounts of each department was found to be impracticable in the existing set up of the Factory organisation and the structure of the financial and cost accounts maintained by the Company. However, to achieve the object in view, Hindustan Aircraft Limited will prepare a statement annually after the close of the financial year showing department-wise the total sales, actual expenditure incurred and the profits made (both gross and net). Copies of the statement would be submitted to the Public Accounts Committee.

Proposal to delegate powers to officers at various levels to dispose of Audit objections

R 42. The Committee note that the bulk of the outstanding audit objections relate to the M.E.S. During the course of evidence given by him before the Committee the Engineer-in-Chief raised an important point viz., that delegation of powers to the Officers at various levels to dispose of on the spot unimportant objections arising out of minor breaches of rules and regulations etc. would go a long

way in reducing the number of outstanding objections. The Committee commend this suggestion for consideration not only by the Ministry of Defence but all major spending Ministries as this measure would undoubtedly lead to the expeditious settlement of the majority of the outstanding objections and save considerable time and money, both in the Audit and Executive Offices.

The question is still under the consideration of the Ministry of Defence.

FIFTEENTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1954-55 ON THE APPROPRIATION ACCOUNTS (CIVIL) 1950-51 AND AUDIT REPORT (CIVIL), 1952—PARTS I AND II ETC.

Presentation of Advance Audit Report in case of delay in Compilation of Appropriation Accounts

R 2. The Committee and Comptroller and Auditor-General have for some time felt dissatisfied with the frequent delays in the compilation of the Appropriation Accounts. Mention has been made in para 5 of the Report on the Accounts of 1947-48 (Pre-Partition) of the proposal that important financial irregularities should be brought to the notice of the Committee in advance of the formal Appropriation Accounts and Audit Report thereon. It was then felt by the Committee that such advance Audit Reports would enable them to consider cases of irregularities in time to enable effective action being taken.

At their subsequent discussions of the matter with the Auditor-General it was decided that whenever any delay was anticipated in the completion of the Appropriation Accounts, the Comptroller and Auditor-General might present an advance Audit Report to be described as Audit Report, Part I, dealing with cases involving financial irregularities, losses of public money due to fraud, negligence or nugatory expenditure and criticisms and comments thereon.

NOTE:—See P.A.C. 1947-48 (Pre-partition) R-5. (Epitome Volume I)

Bhakra-Nangal Project

R 5. During their examination of the action taken by Government on the recommendations made by the previous Committee in their Seventh Report in so far as it related to the Bhakra-Nangal Project, an Inter-State River Valley Project financed by means of funds advanced by the Centre to three participating States and which is under the overall charge of the Bhakra Control Board consisting of the representatives of the Central Government and the three participating States, a question was raised about the scope and extent of their control over the expenditure incurred on the execution of this Project. Committee's attention was drawn to a reported decision of the Punjab Cabinet which held that they (the Committee) had no jurisdiction over the Accounts of this Project. While the Committee agree that the provision for the expenditure on the construction of the project is made in the Budgets of the respective States and the concerned Appropriation Accounts are presented to those State Legislatures and the examination of these Accounts comes within the purview of the respective Public Accounts Committees, nevertheless, it is obvious that to the extent that the Central Government and the Officers under the Central Government are actually involved in matters concerning the project, their actions and transactions cannot wholly escape the scrutiny of Parliament and, therefore, of the Central Public Accounts Committee.

P 184. At the outset, the representative of the Ministry of Irrigation and Power informed the Committee that they had been treating the Bhakra-Nangal Project as a Central Project. Although strictly it could not be treated as such. He said that the project was under the control of a Board *viz.*, the Bhakra-Control Board on which

the three participating States viz., Punjab, Rajasthan and PEPSU and the Centre were represented. He added that the Centre which advanced money to the participating States for executing the Project should know that it was not frittered away by them and to that extent the Central Government should keep a watch and if the Committee desired that a financial statement should be submitted to them in regard to this project, they would do so hereafter.

P 185. The Comptroller and Auditor-General informed the Committee that the Accountant-General, Punjab was in overall control of auditing the entire expenditure incurred on this Project and he submitted his Reports to the Public Accounts Committee of the Punjab State Legislature. In reply to a question, the representative of the Ministry of Irrigation and Power stated that the Control Board was in over-all charge of all technical and financial aspects of the project, the actual work of construction being carried out under the direction of the Control Board by the Chief Engineer concerned of the State in which the work lay, except that in respect of the construction of the Bhakra Dam and appurtenant works which lay partly in Punjab and Bilaspur, the work would be done by the Chief Engineer, Punjab. These State Governments, were, therefore, answerable to their respective Accountants-General and Legislatures in respect of such expenditure.

Intervening, the Comptroller and Auditor-General pointed out that the Project had got a Chief Accounts Officer, who, for administrative purposes, came under the control of the Finance Department of the Punjab Government, but there was an understanding that if there was a disagreement, between him and the Finance Department, then, the matter would be referred to the Control Board and though the Chief Accounts Officer of the Project was under the control of the Punjab Government, he could not be overruled if there was a difference of opinion and that must be discussed in the Control Board. He added that the entire accounting was centralised in the hands of the Chief Accounts Officer though the expenditure might be incurred by the three different States. The A.G., Punjab was also responsible for seeing that the quantum of expenditure was apportioned between the three States in accordance with the agreed decision of the Control Board.

P 186. The Comptroller and Auditor-General further pointed out that there should not be any overlap in the functions of the Public Accounts Committees of the Centre as well as the States in the matter of examination of the Accounts relating to this Project. He suggested that the Irrigation and Power Ministry should annually place before the Committee a note dealing with the policy and financing of the Project and the progress made in its execution and if the Committee desired, he would comment upon it and then they could examine the Ministry on those points. The representative of the Ministry, however, suggested that the constitutional position might be examined regarding the propriety of the Central Government going into the details of a State Project. He said that the amount advanced was in the shape of a loan and not a grant and it was the State Legislature that voted the funds for expenditure in that State. He, therefore, urged that it might be examined as to whether it was open to the Central Public Accounts Committee in the existing constitutional set-up to go into the accounts of the States. The Committee expressed

the view that the Central Government which advanced the loans should see that the money was utilised properly. It was also pointed out that the Minister for Irrigation and Power had always been answering questions relating to this Project as and when asked in the Parliament.

Expeditious compilation of Appropriation Accounts.

R 10. The Committee view with much concern the delay that occurs in the matter of regularising such excesses. They consider that in order to make Parliamentary control over expenditure more effective, the excesses over grants and charged appropriations together with the reasons therefor should be placed before Parliament expeditiously so as to enable them to review the regularisation thereof. But before this can be done, the accounts of a financial year have to be finally closed within a few months of the close of the year and this in turn depends on the early settlement of all Exchange Accounts and Remittance transactions and also on the punctual reconciliation of entire accounts with the departmental accounts. The Committee would strongly urge that a serious view should be taken of delays in the acceptance of debits and charges and in the reconciliation of accounts and also of delays in offering explanations for savings and excesses. It is these delays that cumulatively account for the ultimate delay in the preparation of Appropriation Accounts and their consideration by the Public Accounts Committee on behalf of Parliament.

Copy of Government of India, Ministry of Finance (Department of Economic Affairs) Office Memorandum No. F. 10(18)-B/56, dated the 18th June 1956.

SUBJECT:—Expeditious compilation of Appropriation Accounts

It has been brought to the notice of this Ministry, that the failure of the administrative authorities in supplying in time essential information to Accounts Officers, such as explanations for the variations, acceptance of the Appropriation Accounts, etc., is mainly responsible for the delay in the compilation of the Appropriation Accounts. The Public Accounts Committee have also, in para 10 of their Fifteenth Report strongly urged that serious notice should be taken of the delays in the acceptance of debits, reconciliation of accounts and offering of explanations for savings and excesses.

2. The need for expeditious disposal of the Appropriation Accounts, including their examination by the Public Accounts Committee and subsequent regularisation by the Parliament can hardly be over-emphasised. The Public Accounts Committee, have pointed out that in order to secure effective Parliamentary control over expenditure it is of utmost importance to get the excesses over the Grants and Appropriations regularised by Parliament as expeditiously as possible and soon after the close of the accounts of the year to which they relate. This in turn depends upon the early acceptance of debits, punctual reconciliation of accounts and prompt furnishing of explanations for variations in the Appropriation Accounts to the Accounts Officers. The undersigned is, accordingly directed to request that these instructions may be impressed upon all those dealing with the acceptance of Appropriation Accounts. In this connection attention

is also invited to the provisions of rule 107 of General Financial Rules Volume I. The Accounts Officers are also being asked to bring to the personal notice of the senior administrative authorities, all cases of undue delays in dealing with the Appropriation Accounts.

Control over Capital Grant and surrender of funds thereof.

R 13(b). * * * * * The Committee desire that the Ministry of Finance should issue general instructions that the Ministries controlling larger Capital Grants should conduct a review of the progress of expenditure every quarter, and during the last few months of the financial year, every month. This would enable them to surrender funds in excess of requirements and avoid lapse of funds; alternatively, if the provision appeared inadequate, they can approach Parliament for further grants in time. Further, a review of this kind will enable the Ministries to regulate the flow of expenditure and check rush of expenditure in the closing month of the financial year which, in the Committee's experience, is a feature always attaching to expenditure on Works.

Copy of office memorandum No. F. 14(18)-EH(A)/56, dated the 24th October 1956, from Government of India, Ministry of Finance to all Ministries of the Government of India, etc.

SUBJECT.—Review of expenditure relating to Capital grants

The Public Accounts Committee have from time to time been emphasising the need for a proper review of the progress of expenditure being conducted by the Ministries with reference to the sanctioned grants placed under their control in order to ensure that the sanctioned grants are at no time exceeded, that all anticipated savings are surrendered to Government as soon as they are foreseen without waiting till the close of the financial year which results often in avoidable lapsing of funds and that timely steps are taken to cover where necessary, anticipated excesses over the grants with supplementary grants duly voted by Parliament. The attention of the Ministries is invited in this connection to the detailed procedure prescribed in paras 88 to 98 of the General Financial Rules, Volume I as further reiterated in this Ministry's D. O. to all Ministries No. F. 2(11)-Co/51 dated the 7th December 1951 (on pages 2-3). All controlling officers administering a grant are required normally to conduct a review of the progress of the expenditure from month to month with reference to the sanctioned grants so as to keep a close watch over the trend of excess or savings therein from time to time. The Public Accounts Committee have further desired in their Fifteenth Report that all Ministries controlling large capital grants should be required to conduct a review of the progress of expenditure every quarter and during the last few months of the financial year, every month. The Ministries of Home Affairs, etc. are requested to take steps to ensure that in future, in the case of large capital grants under their administrative control, such a review is conducted by the Ministry concerned regularly every quarter and during the last few months of the financial year, every month and also to see that all anticipated clear savings in the sanctioned grants are surrendered as soon as they are foreseen without postponing action till the closing stages of the financial year and the consequential lapses in the appropriations.

NOTE:—See P.A.C. 1947-48 (Post-partition), R-4 and First Report, 1951-52, R-18 and P. 150.

17—5 Compt. A. G./58.

Secret Service Expenditure

R14. The Committee came across a re-appropriation of Rs. 56,000/- to the sub-head "Secret Service" from out of the savings in other sub-heads under this grant. Secret Service Expenditure is not subject to audit. They feel that although the re-appropriation in question might be in order under the existing rules, it seemed to be wrong in principle because it had the effect of increasing without Parliamentary sanction the quantum of expenditure not subject to audit. The Committee feel that either the present rule for reappropriation of funds within a grant should be subject to the qualification that no reappropriation shall be permissible if it has the effect of increasing the quantum of un-auditable expenditure or in the alternative all Secret Service expenditure of the various departments should be shown under sub-heads under one grant meant exclusively for Secret Service expenditure.

Copy of Office Memorandum No. F.2(121)-B/54, dated the 1st June 1956, from the Government of India, Ministry of Finance, New Delhi, to the Comptroller and Auditor General of India, New Delhi etc. etc.

SUBJECT.—*Secret Service Expenditure*

The Public Accounts Committee in para 14 of their 15th report observed that the existing procedure whereby reappropriation could be made with the approval of the Finance Ministry to meet additional expenditure on Secret Service had the effect of increasing without Parliamentary sanction the quantum of expenditure not subject to audit. The Committee suggested that either no reappropriation should be permitted if it had the effect of increasing the quantum of un-auditable expenditure or in the alternative all Secret Service Expenditure of the various departments included in one Grant meant exclusively for Secret Service Expenditure.

2. The suggestions made by the Public Accounts Committee have been carefully considered in consultation with the Comptroller and Auditor General of India. The conclusion reached is that the existing procedure for making the provision for Secret Service Expenditure and for meeting expenditure therefrom will continue with the modification that no re-appropriations to the sub-head covering Secret Service Expenditure, which would have the effect of increasing the provision for this expenditure by 25 per cent, would be permissible without prior consultation with the Comptroller and Auditor General. The Comptroller and Auditor General has informed the Public Accounts Committee of this conclusion, which the Committee have accepted as satisfactory.

3. Under paragraph 9(b)(ii) of the Book of Financial Powers, re-appropriations to and from the provision for Secret Service Expenditure require the consent of the Finance Ministry. As Audit would not accept re-appropriations which increase the provision for Secret Service Expenditure by 25 per cent or more, the various Division of the Finance Ministry are expected to obtain the approval of the Comptroller and Auditor General before sanctioning such re-appropriations. For this purpose, it would be necessary to communicate confidentially to the Deputy Comptroller and Auditor General, by name, the brief reasons which have led to the excess.

Cess Funds

R15. The Committee note that there exist at present a large number of Funds created in the past, to which are credited the net proceeds of the Central cesses and surcharges levied on specified commodities viz., Tea, Coffee, Salt, Coal, Cotton, Rubber etc. for the benefit of the industries concerned. But most of the Acts constituting these Funds were passed before the commencement of the present Constitution. The Committee feel that it would not now be constitutionally in order to levy a cess and constitute a separate fund from the proceeds thereof for an earmarked purpose, as under Article 266 of the Constitution, all revenues received by the Government of India and all loans raised by that Government and moneys received by that Government in repayment of loans shall form *one* Consolidated Fund entitled the 'Consolidated Fund of India'. No revenue can be diverted into any other fund nor can separate compartments be created within the Consolidated Fund. It would be manifestly impossible for Parliament to exercise any close control over the administration of public finance, if the system of assigning particular receipts for specified purposes prevailed. Further, such earmarking would turn out to be bad budgeting as there is no direct correlation between the amount of such taxes which are ultimately paid by the general consumers and the actual requirements for the development of the Industry concerned.

* * * * * All expenditure from any such so-called Fund would be subject to the direct vote of Parliament. The Committee desire that Government should take early steps to implement this suggestion.

APPENDIX XVI TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT, 1957-58, VOLUME II

Copy of Government of India, Ministry of Finance (Department of Economic Affairs) Memorandum No. F. 5(34)-BII/55, dated the 31st March 1958.

SUBJECT:—Cess Funds

In para 15 of their Fifteenth Report, the Public Accounts Committee have observed that it is not constitutionally in order to levy a cess and constitute a separate Fund from the proceeds thereof for an earmarked purpose, as under Article 266 of the Constitution all revenues received and all loans raised and all money received by Government in repayment of loans shall form *one* Consolidated Fund. Further the Committee have felt, that the system of assigning particular receipts for specific purposes prevents the Parliament from exercising control over the administration of public finances. The Committee also desired that all expenditure out of such separate Funds should be subject to the direct vote of Parliament.

2. The Government of India have carefully considered the points raised by the Committee and their views are set out in the following paragraphs.

3. Legislation imposing a tax and earmarking the proceeds for a specific purpose raises two issues. The first is one of the propriety of such legislation and the second whether the earmarking is consistent with the provisions of the Constitution relating to financial procedure.

4. The propriety of raising specific taxes for specific purposes really raises a matter of fiscal policy of which the Parliament is the ultimate judge. It is not unusual for particular industries to be taxed for the benefit or development of that industry (e.g. cesses on Coal for the welfare of coal miners or the protection of the mines, an export cess on mica for the welfare of mica miners) and for existing revenue to be augmented by cesses for specific purposes i.e. the benefit of local bodies (e.g. cesses on land revenue for education).

5. On the second point it has to be remembered that all Parliamentary laws are subject to the provisions of the Constitution and cannot override them. So long as the taxes raised are credited to the Consolidated Fund and funds for the expenditure to be met from such taxes are made available by appropriation from the Consolidated Fund and expenditure by executive authorities of such funds is, at the appropriate stage, voted and controlled by Parliament, no real issue of constitutional impropriety would seem to arise. In fact, the provision for earmarking in such legislation is no more than the embodiment in law of Parliament's desire that certain sums of money the amount of which is determined with reference to the yield of certain taxes should be made available to and spent by the executive on a particular purpose. The provision in the law cannot be construed as authorising withdrawal from the Consolidated Fund except under the normal procedure for such withdrawal prescribed by the Constitution. In recent enactments the provision for expenditure for which specific taxes are raised, makes it clear that the taxes should be credited to the Consolidated Fund and Government may thereafter pay out of such proceeds such sums, etc. c.f. section 26 of the Tea Act, 1953, section 14 of the Coir Industry Act, 1953. Section 13 of the Coffee Act, 1942, as amended is even more specific and makes the payment subject to the provision of appropriation by law of Parliament. Indeed, even mandatory payments under the Constitution (e.g. the pay of Supreme and High Court Judges under the Second Schedule) are not treated as overriding the procedural provisions in Article 114 of the Constitution for the withdrawal of money from the Consolidated Fund.

6. As regards Parliamentary control over the expenditure from *ad hoc* funds, the position is as follows :—

(a) If the Funds are administered by autonomous authorities set up by statute, the transfer to the Funds, under the vote of Parliament and subject to the necessary appropriation under Article 114, represents final expenditure, as Parliament, by creating such Funds by law, has divested itself of the responsibility for scrutinising the expenditure further. The bodies administering these Funds have separate legal personalities of their own and their expenditure cannot be treated as expenditure of Government to be accounted for in the Consolidated Fund.

(b) In the case of funds set up under executive dispensation, the expenditure from them is brought before the Parliament in exactly the same manner as expenditure met from the Consolidated Fund, except, that a sum equal to the actual expenditure is transferred from the Public Account to the Consolidated Fund as lump sums have already been paid out of the Consolidated Fund. The actual expenditure, when incurred,

is subject to Parliamentary vote and appropriation and Parliamentary control on it is as complete as in respect of expenditure finally debited to the Consolidated Fund. Unspent amount of the provision for such expenditure in each year lapses in the same way as provision for other expenditure.

7. The propriety of appropriation of moneys from the Consolidated Fund for transfer to funds set up under executive authority has also been raised on the ground that such transfers do not really constitute expenditure. So long as the Constitution recognises the existence of the Consolidated Fund and the Public Account within the Government Account, transfers from one to the other are constitutionally expenditure of the Fund or the Public Account as the case may be. Over a wide field such transfers are made between the Consolidated Fund and the Public Account as part of the existing accounting and financial arrangements such as payments into depreciation and other reserve funds in commercial and semi-commercial departments. Within the Consolidated Fund itself moneys are sometimes withdrawn to be paid back into it, as for example the payment of the dividend by Railways (which have no statutory existence and no separate Consolidated Fund) to General Revenues, adjustments between capital and revenue in respect of commutation of pensions and adjustments of interest between General Revenues and commercial departments. If withdrawals from the Consolidated Fund are limited only to final expenditure it would completely upset the existing accounting system, and place the commercial departments, like Railways on a purely cash accounting basis.

8. After a careful examination of the problem the Finance Ministry are of the view that so long as *all* taxes levied by *any* law are initially brought to account within the Consolidated Fund as revenue and all payments of equivalent sums to any fund or body are made by appropriation from the Consolidated Fund and all expenditure out of *ad hoc* funds under the control of the executive are initially treated as expenditure from the Consolidated Fund and remain subject to the ordinary process of voting and appropriation by Parliament, the expenditure being reimbursed from the Fund to the Consolidated Fund, the procedure conforms to the essential requirements of the Constitution and secures full parliamentary control.

Transfer of Sterling Pensionary liability to the U.K. Government

R18. The Committee discussed with the representative of the Ministry of Finance the important political and other implications of the contemplated transfer of the work connected with the disbursement of Pensions to the British Personnel (Civil and Military) who had served the Government of India, together with the liability therefor to the U. K. Government. They were then informed that the details thereof, such as calculation of the actuarial value of the pensions, payment of Indian Income-tax on such pensions etc. were being worked out. At that time, the Committee expressed some concern whether the contemplated arrangement did not deprive the Government of India of their hold on the pensioner whose *future good* conduct was a *sine qua non* for the continued payment of the pensions. The representative of the Ministry of Finance, however, pointed out to the Committee that this aspect was taken into account before the decision to transfer the work to the U. K. Government was taken.

R19. The Committee now note, that the Government of India have agreed to transfer to the Government of United Kingdom, with effect from the 1st April, 1955, the control, administration and payment of pensions and other liabilities to or in respect of persons who have served the Crown, payable out of the Consolidated Fund of India or of the Consolidated Fund of the States in the Union of India. The Government of India have undertaken the responsibility to pay any instalments of pensions in respect of periods prior to the 1st April, 1955, which remain unpaid on the date of transfer. In consideration of the acceptance of this transfer, the Government of India have agreed that payment of the annuities purchased from the Government of the U.K. under arrangements agreed upon between the two countries in July, 1948 for the purpose of meeting the sterling pensionary obligations of the Dominion of India and the Provinces (now States) thereof shall cease after payment of the instalment due on the 1st March, 1955.

R20. For their part, the Government of the United Kingdom have undertaken that the balance of the principal portion of the debt in respect of annuities referred to above remaining outstanding on the 31st March, 1955, after deduction of the capital value on the 31st March, 1955 of the estimated future cost of the pensions and other liabilities transferred to the United Kingdom, shall be repaid to the Government of India in 10 instalments on the 1st April of each year commencing from 1955—the first of such instalment to be paid on the 1st April, 1955. Under these arrangements, interest on the balance outstanding from time to time at the rate of 1 per cent. per annum will be payable on the same date as the payment of instalments. Provision has also been made under this agreement for the payment of a capital amount to be agreed upon in respect of Indian Income-Tax which the Government of India would have recovered on these pensions had the responsibility for the payment of these pensions and other liabilities not been transferred to the Government of the United Kingdom.

R21. The following two issues emerge from the arrangement now agreed upon by the Government of India in regard to the transfer of all their liabilities for the payment of pension to British personnel, civil and military, to the United Kingdom Government :

- (i) the computation of the capitalised value of the Income-tax due to the Government of India on the sterling pensions; and
- (ii) the reckoning of interest on balances outstanding from time to time at the rate of 1 per cent. per annum.

R22. While there would be no difficulty in computing the capitalised value of the pensions on an actuarial basis, the Committee are not clear in what manner the capitalised value of the income-tax leviable on the sterling pensions would be arrived at, particularly in the face of two unpredictable features, namely, the future rates of Income-tax and the total world income of the assesseees (pensioners), where they had opted to be assessed on the basis of world income.

The Committee also understand that such of these non-resident pensioners who had not opted for being assessed on the basis of their world income were liable to super-tax at the minimum rate of 2 As.

10 Pies in the rupee up to 31st March, 1955 but that the effect of the Finance Act of 1955 is to reduce this minimum rate by one-half. The Committee fail to see the justification for making this reduction and would like to be informed of the financial effect of this reduction on the settlement to be reached with the Government of U.K.

On the 12th August, 1948, the then Finance Minister, the late R. K. Shanmukam Chetty, in moving a demand for capital outlay on sterling pensions, made it clear that though Sir Stafford Cripps, the Chancellor of the Exchequer, pressed upon the Indian delegation the advisability of completely transferring India's liability to the British Government so far as pensioners were concerned in return for a lump sum payment, the demand was resisted on two very good reasons, namely, first, the transfer of responsibility to the British Government would imply a lack of confidence in India's integrity in regard to their pensioners, and secondly, India must retain the power to deal with individual pensioners if they have not proved, by their conduct, their loyalty to the country which they had served. It is not understood why these two very valid and cogent reasons have been disregarded in making the new settlement.

R23. As regards the rate of interest, the Committee feel that, in a financial settlement like this, the rate should bear some relation to the prevailing rates in the market which, for short-term loan, is reported to be at present in excess of 2 per cent. The Committee trust that the Ministry of Finance would carefully examine the above points and take all possible measures to safeguard the financial interests of the country.

Copy of Government of India, Ministry of Finance (Department of Economic Affairs) Memorandum No. F. 10(43)-B/56, dated the 4th April 1957.

Para 21 of the Fifteenth Report, i.e. S. No. 13 of Appendix II to that Report—Sterling Pensions.

- (i) What were the considerations that really weighed with the Government for adopting one per cent rate of interest for computing the capitalised value of the pensions?
- (ii) If there was a definite understanding between the two Governments on the calculation of the capitalised value on a basis other than the normal basis why was it not mentioned in the agreement itself?

2. This question has to be considered against the background of the settlement reached with the U.K. Government in 1948, under which, in return for two capital sums, the Government of India were to receive tapering annuities to cover Sterling Pension payments of the Central and State Governments in India, over a period of 60 years ending 2007-2008, the capital sums having been arrived at on the basis of a rate of interest of 1% per annum. The determination of the capital sums involves two processes; first the determination of the probable sums payable each year on account of the pensions on a diminishing scale until the pensions cease altogether; the second the determination of the present value of these future payments. The first process does not involve the application of any rate of interest. It is merely an estimate of the payments likely to be made each year. The second involves the application of a rate

of interest which in 1948 was assumed to be 1 per cent. This rate itself, it may be mentioned, was somewhat higher than the rate earned by the Sterling balances as a whole at the time or the rate that could be earned on those balances under the Sterling Balances Agreement of 1948.

In the 1948 settlement the first calculation was done not on the actuarial basis but on the basis of a rough estimate of payments diminishing ultimately to zero over a period of 60 years and the present value of these future payments was then computed assuming an interest rate of 1 per cent. Now we are merely revising the first estimate of future payments by an actuarial calculation made with reference to all the individual pensions in payment and likely to be made in respect of a few officers continuing in service and also the allowances existing and prospective, to wives, children, widows and orphans.

We are not re-opening the basis of the second process which involves the application of a rate of interest. It is for this reason that there was no need to mention any rate of interest to be assumed in calculating the present value of the pensions. In fact, the final transfer of pensionary liability did not, in the view of the U.K. Government necessitate any substantial modification of the 1948 agreement but only an *ad hoc* adjustment within its framework. They only contemplated that the annual further payments to the pensioners should be calculated on an actuarial basis and that each year the Government of India should pay to the United Kingdom Government or be paid the difference between the amounts thus worked out and the sums payable to the Government of India by the United Kingdom Government under the 1948 agreement. In other words, the United Kingdom suggestion did not envisage any further capitalisation at this stage. If their proposal had been accepted, financially, the Government of India would have stood in exactly the same position as they now stand, the transactions still remaining spread over the long period ending in 2007 A. D. Against this background the Government of India felt that it would be an advantage if the transaction could be closed at an earlier stage and the capital sum recalculated on the same pattern as in 1948 but substituting for the estimated further payments the sums actuarially worked out. This had also the further advantage that sums receivable under the U.K. proposal annually over a long period would be received by the Government of India in a much shorter period, subsequently settled at ten years. The settlement between U.K. and this country whose implementation would have dragged on over the next 50 years would now be completed in the next seven years. The Government of India pressed for a *higher rate of interest but, the U.K. Government contended* that the present settlement was only a telescoping of the 1948 arrangements and any question of a change in the basis of the agreement could not arise. The only practicable alternative was to leave the original arrangements undisturbed. But the Government of India accepted the new arrangement maintaining the rate of interest at 1% as it was tidier and was also financially advantageous.

3. So far as the refund of the excess amount due to India is concerned, on the revised basis the sum became immediately payable. But, as the U.K. Government wished to pay it in a limited number of instalments, the question of the interest to be paid by them arose

and it was agreed that this should be one per cent. This arrangement had to be mentioned in the revised agreement because, although it was a connected transaction, the arrangement for paying the sum due to India in instalments could be treated as a new and separate factor.

Amortisation arrangements of debt.

R24 (i). The Committee note that at present there is no planned scheme for the amortisation of the Public Debt of the Central Government. A lump provision for Rs. 5 crores is made out of revenue every year for avoidance or reduction of debt. As credit for this provision is taken to a Deposit head which closes to Government, it is effectually utilised for avoidance rather than reduction of debt. The Committee observed that the provision of Rs. 5 crores every year for amortisation purposes was very inadequate and further this amount was not being funded. They were informed by the representative of the Ministry of Finance that out of the total debt of the Central Government on account of regular loans which stood at Rs. 1,400 crores, Rs. 700 crores was unproductive debt and that if they were to take this amount of Rs. 700 crores and try to amortise it over a period of thirty to forty years, they would have to provide out of revenues something like Rs. 20 crores a year which would upset the Revenue budget completely and that the resulting deficit would have to be covered by borrowing.

NOTE:—See P.A.C. 1944-45, P 24 (Epitome Volume I).

Arrangements for recoveries of loans from States.

R24 (ii). The Committee consider that as huge sums of money are being advanced by the Centre to the States for financing their developmental expenditure, the Centre should see that adequate arrangements for repaying these loans in time were made by the States. The Committee should like to know, in due course, the concrete steps taken by the Ministry of Finance in this respect.

APPENDIX XVII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1957-58, VOLUME II

Copy of Government of India, Ministry of Finance (Department of Economic Affairs) Memorandum No. F. 5(36)-BII/55, dated the 9th November 1956.

In para 24 of their Fifteenth Report, the Public Accounts Committee observed that, as huge sums of money were being advanced by the Centre to the States for financing their developmental expenditure, the Centre should see that adequate arrangements for repaying these loans in time were made by the States.

2. Under Rule 244 of the General Financial Rules, Volume I. watch over the punctual repayment to the Central Government of principal and interest on the loans advanced to the State Governments is kept by the Accounts Officers who are required to report to the Government of India promptly the defaults, if any, in such repayment. This rule also provides that on receipt of such a report, the latter should immediately take steps to get the defaults remedied. The sanctioning authority is also competent to enforce a penal rate of compound interest upon all overdue instalments of interest or principal and interest and, if a penal rate is enforced, it should

not, except under special orders of Government, be less than 8 per cent per annum. The Government of India feel that these provisions have worked satisfactorily and that by and large, except in the case of certain rehabilitation loans, where the question of sharing of losses with the State Governments is under correspondence with them, there have been no major defaults in the repayment of loans or interest due thereon by the State Governments. These provisions do not, therefore, call for any modifications.

3. The bulk of the loans are made for productive purposes. In fixing the terms, therefore, due account is taken of the likely return on the projects concerned. Proceeds of Betterment Levy, if any, are also required to be earmarked for the repayment of the loans to the Centre. In the context of the large outlays necessitated by the implementation of the Plan, it is considered that contributions from ordinary revenues of the States in addition may not always be practicable and would merely add to their revenue deficits which have also ultimately to be met from further borrowings.

Income-tax concessions in anticipation of legislation

R28. In August, 1950, Government decided to introduce legislation so as to exempt from taxation the "Death-cum-Retirement Gratuity" payable under the Revised Pension Rules. But before the law was amended, they issued orders in January, 1952 to all disbursing officers that pending legislation they should not deduct tax at source at the time of paying the gratuity. Orders were also issued to the Income-tax Department that if tax had already been deducted at source refund should be given. In January, 1951, Government introduced the 3½% Ten Year Deposit Certificate Scheme by declaring that the interest on the deposit would be completely exempt from tax. Since these irregularities were pointed out by Audit, it has been observed that Government have, in connection with the new scheme of 15 years annuity certificates, again repeated the irregular practice and announced that the interest would be exempt from taxation.

The grant of these concessions by executive orders in anticipation of legislation was illegal being in excess of powers *vide* Section 60(3) of the Income-tax Act.

In all these cases it was not proper to presume Parliament's approval in advance, and the Committee trust that, in future, Government would desist from giving or announcing such unauthorised concessions prior to legislation.

The Public Accounts Committee for 1955-56 (Sixteenth Report 1955-56 Volume II page 41) were informed that the Ministry of Finance had noted the recommendation.

"Letter of Intent" and Contract.

R34. In this case, Government entrusted the Reema Construction Company of U.K. with the construction of nine blocks of pre-fabricated hospital buildings as a demonstration of their Patent System of construction, claimed to be cheaper, quicker and more durable than the traditional methods. The work was given to the Company in September, 1949 without any formal agreement. A letter from Government addressed to the Company in September, 1949 was taken as the "Letter of intent" and the Company's reply as

the "Acceptance". In terms of this, the Government agreed to pay the Company a fixed sum of Rs. 2.66 lakhs as "overheads". Normal processes of audit could not be applied during the execution of the work as copies of neither the 'letter of intent' nor the estimates were furnished to them.

It was urged by the representative of the Ministry of Finance before the Committee that as it was intended to be purely a demonstration contract, the rigorous terms of a formal C.P.W.D. contract were unsuitable for this undertaking which was of an experimental nature. All payments, he added, were covered by proper sanctions to advances.

If the 'letter of intent' constituted the agreement enabling the Government to make these advance payments, the Committee fail to understand why the Ministry of Law were not consulted before its issue, as required under the existing rules for transaction of Government business, and why a copy of this was not communicated to Audit in the same manner as other contracts are ordinarily communicated as, for all practical purposes, it took the place of the contract. Such a course would have enabled Audit to scrutinise the terms under which payments were to be made to the British firm. The Committee recommended that such a procedure should invariably be observed by the spending Departments in future.

The Ministry of Works, Housing and Supply (Seventh Report-1957-58, Volume II page 36) had observed as follows:

It was the intention to show the draft of the formal agreement when ready both to the Ministry of Law and to Audit. However, the discussion with the firm did not lead to a formal agreement and the matter had, finally to be settled on the basis of the letter of Intent as collateral evidence of the understanding between the parties. Necessary documents have since been furnished to Audit.

Waiver of recovery of rent from the Council of Scientific and Industrial Research.

R37. In this case, the recovery of rent for the period from March, 1948, to March 1950 amounting to Rs. 1,16,659 due from the Council of Scientific and Industrial Research was waived by Government by Executive orders. The Ministry of W. H. & S. have explained that the recovery was waived as Government would otherwise have been obliged to make a matching grant in case it was insisted upon. The effect of this was that the specific vote of the Legislature was not obtained for the payment of this grant to the Council. In the opinion of the Committee, it was wrong in principle to have bypassed the Legislature in this case, thus vitiating the very essence of Parliamentary control over Public expenditure.

The Public Accounts Committee for 1955-56 (Sixteenth Report 1955-56 Volume II page 47) were informed that the Ministry of Works, Housing and Supply had noted the recommendation.

Audit of Accounts of the Visva Bharati University

R43. The Committee of 1952-53 had pointed out that although provision existed in the Acts of Banaras, Delhi and Aligarh Universities for the audit of their Accounts by the Comptroller and Auditor-General of India, the Visva Bharati Act provided that the accounts of the University are to be audited "according to the directions

of the Central Government". The Committee, therefore, wanted to know the reasons for placing the Visva Bharati University on a different footing from other Central Universities in respect of the audit of its accounts. In a note (Appendix XIV) submitted to the Committee the Ministry have stated that the idea that the accounts of the Visva Bharati should statutorily be audited by the Comptroller and Auditor-General did not occur to the Government (in the Ministry of Education) at the time the Visva Bharati Bill was drafted. The Acts of the other Central Universities were amended later and it was, therefore, decided to make provisions in this respect. The Ministry have, however, stated that early opportunity will be taken to amend the Visva Bharati Act so as to bring it in line with the other University Acts, so far as audit by the Comptroller and Auditor-General is concerned and also to make a statutory provision for submitting the Audit Reports of the Comptroller and Auditor-General on all the Central Universities to Parliament.

APPENDIX XIV TO THE PUBLIC ACCOUNTS COMMITTEE'S FIFTEENTH REPORT 1954-55 VOLUME II

MINISTRY OF EDUCATION

The Public Accounts Committee were informed of the facts regarding the audit of the accounts of the Central Universities. It was pointed out that provision exists in the Acts of Banaras, Delhi and Aligarh Universities for the audit of their accounts by the Comptroller and Auditor-General of India. In case of Visva-Bharati the Act provides that the accounts of the University are to be audited, "according to the directions of the Central Government". The P.A.C. wanted to know the reasons for placing the Visva-Bharati University on a different footing from the other Central Universities, in respect of provision for Audit of its accounts.

2. It may be noted that the idea that the accounts of the Visva-Bharati should statutorily be audited by the Comptroller and Auditor General of India did not occur to Government (in the Ministry of Education) at the time the Visva-Bharati Bill was drafted. The Acts, of the other Central Universities *viz.* Aligarh Muslim University, Banaras Hindu University and Delhi University, were amended later and it was then decided to entrust the audit of the accounts of these Universities to the Comptroller and Auditor-General.

3. There is however no difference in fact, for the accounts of all the four Central Universities *are being actually audited* under the directions of the Comptroller and Auditor-General of India.

4. The Comptroller and Auditor-General has, however, pointed out that in the case of the Visva-Bharati University his audit responsibilities ought not to be based on an executive arrangement and that in the case of all the four Central Universities there should be statutory provision for submitting the audit reports to Parliament in order to enable Parliament to be satisfied that the grants-in-aid have been properly utilised.

5. The views of the Comptroller and Auditor-General of India have been noted. Effect will be given to them when the University Acts are next amended.

NOTE.—See P.A.C. First Report 1951-52, R36 and P100.

Audit objections should not be dealt with by the officers responsible for the irregularity.

R 44. ***** The Committee note that Government have since issued orders to all their Officers that in every case in which an audit objection has been raised concerning irregular claims or action of officers, the officers concerned with the alleged irregularity should never themselves deal with the objection but should submit the papers to higher authorities.

**APPENDIX XV TO THE PUBLIC ACCOUNTS COMMITTEE'S
FIFTEENTH REPORT 1954-55 VOLUME II**

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6. The Cabinet Secretariat has taken the following steps to remedy the defects, which, it is felt, might have contributed, to some extent, to these irregularities being committed, so far as the Cabinet Secretariat is concerned :—

- (i) The Administration Branch which is responsible for the preparation of pay bills, has been instructed to ensure that all deductions for house-rents, etc., are made, before the bills are passed. If it is discovered that no demand statement for rent was received from the Estate Officer, it is their duty to take it up immediately with the Estate Office.
- (ii) All audit objections relating to irregularities of serious nature, such as, defalcations, culpable negligence, etc., should be *ab initio* brought to the notice of Secretary for immediate action.
- (iii) Audit objection relating to the officers of and above the rank of Under Secretary should immediately be reported to the Deputy Secretary/Secretary.
- (iv) All concerned in the Administration Branch have been instructed not to deal with their personal cases.
- (v) Whenever an officer is granted an advance for the purchase of a car, the fact that the usual formalities prescribed in the rules have been complied with has to be reported to Secretary within the specified time.

Warranty clause in Contracts.

2. Finance Ministry should settle differences between Ministries

R49. In 1948 condensed milk was purchased by the Ministry of Food on an indent from the Ministry of Rehabilitation for consumption at various refugee camps in the country. The milk turned out to be bad and had to be destroyed. It resulted in a loss of about rupees one lakh to the Government. The Public Accounts Committee considered this matter at their sittings held on the 28th and 29th October and 2nd November 1954. Since there was no agreed decision between the Ministries concerned, i.e., the Ministries of Food & Agriculture, Rehabilitation and Health, about the responsibility for the loss, the Committee directed that the matter should be examined by the Ministry of Finance and a note sent to them apportioning responsibility for the loss on the Ministries concerned. They note that since there was no warranty clause in the contract the Government's case for recovering any damages from the firm named Khadi

Pratisthan, Calcutta was weak. The Rehabilitation Ministry pointed out that the firm had given in a separate letter a warranty of three months. A letter was written by the Food Ministry to the Khadi Pratisthan asking them to show cause why they should not be made to bear the loss, but their reply was that the Food Ministry while placing orders for the milk stated that the stores would be accepted if found in good condition on examination on arrival at destination. Having not examined the second lot immediately on arrival, the Food Ministry were not in a position to take advantage of the firm's responsibility for delivering the stuff at consignee's end in good condition. The Committee agree with the conclusions arrived at by the Ministry of Finance that if an examination on arrival had been done, it was probable that, as in the case of the first lot, a portion of which was also found unfit for human consumption on account of deterioration, the Khadi Pratisthan would have agreed to take back the damaged portions of the second lot also.

The Committee recommend that the Ministry of Finance should issue general instructions for the guidance of all the Ministries that in case of all such contracts, the warranty clause should invariably be provided in the agreement and in case of failure on the part of the contracting party to supply the stuff according to the specifications laid down in the agreement, this clause should be invoked.

APPENDIX LXXXVI TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1957-58, VOLUME II

Copy of Government of India, Ministry of Finance, Office Memorandum, No. F. 14(11)-E. II(A)/56, dated the 30th August 1956.

SUBJECT.—Warranty clause in contracts

An instance has been brought to notice, *vide* the Fifteenth Report of the Public Accounts Committee, where, in the absence of a warranty clause in a contract executed by a Ministry for the purchase of a perishable store, like condensed milk, a loss due to deterioration of the stuff after receipt had to be borne by Government. In this case, the article had not been inspected immediately or within a reasonable time of its receipt, at destination, as contemplated in Rule 3 of the Rules prescribed for the supply of Articles required for public service (Appendix 9 of General Financial Rules, Vol. II). Apart from providing in the contract a clause fulfilling this requirement contemplated in Rule 3 referred to above, it must be ensured, in the case of perishable stores, that a separate warranty clause is also invariably provided on the lines indicated in a specimen form of warranty clause enclosed herewith.

2. To ensure effective use of this clause, it is essential that the Ministries, etc. should arrange not only for prompt inspection of the consignments of stores immediately on their receipt from the suppliers, but also for subsequent test checks at suitable intervals within the period of the warranty clause. The Ministries of Food & Agriculture, etc. are requested to issue necessary instructions to this effect to their subordinate administrative authorities also.

Model form of Warranty Clause

The contractor/seller hereby declares that the goods/stores/articles sold to the buyer under this contract shall be of the best quality (and workmanship) and shall be strictly in accordance with

the specifications and particulars contained/mentioned in the clause _____hereof and the contractor/seller hereby guarantees that the said goods/stores/articles would continue to conform to the description and quality aforesaid for a period of _____days/months from the date of delivery of the said goods/stores/articles to the Purchaser and that notwithstanding the fact that the Purchaser (Inspector) may have inspected and/or approved the said goods/stores/articles, if during the aforesaid period of _____days/months the said goods/stores/articles be discovered not to conform to the description and quality aforesaid or have deteriorated (and the decision of the Purchaser in that behalf will be final and conclusive) the Purchaser will be entitled to reject the said goods/stores/articles or such portion thereof as may be discovered not to conform to the said description and quality. On such rejection the goods/articles/stores will be at the seller's risk and all the provisions herein contained relating to rejection of goods etc. shall apply. The contractor/seller shall, if so called upon to do, replace the goods etc. or such portion thereof as is rejected by the Purchaser otherwise the contractor/seller shall pay to the Purchaser such damages as may arise by reason of the breach of the condition herein contained. Nothing herein contained shall prejudice any other right of the Purchaser in that behalf under this contract or otherwise.

Purchase without competitive tenders

R50. In this case, an officer specially deputed by the Government for negotiating certain purchases in U.S.A. made independent negotiations for purchase of equipment from a firm without consulting the India Supply Mission, Washington. On the basis of this officer's negotiations, the Ministry communicated its acceptance of the price direct to the firm and later on sent an indent to the Supply Mission, Washington with the suggestion that the order may be placed on the firm. The Ministry is reported to have forbidden the Mission from inviting tenders.

The Committee desire that it should be firmly laid down that whenever any officer is sent abroad for procuring supplies etc., he should follow the normal procedure of associating with the Head of the Supply Mission in that country before starting any direct negotiations with the manufacturers or suppliers there. Further, Ministries should not enter into commitments with foreign manufacturers or suppliers direct without the intervention of the Supply Mission or any other Organisation set up by Government.

The Public Accounts Committee for 1955-56 (Sixteenth Report Volume II—Page 53) were informed that the recommendation had been noted by all the Ministries.

Recruitment through the agency of Employment Exchanges.

R55. *** The Shiva Rao Committee have recommended that the obligation on Government employers to notify vacancies should apply equally to firms engaged on Government contracts, to undertakings in which Government are shareholders and to establishments which have received aid, subsidy from Government. Although, just as the Ministry have pointed out, this recommendation will not impose an obligation on P. W. D. and other contractors to actually recruit workers through the Exchanges, yet they feel that the obligation to

notify their vacancies will encourage contractors to utilise the services of the Exchanges to a greater extent, which, in turn, will lead to the loosening of the grip of jobbers on such labour and would also make it possible for 'Government to observe the degree of compliance with the Minimum Wages Act in this field of work.' The Committee suggest that the Ministry of Works, Housing and Supply and other big spending Ministries like the Railways, Defence and Posts and Telegraphs Department should, in consultation with the Ministry of Labour, examine the proposal to insert a mandatory clause in all the contracts coming within their purview whereby the contractors should notify vacancies to the Employment Exchanges. (See also P.A.C. Seventh Report 1957-58, R203.)

Maintenance of National Employment Register.

R56. The Committee note that so far no effective steps have been taken by the Ministry of Labour for keeping track of the ex-trainees. They feel that when Government are spending considerable sums of money for the training of skilled labour, they must see that the trainees were properly utilised. The Committee should, therefore, like to impress upon the Ministry the desirability of evolving a scheme for better follow-up of the trainees immediately after their discharge from the Training Centres. As one of the means to achieve this end, the Committee suggest that the Employment Exchanges Training Organisation should maintain a National Register of persons trained by them so that they might know where a person was employed after training and whether the manpower resources were being fully utilised for the economic advancement of the country. (See also U.A.C. Seventh Report, 1957-58 R204).

The Ministry of Labour and Employment had observed (Seventh Report 1957-58 Volume II—page 29) as follows :—

The record-card of each passed out trainee which should be maintained by the Training Centre has been prepared and the State Governments to whom the administrative control of the Training Centres has been transferred have been requested to instruct the authorities concerned under them to maintain the cards.

Payment of foreign allowance in the currency of the country and abolition of Exchange Compensation Allowance.

R60. The Committee note that the Ministry have taken steps to tighten up the procedure by clarifying the instructions regarding remittance facilities to Officers and staff serving in Indian Missions and by setting up a strong Foreign Service Inspectorate which would be visiting all the Missions. As one of the measures to prevent the recurrence of such irregularities in future, the Committee would suggest that the Foreign Allowance of the Officers concerned should be fixed in the currency of the countries in which they are serving and Exchange Compensation Allowance abolished.

The Ministry of External Affairs had observed (Seventh Report 1957-58 Volume II—pages 361-362) as follows :—

The proposal regarding the fixation of foreign allowances in foreign currencies involves practical difficulties which have a bearing on the existing budgetary arrangements. Since foreign currencies are liable to fluctuations, the rupee value of the foreign allowances,

if fixed in local currencies, would become liable to unforeseen variations, thus rendering budgetary and financial control difficult. The Foreign Service Inspectors are at present engaged on the work of revision of foreign allowances on a more rational and realistic basis with a view to relate them to the cost of living in foreign countries. This has been done in the case of a large number of missions, yet some work still remains to be completed. The system of Exchange Compensation Allowance has already been abolished in the case of missions where foreign allowances have been revised and similar action is proposed to be taken in respect of the remaining few missions.

Sindri Fertilisers and Chemicals Ltd.

R80. For the convenient administration of the Sindri Factory, a State-owned private limited Company known as the Sindri Fertilisers and Chemicals Ltd., was registered under the Indian Companies Act on the 18th December, 1951 and started functioning in effective charge of this undertaking from the 15th January, 1952. All the shares of the Company are held by the Central Government.

The Committee desired to know whether the approval of Parliament was obtained to the conversion of this concern into a limited company. In a written note furnished to the Committee (Appendix XXXI), the Ministry have stated that Parliament's vote was obtained for appropriation of certain monies for purposes of expenditure on the Fertiliser Factory which was run as a Government Departmental Undertaking at the time such vote was obtained. The contemplated conversion of the Sindri Undertaking into a limited concern was, however, mentioned in the Explanatory Memorandum of 1951-52 and the actual transfer was also mentioned in that Memorandum for the following year. They have further contended that the transfer of assets to the Company was really in the nature of disposal of Government properties which is within the power of the Executive and did not require further authority of Parliament.

The Committee do not agree with this view. They observe that the Government assets were transferred to the Fertiliser Company in return for shares and debenture scripts of the Company. They consider that the transaction amounted virtually to a sale of Government assets to the private company and simultaneous investment of the sale proceeds in the shares and debentures of the Company. Thus a specific vote of Parliament to cover this investment was necessary.

P343. The Committee next dealt with the question of constituting State undertakings into Private Limited Companies. The discussion centred round the legality of such action in the light of the opinion of the Attorney-General that such an act on the part of Government was constitutional and legal. The representative of the Ministry observed that Government derived the necessary legislative powers by passing of the Industries (Development and Regulation) Act, 1951 by Parliament and the executive powers of participation in those industries enumerated in the said Act, automatically followed. It was pointed out by some members that the above Act should be read with Entry No. 52 of the Union List in the VII Schedule to the Constitution and should not be interpreted to mean that

it conferred powers on the Central Government to hold shares in and to manage and participate in those industries. The words "Control of Industries" in Entry No. 52 should not, in their opinion be deemed to include "participation" in such industries, as has been done by Government. Specific authority by legislation would be necessary for the Central Government to participate in this manner in Industries, the control of which by the Central Government is declared by Parliament by law to be expedient in the public interest under Entry No. 52 referred to above. The Committee desired that this matter should be re-examined in this light and the opinion of the Attorney-General sought again.

APPENDIX XXXI TO PUBLIC ACCOUNT COMMITTEE'S FIFTEENTH REPORT 1954-55, VOLUME II.

MINISTRY OF PRODUCTION

(i) SINDRI FERTILISERS, LTD.

Was the approval of Parliament obtained to the conversion of this concern into a limited Company? If so, in what manner?

In the 1951-52 budget, Parliament's vote was obtained for appropriation of certain monies for purposes of expenditure on the Fertilizer Factory which at the time such vote was obtained was a Government undertaking. The expenditure authorised by such appropriation was incurred for the purpose it was meant. During the course of the year, the Factory with all its assets was handed over to the Sindri Fertilizers and Chemicals Ltd. of which the Central Government is the sole shareholder, and the total outlay till the date of the transfer was treated partly as share capital held by Government and partly as a loan to the Company from the Central Government. After such transfer, any cash required by the Company from the Government has been given only in the form of loans. During 1951-52 itself a loan of Rs. 1.89 crores was given to the Company and this money was found by reappropriation of funds.

2. The transfer of assets to the Company was really in the nature of disposal of Government properties which is within the power of the executive and does not require prior authority of Parliament. Nor was the loan of rupees one crore made to the company during 1951-52 a case of a "new service", since the grant of loan to industrial concerns has been a normal and recognised service. In any case, the transfer of the assets to the Company did not constitute "expenditure" out of the Consolidated Fund of India, either on a new service or otherwise, and the question of obtaining Parliament's approval through a specific demand for grant did not arise.

3. The contemplated conversion of the Sindri undertaking into a limited concern was, however, mentioned in the Explanatory Memorandum of 1951-52 and the actual transfer was also mentioned in the Explanatory Memorandum of the following year. Thus para 6 of the note on Fertilisers Factory, Sindri, in section III of the Explanatory Memorandum for 1951-52 reads as follows :—

"It has been decided to place the management of the factory under a State-owned private limited company. Action to implement the decision has been initiated".

The decision was in pursuance of a Government decision on the best form of management for State enterprises.

4. Similarly paras 4 and 5 of the note relating to Factory in Section III of the Memorandum for 1952-53 read as follows :—

“4. In accordance with Government's policy of placing State industrial enterprises under limited companies with boards of Directors, this factory has been placed under a private limited company called “Sindri Fertilizers and Chemicals Ltd.” with an authorised capital of Rs. 30 crores. Out of the sum spent by the Government of India on this factory a sum of Rs. 17 crores will represent the issued, subscribed and paid up capital of the Company. The balance of the sum will be secured by redeemable debenture bonds issued by the Company. Six directors have been appointed for the new company of whom three are officials and three non-officials.

5. The budget for next year provides a sum of Rs. 3 crores as a loan to the new company”.

In 1952-53 it was made clear by providing under the Capital Head ‘Capital Major Head 72 (Demand 132) other Capital Outlay—Ministry of Works, Production and Supply’ that different sub-major heads were being introduced (A) capital expenditure on factories and (C) investment in Government commercial undertakings with further sub-heads thereunder to make provision for the inclusion of sums for voting in the case of companies that already existed and for undertakings expected to be formed in the period.

6. In the 1952-53 budget, specific provision was made for a loan of Rs. 3 crores to the company in the Demand for Loans and Advances by the Central Government which was voted by Parliament.

The Ministry of Finance (Economic Affairs) had observed (Sixteenth Report 1955-56 Volume II—pages 65-66) as follows:—

This question has been carefully considered in consultation with the Comptroller and Auditor General and it has been agreed that as and when a Government undertaking is converted into a State-owned Private Limited Company in future, specific approval of the Parliament should be obtained by means of a token vote or otherwise, for transfer of the Government assets to the new Company.

NOTE:—See P.A.C. 1947-48 (Post-partition) R8 etc. First Report 1951-52, R24 and Third Report 1952-53, R.5

Legislation to review concluded Contracts and to effect recovery of overpayment.

R90. The Committee would suggest that in order to safeguard the interests of the Public Exchequer, Government might consider the desirability of bringing before Parliament legislation empowering them to review concluded contracts and to effect recovery of demonstrably excessive or unconscionable payments made as a result of ignorance, oversight, ineptitude, incompetence or corruption on the part of the agents of Government. The Committee understand that even in U.S.A. certain war-time contracts were subjected to such legal discipline. There is no reason why when so many large schemes are being rightly pushed ahead by Government with a sense of

urgency paralleled by that which prevailed during the war, the war-time safeguards for which precedents can be found should not be adopted. If the proposed legislation is enacted, it would not only safeguard the Public interest, but would effectively deter speculative attempts on the part of the contractors to quote exorbitant rates as a "try on".

Provision for Bad and Doubtful Debts in the accounts of Rehabilitation Finance Administration

R102. The Committee note that no provision has been made in the accounts for 'bad and doubtful debts', although a provision of Rs. 5 lakhs was made for the first time in the Balance Sheet for the year ending 30th June, 1954 only. They suggest that the Corporation should devise a formula in consultation with the Ministry of Finance and the Comptroller and Auditor-General for determining the quantum of 'bad and doubtful debts', provision for which should be made in the annual Balance Sheet of the Corporation. (See also *Seventh Report, 1957-58, R140*).

Writing off debts requires Parliament's approval.

P141. In reply to a question whether it was within the powers of the Government to write off debts without sanction of the Parliament the Auditor-General observed it would not be proper to do so as writing off would require an appropriation. (See also *Twenty-third Report, 1956-57, R-94*).

Mention of financial control exercised on the Capital projects executed out of Central assistance in the Budget Memorandum

P148. The Committee also desired that in regard to Capital projects executed out of Central assistance, the Centre should see that the machinery set up to supervise and control the financial side of the project was adequate; a detailed note indicating the position in this respect should be furnished in the Explanatory Memorandum to the annual Central budget in respect of such projects.

Sanctioning grants towards the end of the Financial year should be avoided.

P180. The representative of the Ministry of Finance, stated that to avoid sanctioning such grants or allotment of money towards the end of the financial year, the Ministry had issued instructions to other Ministries to progress these cases for which fund had been provided in the budget in the first quarter of the financial year itself so that grants could be allotted in due time and actually spent on the purpose.

The matter is still under the consideration of the Ministry of Finance.

NOTE:—See P.A.C. 1923-24, R-25. Epitome Volume I.

SIXTEENTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE, 1955-56 ON THE APPROPRIATION ACCOUNTS (CIVIL) 1951-52 AND AUDIT REPORT, 1953 AND AUDIT REPORT (CIVIL) 1954—PART I

Prompt action on Public Accounts Committee's recommendations

R 5. (Introduction). The Committee regret to observe that although a period of more than 6 months (even 7 or 8 months in some cases) has elapsed since they had asked the various Ministries whose accounts were examined by the Committee to furnish them written notes on a number of points which emerged directly as a result of the Committee's deliberations or those which the Committee could not cover for want of time, the requisite information on quite a number of such points has not been submitted to them so far. The Committee view with disapproval such delays on the part of the Ministries in furnishing them with the necessary information. The Ministries should realise that such delays considerably hamper the expeditious working of the Committee and in many cases prevent the Committee from giving their decisions in time. It is needless to emphasise that the Committee should consider the important transactions involving serious financial and procedural irregularities etc. and formulate their conclusions before they become stale and lose their importance with the passage of time. The Committee desire that the Ministries concerned should deal with such requests from the Committee for the supply of information with utmost promptitude and invariably furnish the same to the Committee within a period of one month unless the circumstances in a case are such as to warrant a longer time and even in such cases the Committee should be apprised of these.

NOTE:—See P.A.C. 1929-30, R-21; 1933-34, RII, 15; 1944-45, R-9 (Epitome Volume I) and Fifth Report 1952-53, R-38 of this Volume.

Copy of Office Memorandum No. 118-PAC/56, dated the 7th May, 1956, from the Lok Sabha Secretariat to all Ministries of the Government of India, etc.

Recently there have been occasions when notes/memoranda called for by the Public Accounts Committee on points raised by them during the course of their examination or in their earlier Reports were not received by them till a couple of days before the meeting of the Committee fixed for consideration of these notes/memoranda. In one case the note was received only on the morning of the date of the meeting. This leaves hardly any time for the Members of the Committee to study these notes/memoranda which are in some cases technical and voluminous, especially when the members are also busy with other Parliamentary work during the Session.

2. The Committee therefore desire that the Ministries/Departments should be prompt in sending replies to points raised by the Committee or information called for by this Secretariat. Delays in submitting the information hampers the work of the Committee considerably. Normally, such replies should be sent to the Committee within a month, and in case any delay is anticipated, the reasons therefor should be intimated to the Committee in advance.

Regulation of excess due to misclassification in Accounts.

R 7. In a note (Appendix III) to the Committee explaining the reasons for the excess, the Ministry of Finance stated that they and the Comptroller and Auditor General were agreed that this expenditure should have been correctly classified as 'voted' and not as 'charged'. If the correct classification had been adopted in the accounts, the Ministry pointed out, there would have been no excess as there were sufficient savings to meet this expenditure in the 'voted' portion of this Grant. While normally excesses brought out in Appropriation Accounts presented to Parliament should be regularised in the usual manner as enjoined in Article 115 of the Constitution, in the Ministry's opinion—

"it would be extremely inappropriate for Government to approach Parliament for an Excess Appropriation when the expenditure in question cannot legally and constitutionally be 'charged' on the Consolidated Fund of India that would be tantamount to the P.A.C. and Parliament becoming a party to the classification of this expenditure as 'charged' when it is legally a 'voted' item of expenditure."

They have, therefore, suggested that this item should be omitted while recommending to Parliament the regularisation of excesses brought out in the Appropriation Accounts.

The Committee appreciate the views of the Ministry and after discussion with the Comptroller and Auditor General are disposed to accept the position that each case of excess or saving reported in the accounts should be examined in the light of any information subsequently made available to the Committee, whether by a Ministry or the Comptroller and Auditor General. The Committee, should, therefore take account of any established misclassification in the Appropriation Accounts, which either attracts or avoids the necessity for regularisation by Parliament in making their final recommendations in this behalf.

**APPENDIX III TO THE PUBLIC ACCOUNTS COMMITTEE'S
SIXTEENTH REPORT, 1955-56 VOL. II.**

MINISTRY OF FINANCE

Department of Economic Affairs

*Note Regarding the Excesses in the Grants and Appropriations for
1951-52 relating to the Ministry of Finance*

The excess expenditure is on account of an erroneous adjustment in the books of the Chief Accounting Officer to the High Commissioner of India in London in respect of the arrears of leave salary paid to the late Mint Master, Calcutta, for the period 13th August, 1947 to 25th November, 1947. The Chief Accounting Officer has explained that the adjustment was made on the basis of an incorrect advice given by the Accountant General, West Bengal.

2. Under Section 247(4) of the Government of India Act, 1935 as originally enacted the salary and allowances of any person appointed to a Civil Service or a Civil post by the Secretary of State were

'charged' on the revenues of the Government of India or of the State as the case may be. With the omission by the India (Provisional Constitution) Order, 1947, of Sub-section 4 of this Section this expenditure ceased to be so charged and became 'other expenditure' within the meaning of Section 33(2) (b) of the said Act as adapted. Further, as a result of the introduction of the new Constitution nothing which is not expressly covered by the provisions of Article 112(3) or 202(3) of the Constitution can be charged upon the Consolidated Fund of India or of the State as the case may be. The Comptroller and Auditor General of India and this Ministry are accordingly agreed that the leave salary (paid in 1951-52) of the late Mint Master should have been correctly classified as 'voted' and not as 'charged'. If it had been classified as 'voted' there would have been no excess as there were sufficient savings to meet this expenditure in the 'voted' portion. The Comptroller and Auditor General, however, is of the view that since the accounts for the year 1951-52 have already been finally closed and submitted to Parliament no further alterations are permissible at this stage and the accounts must, therefore, be assumed to be correct. Consequently he considers that regularisation of the excess in question under Article 115(1) (b) of the Constitution, although due to erroneous accounting, is inescapable as the Constitution makes no exception for such excesses. He has further stated that if the mistake in the present case had come to light after the Parliament's approval for regularising the excess there would have been no question of annulling the approval.

3. This Ministry finds it difficult to accept the views expressed by the Comptroller and Auditor General in this case. While normally the accounts once closed have necessarily to be treated as final and the excesses brought out regularised in the usual manner this procedure, it is felt, will not be suitable in the present case. This Ministry is of the view, which is supported by the Law Ministry, that it would be extremely inappropriate for the Government to approach the Parliament for an Excess Appropriation when the expenditure in question cannot legally and constitutionally be charged on the Consolidated Fund of India. That would be tantamount to the PAC and the Parliament becoming a party to the classification of this expenditure as 'charged' when it is legally a 'voted' item of expenditure. It is accordingly requested that in recommending to the Parliament the regularisation of the excesses brought out in the Appropriation Accounts, this item may be omitted and left uncovered.

Reappropriation of Funds to meet expenditure on a new service.

R-13(g) * * * From a note (Appendix III A) submitted to them, the Committee observe that both the Comptroller and Auditor General and the Finance Ministry are of the opinion that the term "new service" is not susceptible of precise definition and its application has necessarily to be governed by the evolution of a body of case-law. The Committee are one with the view that each case will have to be considered on its merits, and if there is any disagreement between the Comptroller and Auditor General and the Government, the case should be referred to them immediately for a ruling.

APPENDIX III-A**Re: Paragraph 16 of the Civil Audit Report, 1954, Part I***Re-appropriation of Funds to meet expenditure on a new service.*

In the course of examination of this paragraph before the public Accounts Committee, the Comptroller & Auditor General informed the Committee that, after obtaining the explanation of the Finance Ministry, he had treated the case as closed, but had merely brought the matter to the notice of the Public Accounts Committee through the medium of an audit paragraph.

The Finance Secretary then suggested that a ruling from the Public Accounts Committee on the scope of "New Service" would be helpful. It was agreed before the Committee that this question should be further discussed between the Comptroller and Auditor General and the Finance Secretary and a note submitted to the Public Accounts Committee.

The discussion between the Finance Secretary and the Comptroller and Auditor General has since taken place and both the Comptroller and Auditor General and the Finance Ministry are of the opinion that the term "New Service" is not susceptible of precise definition, and its application has necessarily to be governed by the evolution of a body of case law. So far as the Audit Department is concerned, a working rule has, however, been made for the guidance of officers when such a question comes up for decision. It was agreed that a "New Service" may be a new form of service or a new instrument of service. When expenditure is to be incurred on a new form of service, then in all such cases theoretically it should be held that the expenditure so incurred will be on a new service within the meaning of Article 115 of the Constitution. As regards a new instrument of service, it would be necessary to obtain an additional grant only if it is of major importance and entails appreciable expenditure. It would not be practical politics to insist on additional grant in respect of minor items of little financial significance. Exactly where the line of demarcation is to be drawn is, however, a matter which must be settled by case law. It was agreed that it would not be a practical proposition to attempt a definition of "New Service" as each case will have to be considered on its merits, and if there is any disagreement between the Comptroller and Auditor General and the Government, a ruling from the Public Accounts Committee will have to be obtained in regard to the specific case under reference.

Procedure for speedy consultation with Finance in urgent cases.

R 31. The Committee came across a case in the Labour Ministry where the financial sanction to a proposal was sought *ex-post-facto* on the plea of urgency, which Finance while according sanction demurred and rightly so. There the Committee have expressed the view that a procedure should be evolved for speedy consultation with Finance in urgent cases. The Committee think that the Ministry of Finance on their part should investigate the causes of delay in their internal procedure with a view to streamline it.

The Ministry of Finance had observed as follows :—

The Ministry have initiated certain steps for ensuring speedier consultation between administrative Ministries and Finance Ministry. The strength of Financial Advisers/Deputy Financial Advisers has been increased and instructions have been issued for greater collaboration between the administrative Ministries and the Financial Advisers on all important matters and in the cases of big schemes such consultation will start right from the scheme with a view to ensuring that financial concurrence is accorded expeditiously.

Processing of Financial proposals in the Missions abroad.

R 40. In the course of their examination, the Committee learnt that the Consul General did not report the surplus accommodation to Government until Audit drew the attention of the Government to this fact and that even after the extravagant scale of accommodation was called into question, the Consul-General attempted on 18th July, 1951 to justify this and also suggested that no reduction should be made when it was clear that both according to Indian as well as Washington standards the scale was excessive.

The Ministry have observed that Audit objected to this expenditure only in February, 1951 and, therefore, in March that year the Consul-General approached Government for *ex-post-facto* sanction.

The Committee are unable to appreciate the significance of the above statement. It is as much the responsibility of any public servant to ensure that unauthorised and wasteful expenditure should not be incurred. It should not be left for Audit to point out all irregularities. In this particular case the Committee were informed that Audit did in fact challenge this expenditure as early as December, 1949. The Committee are of the view that Government officers in responsible position should act in the best financial interests of Government and should not put forth as a plea for any act of irregularity committed by them, the failure of Audit to bring this fact to their notice. They would also suggest that in order to avoid recurrence of such cases, instructions should be issued to all Missions that financial commitments should be made only after consultation with the Financial Advisers attached to the Missions.

The Ministry of External Affairs had observed as follows :—

Noted. Financial Advisers are attached to the Indian Missions in Washington and London and detailed procedure has been laid down in regard to the processing of financial proposals of these missions. In respect of other Missions, the position is that financial proposals which exceed the powers of the Heads of Missions are required to be submitted to the Government for sanction.

Unauthorised advance payments made by Indian Missions abroad.

R 44. * * * * The Committee suggest that clear instruction should be issued to all disbursing officers in the Embassies that they would be held personally responsible for any unauthorised advance of Government money made by them.

Copy of Government of India, Ministry of External Affairs Memo. No. F. 44(41)-A-II/54, dated the 20th Sept. 1954.

SUBJECT.—*Unauthorised payments by Indian Missions to non-official Heads of Missions and other officers employed therein.*

Considerable difficulty has been experienced by this Ministry in the past in settling the accounts of non-official Heads of Missions and other officers working in Indian Missions abroad on their relinquishing charge of their posts. This was due to the fact that unauthorised payments to them or on their behalf had been made both by the Missions in which they were employed and those on the route of their return journey to India. It has, therefore, been found necessary to draw the attention of all concerned once again to the specific instructions contained in the following circulars issued by this Ministry :—

1. Memorandum No. F. 601-A/49, dated the 10th April '49.
2. Letter No. F.15(1)EI/50, dated 25th January, '50.
3. Memorandum No. F.18(90)-A/51, dated 5th April, 1952.
4. Memorandum No. F.3(2)A/51, dated 9th March, 1953.

(copies enclosed for ready reference)

It is requested that these instructions should, in future, be strictly followed and no payment should be made to or on behalf of the heads of Missions or other officers (whether officials or non-officials) and no advance of any kind made to them, except where such payments are covered by specific sanction of Government or are clearly admissible under a general rule. This precaution is particularly necessary in the case of persons who are about to relinquish charge of their posts and go out of Government employment. If any unauthorised or excess payment is made and the amount is later found not to be recoverable, the amount paid without authority or in excess may have to be debited to the personal account of the officer who may have been responsible for making the unauthorised payment contrary to Government orders.

The above instructions should be brought to the notice of all Heads of Chanceries and other Drawing and Disbursing Officers and should be carefully noted by them for their future guidance.

Copy of Government of India, Ministry of External Affairs Memorandum No. F. 601-A/49, dated the 10th April 1949.

SUBJECT.—*Utilisation of Government funds for unauthorised purposes*

Several cases of utilisation of Government funds for unauthorised purposes and of contravention of foreign exchange regulations e.g., purchase of stores at Government cost for supply to private individuals on the understanding that the price will be subsequently recovered, provision of passages for individuals from Government funds without prior sanction, unauthorised advance of cash to officials and issue of a certain amount of currency to private

individuals in exchange for currency of another country etc., have come to the notice of the Government of India. While there is no question of any improper motives behind such transactions, they nevertheless indicate ignorance of rules and of proper procedure. Such transactions are objectionable from two aspects :—

- (1) unauthorised use of Government funds on private account even though recovery from the individual is to be effected later, and
- (2) use by an individual of a Government Agency, foreign exchange is unintentionally avoided.

The Government of India wish to impress upon their Missions abroad that Government funds are not available for private purposes and in cases where such assistance may be necessary in emergent circumstances, full facts must be reported immediately to this Ministry for issue of necessary sanction.

Copy of letter No. F. 15(1)-EI/50, Government of India, Ministry of External Affairs, New Delhi, the 25th January 1950 to all Indian Missions and Posts Abroad.

SUBJECT.—*Disbursement of Pay, Allowances, Advances etc. to Government Servants.*

It has been brought to the notice of Government that some Missions disburse pay and allowances to Government servants without waiting for necessary authority for payment from the Government of India or the Audit Officer as required under the Rules, and pay advances to them or make payments on their behalf while passing through the stations where the Missions are located. In some instances officers passing through different countries drew advances of money from all the Missions in those countries. This practice is irregular and is contrary to the existing rules. The Indian Missions abroad are for the purpose of making payments on Government account, governed by the Government of India Financial and Treasury Rules. The disbursement of moneys by them are subject *mutatis mutandis* to these Rules. The Head of the Mission, or other officer authorised to make disbursements, has to discharge the duties and exercise the powers assigned to disbursing officers and is responsible for seeing that the general spirit of the regulation is observed. For example no payment can be made towards the pay, leave salary and allowances of a Gazetted Government servant until the Audit Officer has intimated the rate at which payment shall be made and the first pay bill of a Government servant, whether gazetted or non-gazetted, cannot be paid unless it is supported by a last pay certificate. Similarly no gazetted Government servant, can be paid an increased or a changed rate of pay, leave salary, fixed allowance, etc., unless the bill on which he draws it is accompanied by a letter of the Audit Officer authorising the amount to be paid.

In general no payment on any account can be made unless it is covered by some general rule or a specific sanction of Government.

Government servants and their families moving from one country to another are required to equip themselves with adequate funds and the necessary foreign exchange before undertaking the journey, and are not in the ordinary course entitled to draw advances from Indian Missions *en route*. If it is unavoidably necessary that an Embassy or other office of disbursement *en route* should make advances to him or payments on his behalf, the Government servant concerned should take steps in advance to obtain the necessary authorisation from the Government of India or the Audit Officer.

It is realised that it may not always be possible to anticipate requirements and obtain prior authorisation. In such cases if the Head of a Mission is satisfied that the payment of a sum of money to a Government servant, or on his account, is clearly due, and that distinct hardship will be caused if payment is refused on the score that the sanction of the Government of India or authorisation of the Audit Officer is wanting, he may authorise the minimum necessary payment and report the matter immediately to the Government of India and in case of Gazetted Officers also to the Audit Officer, together with the explanation of the circumstances in which the payment was considered to be unavoidably necessary.

It may please be noted that no payment should be made which does not conform to the spirit of the Treasury and General Financial Rules, and wherever possible prior sanction of the Government of India should be obtained in all doubtful cases. In this connection attention is invited to the instructions contained in the Government of India, Ministry of External Affairs circular memorandum No. 601-A/49, dated the 10th April, 1949, prohibiting utilisation of Government funds for unauthorised purposes.

Copy of Government of India Ministry of External Affairs, Memorandum No. F. 18(90)-A/51, dated the 5th April 1952, to All Missions and Posts abroad.

SUBJECTS.—*Financial irregularities committed by Missions.*

The Accountant General Central Revenues has brought to notice the following financial irregularities committed by some Indian Mission :—

1. *Disbursement of pay and allowances of Gazetted Officers without specific authority from the Accountant General Central Revenues :—*

Under the rules no payment can be made to gazetted Officers whether of regular pay and allowances or advances, without specific authorisation of the Accountant General Central Revenues. The non-observance of this rule has led to over-payments in the past. The claims of Gazetted Officers (except T. A. claims) should not be disbursed until specific authority of the Accountant General Central Revenues is received.

Item (2) : Payment of hotel bills, conveyance hire, etc., on behalf of officers passing through the foreign countries :

Wherever such payments have to be made they should be treated as advances to the officers concerned. The authority of such advances should be quoted against each item.

Item (3) : Payments on behalf of officers are sometimes made by Missions even after the issue of their last pay certificates:—

This should be avoided as far as possible, but if it becomes absolutely necessary to make such payments revised L. P. C. should be sent to the Audit Officer immediately, to enable him to adjust the amounts paid, properly.

Item (4) : Some officers drew advances against their pay and allowances for a few months without the authority of the Government of India or the Accountant General, Central Revenues. This is irregular. The orders contained in the Ministry of External Affairs Circular letter No. F.15(1)-E1/50, dated the 25th January, 1950 (on pages 277-278) should be strictly followed in future.

Item (5) : Some purely personal expenditure was incurred by Missions on behalf of Government servants. It has been stressed more than once in the Circular Instructions issued in the past that private transactions should not find a place in Government accounts.

Copy of Government of India, Ministry of External Affairs Memorandum No. F. 3(2)A/51, Dated the 9th March, 1953.

SUBJECT.—*Delegation of Financial Powers to the Government of India representatives abroad—grant of advances.*

With a view to avoiding delay and frequent references to the Government of India, the President is pleased to delegate to all Heads of Indian Missions and Posts abroad under the administrative control of this Ministry the powers to sanction advances of travelling allowance on tour and advances of pay and travelling allowance on transfer to Government Servants, including Temporary and Officiating Government servants whether Gazetted or non-Gazetted, serving under them. The advances of travelling allowance on tour will be subject to the conditions laid down in the General Financial Rules Volume I, (Rule 269), and the grant of advances of pay and travelling allowance on transfer will be subject to the following conditions:—

- (1) An advance of pay should be limited to one month's pay of the Government servant and should be recovered in not more than three monthly instalments. The amount of advance to a permanent Government servant should not exceed one month's substantive pay. In neither case should the advance include any allowance.
- (2) An advance of T. A. should not exceed the estimated amount of T. A. admissible to the Government servant, excluding charges which are paid direct from Government account e.g., cost of sea and air passage, and may be given in the currency in which the expenditure is to be incurred.

- (3) An advance should not be granted to an officer whose term of office is likely to terminate immediately after performing the journey, doubtful cases being referred to the Government of India.
- (4) In the case of a temporary Government servant, a surety should be obtained from a permanent Central Government servant before the advance is granted.

2. The powers delegated above should be exercised only when absolutely necessary and before sanctioning any advance, the Head of the Mission should satisfy himself that no risk is involved and that provision is made for adequate security for Government money.

Creation of Administrative Vigilance Division

R 58. The Committee understand that in pursuance of the Note on the measures for dealing with corruption in Public Services laid on the table of both Houses of Parliament in August, 1955, an organisation called the Administrative Vigilance Division headed by a Director (of the status of Joint Secretary) has been set up in the Ministry of Home Affairs in August, 1955. It is also noted that Vigilance Officers have been appointed in each Ministry or the principal attached and subordinate offices. The Committee welcome this step and trust that with the setting up of this organisation things would considerably improve.

MINISTRY OF HOME AFFAIRS

Measures for dealing with Corruption in Public Services—Creation of the Administrative Vigilance Organisation

Creation of The Administrative Vigilance Organisation

2. The Home Ministry * * * * *proposes that each Ministry should immediately nominate an officer, of at least Deputy Secretary's status, to be the Vigilance Officer in that Ministry, who, functioning under the direct control and guidance of the Secretary, will concentrate on this task. He will be expected to pay attention not only to the Ministry itself but also to its Attached and Subordinate Offices. To co-ordinate the work of the Vigilance Officers and to furnish the required drive and direction, a central agency to be called the Administrative Vigilance Division should be created in the Ministry of Home Affairs with a Director at its head and adequate staff to assist him. Subject to the over-all direction and control of the Home Secretary, the Director, Administrative Vigilance Division, will also supervise the working of the Special Police Establishment and see that investigations are conducted with vigour and speed. The distribution of functions will be as follows:—

A—Each Vigilance Officer will, with the assistance and guidance of his Secretary and under the leadership of the Director, Administrative Vigilance Division, be in charge of measures for the prevention, detection and punishment of corruption and other mal-practices in his Ministry and its Attached and Subordinate Offices in particular, he will see :

- (1) that the existing organisation and procedures are examined with a view to eliminate or minimise factors which provide opportunities for corruption or mal-practices,

- (2) that a system of regular inspections and surprise visits is planned and enforced for detecting failures in quality or speed of work which would be indicative of the existence of corruption or malpractices, and
- (3) that prompt action is initiated and pursued in all cases where reasonable grounds for suspicion of corruption or malpractices exist against any person.

B—The Director, Administrative Vigilance Division will maintain close liaison with the Secretaries and the Vigilance Officers of the Ministries and Departments :—

- (a) to ensure the implementation of the measures mentioned in A above,
- (b) to give guidance and assistance wherever needed to ensure that departmental enquiries are conducted with all possible speed consistent with due observance of procedural requirements, and
- (c) to ensure that due speed and vigour are maintained in the conduct of investigation and prosecutions entrusted to the Special Police Establishment.

Introduction of a satisfactory system of Exchequer control

R63. The Committee realise that the introduction of Exchequer control involved complete change of the present treasury and accounting procedure. They are, however, glad to note that until these changes could be brought about, the Comptroller and Auditor-General and Government have agreed upon as part of the scheme of departmentalisation of Accounts, a system of centralised payments by departmental Pay and Accounts Officers who would be responsible to see that no payment was made by them in excess of the grant or appropriation unless it was covered by a supplementary vote/appropriation or an advance from the Contingency Fund. The Committee were assured that this would secure the substance of what the Committee had in mind.

NOTE.—See P. A. C. Third Report, 1952-53, Para 5 Introduction and R. 2—3.

Subsidiary Accounts of the Central Research Institute, Kasauli

R 79. The Accounts under report disclose a continuing loss on the manufacturing side of this Institute. The Committee note that the prices of sera and vaccines manufactured at the Institute are under revision at present. The Committee are of the view that the Government of India should prepare manufacturing, trading and profit and loss accounts and balance sheet for the manufacturing side of the Institute so that one can have reliable and correct data to ensure that the prices of vaccines, sera etc., are not inflated unnecessarily.

The Ministry had accepted the recommendation of the Committee

Introduction of Cost Accounting System in the Films Division.

R 89. The Committee also enquired from the Ministry the principles governing the classification of expenditure on the production of "commercial" and "non-commercial" films as also the allocation of "overhead charges" incurred by the Films Division to these two heads. The Committee note that the accounting system followed

by the Films Division is the usual 'financial accounting system' and that there is no provision under this system for allocating the overheads. The Committee recommend that a proper cost accounting system should be introduced in the Films Division with effect from the current financial year to see that an effective check is maintained not only on the rise in production costs but also on the overheads which should bear reasonable relationship to the overall production cost.

While the Committee appreciate that number of films are meant for publicity purposes and the calculation of the element of monetary value might be beset with some difficulty, all that they have in view in making the above recommendations is that results of the financial side of the working of this Division on a commercial basis are presented to Parliament.

The recommendations were accepted by the Ministry of Information and Broadcasting.

Losses in the Publication of Radio Journals

R 90. In response to the Committee's request the Ministry furnished to them a note setting forth the various measures taken by them to reduce the cost of publication of the various Radio Journals. The successive Committees of Public Accounts of recent years have expressed concern over the continued losses in the publication of Radio Journals. The last Committee had expressed the hope that the opening of the space-selling unit would result in fetching more advertisement revenue and thus reduce the loss. This would, however, be reflected in the subsequent years' accounts. The Committee note that at present, the percentage of complimentary copies supplied as compared to the number of copies sold is very high. They would suggest that the need for issuing such a large number of complimentary copies should be carefully investigated with a view to reducing the number of copies to be printed. The Committee also endorse the recommendations made by the Estimates Committee in para 135 of their Twelfth Report that the publication of such of the journals which are not self-supporting should be stopped.

Copy of para 135 of Twelfth Report of the Estimates Committee of 1954-55

The journals *Awaz* (Urdu) and *Nabhovani* (Gujerati) have a circulation of only 1,600 and 700 copies respectively and Government incurred a net loss of about Rs. 18,500 and Rs. 10,000 annually on them. Considering the poor circulation of these journals, the Committee feel that the losses incurred on them are unjustified. They would suggest that in case it is not possible to make them self-supporting, the publication of these journals should be discontinued. Publicity of programmes may be done through the local Urdu and Gujerati newspapers who may be supplied regularly with the texts of the programmes.

The Ministry of Information and Broadcasting had observed as follows:—

Issue of complimentary copies of the Radio Journals is now to be regulated according to the following principles:—

1. *Supply to officers in the Ministry.*—The number of copies required for official purposes alone is to be supplied to the Ministry,

and that too, not to individuals either in office or at their residences. This will include the supply required for official purposes to other media units of the Ministry such as the Press Information Bureau, Directorate of Advertising and Visual Publicity, etc.

2. *Supply to the Directorate-General, All India Radio, and Radio Stations as Officers.*—Whatever number of the Radio Journals is required by them for official purposes in office is being supplied on payment which is effected through book adjustment.

3. *Supplies to individual officers for home use in connection with their duties.*—All officers connected with programmes and those who are required, for engineering purposes, to listen to the programme are to be given a copy for their home use, as the bulk of listening has to be done outside office hours. The copies will be supplied only to such personnel and none else will be given complimentary copies. This principle is to be applied to the Directorate-General, All India Radio and to the Ministry also. As the supply is made for the purposes of better execution of official duties by the staff, the price of the copies supplied should be recovered from A.I.R. through book adjustment.

4. *Supply to non-Official committees attached to A.I.R., or Radio stations for programme purposes.*—Members of such committees have the option to obtain a copy of 'Indian Listener', or of one of the language journals. As these members should know what A.I.R. programmes are, not only by listening to programmes of the stations to which they are attached but also by getting information from the Radio Journals of programmes from other stations also, supply of complimentary copies to them has to be retained.

5. *Supply to advertisers, newspapers etc.*—The number of copies which are now distributed through the Directorate of Advertising and Visual Publicity purely for the purpose of securing advertising business or to newspapers or foreign organisations has to be retained in the interests of business.

The position has already been explained to the Lok Sabha Secretariat in reply to para 135 of the Twelfth Report of the Estimates Committee extract enclosed (Appendix III).

APPENDIX III

It is necessary to consider the total circulation of all journals put together. That circulation amounts to 75,075 copies. The total number of radio licences in the country is 10,29,816 and this works to a percentage of 7.29 which is not a disappointing percentage considering the extent of literacy and the reading habits of the people in this country. The total number of copies of radio journals sold, namely 75,075 also compares favourably with the total number of 25 lakhs copies of daily newspapers sold in the country. If a comparative view of similar figures in Great Britain is taken, it would seem that the position is not so discouraging.

Precisely because reading habits are not similar in different linguistic groups of the country, it is all the more essential to consider the circulation of Journals together as one group. It is also necessary

to add to the volume of circulation the copies of Radio Publications like A.I.R. Selections, Prasatika and other pamphlets which are based on material broadcast by A.I.R. There are also other reasons of publicity for continuing the publication of the Journal "AWAZ" in Urdu. It is, therefore, not proposed to discontinue the publication of journals which are well established. Nevertheless, every effort is being made, as suggested by the Committee to pay greater attention to the question of making the journals self-supporting and for that purpose, not only better production standards of the journals but also a larger advertising revenue is being aimed at. The position will be reviewed at the end of this financial year, by which time sufficient experience will have been gained.

NOTE.—See P. A. C. First Report 1951-52, R-49 Seventh Report, 1952-53, R-44.

Purchase on behalf of a Non-Government Organisation

R 97. The Council of Scientific and Industrial Research is a registered society under the Registration of Societies Act, (XXI of 1860) and the administration of the affairs as well as funds of the Council have been entrusted to a Governing Body of the Council. The Council is allowed to make purchases through the Missions abroad without making advance deposits and the amounts spent by the Missions are kept under "Suspense" in Government accounts pending recovery from this Organisation. As it has not been possible for the Organisation to arrange for the expeditious settlement of the amounts due from it, Audit pointed out that the existing procedure involved the unnecessary locking up of Government moneys for considerable periods and suggested in May, 1951 that the payments for the expenditure incurred on behalf of the Organisation should be arranged by the Council directly without passing the transactions through Government accounts.

The Committee are aware that the entire expenditure on the Organisation is met out of grants from Government. In their opinion, this does not in any way mitigate the above irregularity. They are glad that at their instance the representative of the Ministry of N.R. & S.R. agreed to discontinue the existing procedure and fall in line with other State Undertakings such as Sindri Fertilisers Ltd., and the D. V. C., which were making payments direct for their purchases made from abroad.

Powers and Functions of the Council of Scientific and Industrial Research should be enacted by an Act of Parliament.

R 98. The Committee commented on the phenomenal increase in the expenditure and an all-round expansion of the activities of the Council of Scientific and Industrial Research since its inception about fifteen years ago.

The Committee hold the view that, as a matter of general principle, where it is desired that continuing functions involving substantial expenditure should be exercised by autonomous bodies like the Council of Scientific and Industrial Research the powers and duties to be exercised should be defined by specific statute. The Committee trust that Government would take the first convenient opportunity to embody the functions of the Council of Scientific and Industrial Research in a statute.

Grants to various Scientific Societies

R 99. At present, Grants amounting to several lakhs of rupees are being annually made to a number of scientific societies and institutions in the country. The Committee enquired into the basis on which these grants were determined. The representative of the Ministry stated that the grants were made on the requests made from the various organisations who prepared a plan of their future activities and submitted it duly supported by an audited statement of their accounts showing how the money had been spent during the previous year. The annual grant was released in instalments. The representative of the Ministry of Finance informed the Committee that they had under contemplation a scheme for making block grants for five years.

The Committee are of the opinion that payment of yearly grants is not best calculated to promote efficient economy and it would certainly be more beneficial to the societies and organisations in receipt of such grants, if these were determined on the basis of 5-Year period. The Committee also trust that when considering applications for grants from industrial research associations, Government will obtain sufficient information as to the financial position of the industry concerned in order to ensure that they make payments only in cases of proved necessity and that, in assessing the amount, they will have greater regard to the capacity of an industry to bear the cost of its own research.

The Ministry of Education and Scientific Research had observed as follows:—

The major Scientific Research Institutes and Societies are now required to submit to Government their programme of work for five year periods and after scrutiny, provisions are made in the Five Year Plans on the basis of programme as approved. The approved provisions are also intimated to the Institutes and Societies concerned so that they may lay out their programme of work and the connected expenditure accordingly. Provision in the budget is annually made by the Ministry for payment to these Institutes and Societies according to approved five year programmes.

The payment of grants-in-aid is, however, controlled in the usual manner as laid down in the financial rules.

This Ministry is not concerned with any research organisation set up by a particular industry; nevertheless the capacity of a research institute or society to raise funds for its activities from sources other than grants-in-aid from the Central Government are kept in view in fixing the grants for these Institutes and Societies.

Maintenance of initial accounts by the Departments.

R 113. The Committee learnt that Government did not consult the C. & A. G. before condoning the non-maintenance of regular accounts and regularising the expenditure incurred. They trust that in future Government would try to evolve in consultation with Audit, a simplified form of accounting in such cases where it would be

difficult, for some reason, to maintain elaborate and detailed accounts. Failure in the maintenance of initial accounts, which are prescribed by the Comptroller and Auditor-General, should be condoned only in consultation with the Comptroller and Auditor-General.

The recommendations had been noted by the Ministry of Rehabilitation.

**SEVENTEENTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE 1955-56, ON THE APPRO-
PRIATION ACCOUNTS (RAILWAYS) 1953-54**

Debits for supplies and services

R 7. During their discussion of the reasons for some of the important savings on voted grants (Grants No. 16 and 17—Open Line Works, Additions and Replacements respectively), the Financial Commissioner, Railways informed the Committee that this was due mainly to the fact that the supplies of rolling-stock which had been ordered from abroad and in respect of which provisions had been made in the budget for the year under review, did not materialise. In extenuation, he urged that the Railway Board had little or no control over this matter and they usually awaited the supplies up till the last moment.

The Committee are aware of the difficulties in the matter of preparing accurate estimates for store-purchases. Nevertheless, they would like to point out that uncertainties in supply position are not as marked as they used to be during the war and following years rendering every estimate for purchase of stores too wide of the mark. They would, therefore, once again reiterate their earlier recommendations that a suitable procedure should be devised by the large spending Ministries like the Ministry of Railways, whereby they should be able to ascertain, telegraphically if necessary, from the Purchase Missions abroad about the precise position in regard to the supplies within the financial year, and estimate the total requirements as accurately as possible. They are of the opinion that the position should improve if the Railway Adviser attached to the Indian High Commissioner in London is entrusted with the task of chasing the indents placed with the various suppliers and manufacturers in the U.K. and the Continent and thus keeping a constant progress check over them.

**APPENDIX XXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
FOURTH REPORT, 1957-58, VOL. II**

The causes leading to the lapse of funds in respect of the supplies have been analysed and it has transpired that the funds lapsed are mainly those for foreign payments for bulk orders for rolling stock placed abroad. With a view to narrowing down the variations in respect of such items instructions have already been issued to the various agencies of procurement abroad to prepare their forecasts very carefully and as accurately as possible, and to advise any major changes in their forecasts by the 10th March each year.

Notwithstanding all the difficulties pointed out by some of them they have been requested to furnish telegraphically in the third week of March every year important modifications to the previous forecasts so that the final modification may be as close to the actual as possible.

As regards the suggestion of the Committee that the Railway Adviser attached to the Indian High Commission in London should be entrusted with the task of chasing the indents placed with

various suppliers and manufacturers in United Kingdom and the Continent, it may be mentioned that the Railway Adviser functions in a purely technical capacity and his duties are in the nature of a consulting Engineer (i.e., clarifying specification, interpreting these to foreign manufacturers, accepting technical deviations and modifications etc. and prescribing standards of inspection). The work of progressing supplies against contracts placed is the responsibility of the contracting authority, namely, the India Store Department and they (India Store Department) will, as far as possible, comply with the instructions as brought out in paragraphs 2 and 3 of the note, and that the Railway Adviser to the High Commission will assist the Director General, India Store Department, who will indicate the position of supplies against different contracts monthly.

NOTE.—See P. A. C. 1943-44, R-21, 1944-45, R-7, (Epitome Vol. I) 1947-48 (post-partition) R-5 and R-15 (i) of this volume.

Execution of works without specific provision in the Budget.

R 8. It has been stated that 427 works were executed during the year, each costing Rs. 5 lakhs and over for which no specific provision was made in the Budget.

The Committee were given to understand that the Railway Board were vested with powers to provide funds by re-appropriation in such cases within the amount voted by Parliament.

The Committee appreciate that a certain amount of elasticity is necessary for the working of the system. They would, however, like to draw a distinction between the diversion of funds to a work already sanctioned by Parliament and diversion to one which has never been on the Budget Estimates. They, therefore, recommend that whenever any proposal is made to use the savings for the commencement of any new work not contemplated in the original budget a very jealous scrutiny should be exercised. The Committee would also invite attention to para 10 of their Thirteenth Report in this connection.

The Committee desire that in future Reviews, the Railway Board should in such cases split up the important savings into suitable categories e.g., non-receipt of supplies and/or debits therefor, slow progress of works etc. and give details under each category.

NOTE.—See P. A. C. Thirteenth Report, 1954-55 R-10.

The Public Accounts Committee 1957-58 (Fourth Report, 1957-58, Vol. I, page 59) were informed that the recommendation has been noted for compliance by the Ministry of Railways (Railway Board).

**EIGHTEENTH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE 1955-56 ON THE ACCOUNTS
OF THE DAMODAR VALLEY CORPORATION FOR
1952-53 AND 1953-54**

Commencement of Works without execution of Contract Documents

R 25. The Committee have more than once deprecated the practice of some Engineers to proceed with the execution of works without at first entering into any formal agreement with the contractors. They would like to reaffirm the view expressed by an earlier Committee that save in the most exceptional circumstances, no work of any kind should be commenced without the prior execution of contract documents. Such a course makes the liability of the Government wholly indeterminable and places the Government entirely at the mercy of the contractors.

The Ministry of Irrigation and Power (Third Report, 1957-58, Vol. II, page 40) had observed as follows :—

The views of the Committee have been brought to the notice of all Projects Authorities.

NOTE.—*See.*— P. A. C. 1942-43, R-7 (M. A. C.), R-19 and P. A. C. 1943-44, P-8. (Epitome Vol. I).

Para 12 of the Audit Report, 1953-54.—Decision to purchase equipment for projects should be taken at high technical level

R 36. The Audit Report has pointed out that in spite of existing instructions, the irregular practice by the Field Officers in not sending periodical indents regularly, which militated against bulk purchases being made economically, continued during the year under report.

Further, in spite of existing instructions to the contrary, the Field Officers continued to indent for articles of specified makes of equipment which not only tended to reduce competition among suppliers but also created difficulties in the maintenance and repairs of such equipment because of there being such a variety of makes.

In evidence, the Committee were informed that the Corporation had to go in for different makes of machinery and equipment in 1949 as machinery was in short supply at that time. A purchase procedure has since been laid down with a view to avoid this. The Committee are inclined to the view that in such cases, it would not be proper or advisable to leave it to the indenting officers to specify the makes; there should be co-ordination in the matter of purchase of the makes, types and sizes of the plant best suited for various types of work and also combination and matching of plant where more than one unit of plant is involved. The decision to go in for the best type of equipment should be taken at a high technical level. The dangers in individual indenting officers purchasing

a certain type of equipment according to their preferences are only too obvious. The Committee would like to draw attention here to the following extracts from para 2.08 of the Report of Construction plant and Machinery Committee:

“* * * * The importance of standardisation of a few well-trying items of construction equipment is well recognised, both from the technical and economical points of view. The absence of a master plan for plant planning is surpassed, on many of the projects, only by the indecisive mind as to the types, makes and sizes of equipment to purchase. Piecemeal purchases are made of equipment, which often have not matched with the previously acquired plant. * * with so much of indecisive planning, it is impossible to expect a high standard of performance.” •

In this case, the field officers in the D.V.C. made piece-meal purchases of specified makes of equipment which tended to reduce competition. The Committee wanted to know how these purchases were justified. The representative of D.V.C. stated that they decided to go in for specific makes of equipment in those cases where they had already got similar makes. He, however, agreed with the suggestion made by the Committee that the decision to buy a particular type must be taken at a high technical level and it should not be left to the indenting officers. On his attention being drawn to the observations made by the Construction Plant and Machinery Committee that the D.V.C. suffered from a multiplicity of equipment under each category, the representative of the D.V.C. assured the Committee that the Corporation had laid down a procedure for avoiding such things in future.

The Ministry of Irrigation and Power had observed (Third Report 1957-58, Volume II, page 45) as follows :—

A note furnished by the D.V.C. explaining the position is attached (Annexure XI).

Government are in agreement with the observations of the Plant and Machinery Committee made in para 2.08 of their Report. A Standing Committee of experts has gone into the question and made certain recommendations regarding the makes of equipment to be standardised. These recommendations have been circulated to State Governments and Project Authorities for adoption.

ANNEXURE XI TO APPENDIX VIII OF PUBLIC ACCOUNTS COMMITTEE'S THIRD REPORT 1957-58, VOLUME II

The recommendation made by the Public Accounts Committee is accepted in principle. As already stated, indents for specific make, if any, are not acted upon without calling for tenders to determine if any other machine conforming generally to the specifications is available at a cheaper cost and within the scheduled date of delivery.

So far as general purchases are concerned, the Chief Engineer should be regarded as “high technical level” whose opinion should be final and decisive in the matter of any conflict of opinion between the

indentor and the Controller of Purchase and Stores unless the Corporation thinks it necessary or desirable in a particular case to obtain a second opinion. Similarly, with regard to purchases of electrical equipment, the Chief Electrical Engineer's opinion would prevail but in cases of difference of opinion amongst the Engineers we generally consult the Board of Consultants (Power), which has been recently set up. In fact, in a few cases in the past and very recently in connection with the selection of plant and equipment for the Durgapur Thermal Power Station and the installation of 4th Unit at Bokaro, the Board of Consultants were consulted. This procedure will be followed whenever considered necessary to do so.

NINETEENTH REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1955-56 ON THE APPROPRIATION ACCOUNTS (DEFENCE SERVICES), 1953-54

Advance Collections of Stores for Works

R 20. The Committee view with concern the irregularity of debiting the estimate of sanctioned works with the cost of stores procured in advance in respect of unsanctioned works inasmuch as it involved fictitious adjustment of the cost of these stores. In many cases the irregularity would escape detection unless the work in question was ultimately not sanctioned as it happened in the present case.

The Committee observe that instructions are being issued to ensure that in no case stores acquired for one project are debited to another.

APPENDIX XXX TO THE PUBLIC ACCOUNTS COMMITTEE'S SIXTH REPORT 1957-58, VOL. II

Copy of Army Headquarters, Engineer-in-Chief's Branch letter No. 8501/251/E3A, dated 28-8-56.

SUBJECT.—Advance collection of Stores for Works

1. A case has come to light where stores were collected for the project in anticipation of administrative approval and allotment of funds. The cost of the stores was debited to another sanctioned project for which funds were available.

2. Your attention is again drawn to para 64 of M.E.S. Regulations under which prior approval of the authority competent to accord administrative approval to the work has to be obtained to collect the materials for a work which has not yet been administratively approved. An allotment of funds must be available for the work before any materials are collected. It is irregular to debit the cost of such stores to another work as was done in this particular case.

3. However, transfer of stores from one sanctioned work to another sanctioned work will continue to be governed under provisions of para 653 of MES Regulations. Such transfers should be made on issue vouchers and correctly reflected in construction accounts.

NOTE.—See P.A.C. Thirteenth Report, 1954-55, R-24 and R-25.

Procedure of placing orders on Director General, Ordnance Factories and periodical review thereof

R 34. In the matter of promoting indigenous production of warlike stores by the Ordnance Factories with a view to make the Defence Services self-sufficient as far as possible, the Committee appreciate that occasional failures are inevitable in technical progress. Nevertheless, the Departments should constantly bear in mind the important financial as well as technical considerations involved in their decisions on such points and the Committee feel that the technical officers in charge should see that designs or processes involved have sufficiently passed the experimental stage to justify expenditure on a considerable scale upon them. They would, therefore, suggest that normally the process should begin first with an experimental or educational order, with a view to establish the technique of production. Secondly, there should be a trial order for manufacture to

determine the economic cost of production and finally orders on large scale can follow. In the matter of placing orders on Director General, Ordnance Factories by the Defence Services, the Committee would observe that while urgency of requirement may be an important consideration, delays in cancelling orders placed on the Director General, Ordnance Factories when there are surpluses and the stores are not needed immediately may be attended by financial as well as operational disadvantages. For instance, such delays might involve continued expenditure on obsolescent types and that, in times of rapid technical advance, the operational life of new types might uneconomically be shortened by their belated arrival into service. The Committee, therefore, suggest that in the interests of operational efficiency, all pending orders should be reviewed periodically with a view to reassess the needs in the light of the latest trends both in technique and demand.

The Ministry of Defence had observed (Sixth Report, 1957-58, Vol. II, pages 24-29) as follows :—

In cases where it is desired to indigenously manufacture an item of which the drawings and specifications are available and which is already in use in India from imports or which is in use in other countries, the question of experiments on designs, etc., does not normally arise. In such cases the 'know how' is utilised and a trial order is placed on the Director General, Ordnance Factories to establish the technique of mass production. In other cases where designs are not final, experiments are usually carried out at the Technical Development Establishments or the Prototype Factory at Ambernath to prepare the designs, test their suitability and then prepare the specifications. It is only after that that a trial order is placed on the factories to establish the technique of mass production and for assessment of costs. In deciding upon the size of the trial order, it has to be borne in mind that production of a small quantity of a store by general engineering methods does not ensure that the factories will be able to undertake the manufacture of the store on a mass scale. For this latter purpose it is necessary to produce certain tools and gauges. What is, therefore, intended by placing a trial order is that the factories should undertake the manufacture of the necessary tools and gauges and produce an initial batch of the minimum quantity feasible by the technique of mass production. The same tools and gauges which are manufactured for the 'trial' order are also utilised for mass production after the factory has succeeded in establishing production of the stores, although further tools and gauges have to be manufactured when the later bulk order is very large. It is only in respect of 'materials' required for the manufacture of a store that the question of small or large quantities is really relevant. It is not always possible to manufacture or import the minimum quantity of certain materials actually required for establishing the technique of production if the requirement for such materials is extremely small. For instance, while only 10 or 20 lbs. of a certain material may be required to produce the limited quantity of stores covered by a small 'trial' order, the feasible unit of manufacturing or importing the materials may be one hundred-weight. This factor has, therefore, to be taken into account while determining the economic unit of production of the store even for a trial order.

In determining the size of a trial order, regard has to be paid to the time factor also on account of delays which normally occur in the provisioning of materials, particularly when some of them have to be imported. For instance, if a largish bulk order is placed only after a small trial order has been successfully completed, the provisioning of materials for the bulk order can be done only after the completion of the trial order, and if material is difficult to obtain, that means that bulk production will be correspondingly delayed. Therefore, it has been the practice that where, prima facie, no real difficulty is anticipated in executing a trial order, the bulk order is placed almost simultaneously so that the time normally lost in the provisioning of materials might be saved. Occasionally, of course, the expectation of the factories that they would not meet difficulties in establishing production is belied and in fact, in some cases the establishment of production has taken unduly long time. In such cases, bulk provisioning does entail a risk, particularly if the requirements of the store by the Services should change materially during the period that its manufacture is being established. To safeguard against this, instructions have been issued to the Services again to ensure that trial orders on DGOF are normally restricted to the absolute minimum economic unit of production and the DGOF is also being asked to ensure that he demands the absolute minimum economic quantity. Exceptions to this may, however, have to be made when the need for establishing bulk production quickly is very great and when there is every reason to hope that the trial order can be successfully completed by the factories without a great deal of delay.

The PAC's suggestion that all pending orders on Ordnance Factories should be reviewed periodically with a view to re-assess the needs is being implemented.

Powers of Director General, Ordnance Factories for manufacture in Ordnance Factories for stock purposes

R 71. The Committee find that there were no "hard and fast rules" laying down the limit on the financial powers of the Director General, Ordnance Factories in incurring expenditure on manufacture of components for stock. "Depending on the nature of the stores, depending upon how easy or difficult it is to manufacture components against subsequent orders, depending on the idea of recurring requirements indicated, the Director General, Ordnance Factories has to make an intelligent anticipation if and to the extent to which stocks of certain components have to be built against anticipated requirements." The Committee are rather perturbed at this arrangement. Their examination of the Defence Accounts, led them to the impression that the demand for stores for the Defence Services was subject to violent fluctuations and unless carefully processed, would either result in heavy surplus entailing heavy condemnations for reasons of operational inefficiency because of long storage, or would hamper the efficiency of the Defence Services if in short supply. In fact, consecutive provision reviews disclosed in some cases exactly opposite results leading to subsequent cancellation of orders already placed on the D.G.O.F. resulting in heavy financial losses.

The Ministry of Defence had observed (Sixth Report, 1957-58, Vol. II, page 43) as follows:—

The Ministry agree that the financial powers of D.G.O.F. in incurring expenditure on the manufacture of components for stock should be clearly laid down and for this purpose he has been asked to formulate proposals in consultation with his associated Finance and in the light of his requirements. Meanwhile, as an interim measure, the D.G.O.F. has been instructed not to manufacture components except on firm demands.

Full utilisation of productive capacity of Ordnance Factories

R 74. The Committee note that the Ministry of Defence have since set up a Defence Production Board under the chairmanship of the Minister for Defence Organisation with a view to securing fuller utilisation of the capacities of the Ordnance Factories and better co-ordination between the Defence industry and the Civil industry.

With the setting up of the Defence Production Board the Committee trust that increasing attention will be given to questions of efficiency and to the close collaboration between technical and production branches and that things would improve in so far as production of Stores for the Defence Services is concerned.

It might be necessary for preserving war potential and in the context of the wider policy of Government of maintaining full employment and of using productive capacity to the maximum extent possible, that Ordnance Factories should seek commercial orders. And it is a matter of policy.

The Ministry of Defence (Sixth Report, 1957-58, Volume II, pages 47-49) had observed as follows:—

The observations of the Public Accounts Committee have been noted.

Every effort is already being made and will continue to be made to seek commercial orders with a view to utilise the surplus capacity and labour available in Ordnance Factories to the maximum extent possible. There are several limiting factors in the choice of civilian items to be produced in the Ordnance Factories. Firstly, in order to avoid complaints from established trade, the items selected are generally those for which there is no capacity or only inadequate capacity in the country. Secondly, much of the plant and machinery in the Ordnance Factories is intended for a specialised purpose, namely, production of arms and ammunition, which does not lend itself to the production of civil trade items. Also, the utilisable plant should, ordinarily be used for civil production without effecting modifications which may take away from the original purpose of the plant and equipment. It is thus clear that we cannot expect to utilise the entire surplus capacity for production of civilian items without changing the basic function and purpose of the Ordnance Factories.

Adoption of efficient and economic methods of production in Ordnance Factories

R 75. The Committee observed that where open competition becomes effective, it is essential to adopt the most efficient and economic methods of production. For this purpose, the Committee would

suggest increasing use of technical efficiency returns (i.e., returns of man-hours, percentage of waste etc.) and periodical investigation of comparative costs of production. To stimulate manufacturing efficiency, the Committee would recommend for the consideration of the Ministry the grant of incentives.

The Ministry of Defence had observed (Sixth Report, 1957-58, Volume II, pages 49-51) as follows :—

On account of the difficulties and limitations explained in the (74-R) it is not always possible to adopt the most suitable/economical method of manufacture for civil trade items which may require specialised plant and equipment of another type. Further civil trade orders are not always of a nature or for quantities which might make economic manufacture possible. Within these limitations, however, the most efficient techniques and methods of production are adopted.

As regards increase of "efficiency" and control on "production costs", the two main difficulties so far have been :—

- (i) the existing system of costing under which only "historical costs" are made available by the Accounts Officers on a "post-mortem" basis with a time lag of several months; and*
- (ii) the inadequacy of the rate-fixing, planning and progressing staff.*

As regards (i), the matter has been taken up with the C.G.D.A. who is now examining the question of revising the existing system of costing in the Ordnance Factories so as to make available the results within a month at the latest.

As regards (ii), the necessity for providing adequate planning and progressing staff has been accepted in principle. Attempts to recruit and train the staff are being made and when they are in position greater "efficiency" and "cost control" would be possible. While there is no doubt room for improvement, it would be incorrect to say that the civil production in Ordnance Factories is at present not carried out efficiently within the means available.

With regard to the grant of incentives, the position is that the direct labour in Ordnance Factories is, for the most part, paid on the piece work system which provides an incentive for higher productivity. In addition, orders have been recently issued to place at the disposal of each Factory Supdt. a sum of Rs. 1000 a year, out of which he may reward industrial workers, at his discretion, for good work done by them subject to maximum of Rs. 50 in each individual case. It is hoped that this system of cash rewards would provide an incentive to workers.

Measures to prevent hasty discards of surplus stores

R 85. It was very unwise to have declared new blankets as surplus to Director General, Supplies and Disposals for disposal when in accordance with the policy for the retention of surplus stores, requirements up to an additional period of 5 years could well be retained out of the surplus. The Committee, desired that a report of the measures taken to prevent recurrence of such hasty discards should be submitted to them.

**ANNEXURE 'A' TO APPENDIX IX OF PUBLIC ACCOUNTS
COMMITTEE'S NINETEENTH REPORT, 1955-56, VOLUME II**

Copy of Naval Headquarters letter No. SP/0309, dated 31st January 1956.

2. (a) The quantities proposed to be declared surplus should be scrutinised and approved personally by the officer in charge of the Store Depot.

(b) Lists of stores which are found to be surplus are to be referred by N.S.O. (B) to the professional officers of the Dockyard and confirmation obtained that there are no possible alternative uses for the stores, taking into consideration the storage life of the items.

(c) Lists of surplus stores arrived at after action as at (b) irrespective of value should be forwarded to Naval Headquarters for scrutiny and approval before the surplus reports are raised. In cases where the stores are likely to be required by the other Services, four copies of the lists with complete details should be forwarded for ascertaining their requirements, if any.

(d) Withdrawals from surpluses once declared, can be made only with the prior concurrence of the D.A.F.A.(N) and in consultation with the D.G.S.&D. Where contractual obligations have already been entered into by the D.G.S.&D., withdrawals may not be possible.

(e) All cases where freezing orders are to be issued on the disposal of stores, are to be referred to Naval Headquarters.

Highest legal advice should be obtained in case of conflicting legal opinions

R 99. When there are two conflicting legal opinions given in a particular case by Law Officers of Government, the case should be referred to the highest legal authority before a final decision is taken.

The Public Accounts Committee 1957-58, (Sixth Report, 1957-58, Volume II, page 65) were informed that the Ministries had noted the recommendation of the Committee.

Appointment of Arbitration Tribunals to decide cases of disagreement under works contracts

R102. The Committee have considered the Ministry of Defence O. M. No. F. 59/14/53/674-E/D E and Qtg., dated the 20th January, 1955 (Appendix IX of Vol. II of the Fourteenth Report). In view of the fact that the war-time works contracts, which had generally been referred to one-man arbitration for settlement and which had given rise to the recommendations made by the Committee in sub-para 2 of para 6 of their report on the Appropriation Accounts, 1947-48 (post-partition) have been closed, the Committee do not want to press the matter further.

APPENDIX IX TO PUBLIC ACCOUNTS COMMITTEE'S FOURTEENTH REPORT 1954-55, VOLUME II**MINISTRY OF DEFENCE**

Office Memorandum No. F. 59/14/53/674-E/D (E. & Qtg.) dated the 20th January 1955.

SUBJECT.—*Appointment of Arbitration Tribunals to decide cases of disagreement under works contracts.*

Government is of the considered view that in actual practice it will not be a workable proposition to appoint such Arbitration Tribunals. In the first place, from the point of view of the availability of high ranking judicial officers who must at least be of the status of a District Judge, it is considered that such officers of the State Governments if asked to work for us would be pre-occupied with their regular duties and will not be able to find sufficient time to sit on arbitration tribunals and dispose of cases speedily. This is particularly so when it is realised that the arbitration tribunals have to be constituted in different places at frequent intervals. Looking to the variety and nature of cases we would be required to appoint more than one judicial officers of the status of a District and Sessions Judge and yet face the prospect of not keeping any of them fully employed. A whole time employment of an Officer or two on this type of work would therefore not be justified.

As the Ministry of Works, Housing and Supply deal with a greater number of disputes arising out of the C.P.W.D. contracts, the recommendation made by the Public Accounts Committee has been examined in consultation with that Ministry also. The Ministry of Works, Housing and Supply have stated that no change is considered necessary and desirable in the existing procedure.

The system of "Joint Arbitration" tried by this Ministry for settling three war-time cases not only proved to be very expensive but was also found to be very cumbersome and two cases dragged on for about two years. It is, therefore, feared that the system of arbitration by tribunals may also like-wise prove not only costly but prolonged and may not achieve the desired results. In the circumstances explained above, it is the considered opinion of Government that it will not be expedient, at the present juncture, to appoint Arbitration Tribunals.

NOTE.—*See P.A.C. 1947-48 (post-partition)—R-6(2).*

Representatives of the Ministries appearing before Public Accounts Committee should possess correct and relevant information.

R 106. The Committee regret to note from the comments furnished by the Ministry of Defence that correct information in regard to the value of surplus material to be disposed of in this case had not been furnished to their predecessors when they examined this case. While

the Committee have no further comments to make on this case, they consider it necessary to point out that the representatives of the Ministries concerned should see that they are properly briefed and are in possession of all the factual and relevant information when they appeared before the Committee.

The Public Accounts Committee 1957-58, (Sixth Report, 1957-58, Volume II, page 67) were informed that the recommendation had been noted by the Ministries.

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**TWENTIETH REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE, 1955-56 (DELHI ROAD
TRANSPORT AUTHORITY BUS SECTION)**

*Payment of Compensation for acquisition of motor vehicles by
D.R.T.A.*

R3. (on page ii) The Committee, observe that certain clauses in the Agreement entered into by the Government of India with the Gwalior and Northern India Transport Company Ltd., on the 23rd April, 1948 to acquire its business, were weighted against Government. According to the White Paper laid before both the Houses of Central Legislature on the 20th January, 1946, in the matter of evaluation of vehicles and other assets of a Company taken over by Government, the decision whether the vehicles were worth taking over rested with the purchaser viz., Government. Under the U.K. Transport Act (1947), if it is established that the physical condition of a vehicle on the date of transfer is materially better or worse than the normal physical condition at that date of a vehicle of the same type and age, a sum fairly representing the difference will be added to or subtracted from the depreciated value of the vehicle. The agreement concluded with the G.N.I.T. did not contain any provision vesting the right in the purchaser to decide whether a vehicle was worth taking over or not, as laid down in the White Paper. Further, a limit of Rs. 500 was imposed on the amount to be deducted from the depreciated value of a vehicle, taking into account the physical condition of the vehicle (No such limit has been set in the U.K. Act). These two vital deviations circumscribing the right of Government culminated in the Government having had to take over vehicles some of which were not road-worthy and some others at higher prices than their physical condition warranted. Further, the Board of Valuers set about their task in a rather perfunctory manner deviating from the provisions of the Agreement to the prejudice of Government as commented upon in Chapter I of the Report.

R7. In terms of clause 11 (a) of the Agreement entered into between the Company and Government, the vehicles transferred to Government were valued on the basis of the cost of replacing a vehicle by a new one of a similar type on the date of transfer reduced by an amount equivalent to the depreciation for each *completed* year or years elapsing between the date of registration of the vehicles and the date of transfer. Thus, in terms of these provisions, no depreciation was taken into account for the period which happened to fall short of a complete year. Out of the 210 vehicles taken over from the G.N.I.T. Co., 62 vehicles were registered within a period of less than one year prior to the date of taking over. The amount thus not taken into account has been worked out to be more than Rs. 2 lakhs by Audit.

R8. The sub-Committee were given to understand that this formula was adopted on the lines of a similar provision in the United Kingdom Transport Act, 1947. In reply to a question why the provisions in the U.K. Act in this regard had been adopted in preference to the formula followed by the Madras Government in

nationalising motor transport in that State, viz., payment of compensation on the basis of original cost less depreciation, the sub-Committee could not get a convincing answer. They find it difficult to see any apparent justification for such a weightage inasmuch as motor vehicles do get depreciated in value when once they were put on the road even for days, not to speak of months, the more so in the case of public utility vehicles. Even the provisions of the U.K. Act, the sub-Committee observed, had not been followed in their entirety in this case, as would be seen from succeeding paragraph.

R9. As for Clause 11(a) (ii) of the Agreement, the sub-Committee were informed that this clause also followed the provision in the United Kingdom Transport Act, 1947, and the limit of Rs. 500 per vehicle on either side was introduced in the Agreement as it was deemed to be more favourable to Government. The sub-Committee observe that the United Kingdom Transport Act, 1947 did not impose any limit in this regard. As the amount was to be determined with reference to the condition of the vehicle, obviously each case had to be decided on its merits. In the opinion of the sub-Committee, by including these two Clauses in Agreement, Government unduly fettered both their right and discretion in this deal. The result was that deductions upto only Rs. 500 could be made even in respect of some of the vehicles which according to the Valuers were not roadworthy. This was a vital deviation from the U.K. Act and in the sub-Committee's opinion, favoured the vendor. The sub-Committee are, therefore, amazed at the plea that this provision was deemed to be more favourable to Government.

The Ministry of Transport (Fifth Report, 1957-58, pages 65-69) observed as follows:--

Considering the matter in retrospect, one can see that it would have been favourable to Government if provision had been made in the Agreement with the G.N.I.T. Company for (i) not taking over such vehicles as were not road-worthy, (ii) allowing depreciation even for incomplete years, and (iii) allowing deduction of any amount which fairly represented the difference between the actual physical condition of the vehicles and the normal condition on the date of transfer without putting a limit of Rs. 500/- on such deduction for each vehicle. No records are, however, available to indicate why these provisions were not made in the Agreement.

In examining the agreement, it is necessary to keep in mind that after the change of administration in 1947, the acquisition of the assets of G.N.I.T. Company was the first case of nationalisation at a time when even the principles for the payment of compensation for acquired property had not been settled by the Constituent Assembly. Therefore this had to be a case of getting the best terms by negotiation and with the consent of the seller.

The G.N.I.T. had been assured by the Provincial Transport Authority in 1940 of a monopoly of operation until 1953. In October, 1946, the Interim Government decided to end this monopoly in response to public demand voiced in the Press and in the Legislature, but the Government had no statutory power for compulsorily acquiring the Company's business. The Company was fully aware of this position

and agreed to hand over its business to Government only on condition that its assets were taken over completely on payment of full compensation for the assets and good-will in the light of the principles laid down in the U.K. Transport Act, 1947.

When the matter was placed before the Standing Finance Committee, it was expected that the payment of compensation for the loss of business will be as much as the average annual profit for 3 to 4 years. After negotiation, however, the amount of compensation for loss of business paid to the Company was only one and a half times the average net annual profit. Thus it will be seen that while in the made, a substantial reduction was secured in the compensation paid made, a substantial reduction was secured in the compensation paid for loss of business.

Negotiations with the G.N.I.T. Company were conducted by the then Secretary, Ministry of Transport, in association with Senior Officers of the Ministries of Finance and Law and the orders of the Transport Member or Minister were taken at appropriate stages.

Non-maintenance of valuation records and appointment of Honorary Valuers.

R17. No record of the technical examination of the vehicles conducted by the two technical members of the Board of Valuers had been maintained at all. In extenuation, it was urged that at that time, the technical experts had not thought it necessary to keep notes about each of these vehicles. The two experts, worked in an honorary capacity and inspected the vehicles in the evenings from 6 p.m. to 11-30 p.m. (about 15 minutes for each vehicle) and the inspection lasted for about two weeks. In the absence of any such records, no scrutiny of the recommendation of the Valures could be made by Government. In such cases of valuation of assets to be acquired by Government, the appointment of persons in honorary capacity should be discouraged.

Copy of Government of India, Ministry of Home Affairs Office Memorandum No. 9/1/57-Est. (B) dated 10th May, 1957.

SUBJECT.—Honorary Workers—Employment on valuation of assets acquired by Government.

Attention is invited in this connection to sub-para (iii) of para 2 of this Ministry's Office Memorandum No. 25/2/50-Ests.; dated 20th June, 1951 reproduced below :—

“Services of an honorary worker should be utilised only in an advisory capacity. The work to be entrusted to him should not be such as would involve exercise of executive, administrative or judicial powers as the holder of a civil post or exercise of authority in the name, or on behalf, of Government.”

It is realised that arrangements for the valuation of assets of private bodies etc., to be acquired by Government will have to be decided on the merits of each case, after taking into account the availability of personnel competent to make the assessment and their status and willingness to accept paid employment under Government for the limited purpose. At the same time, it is considered advisable that in making such arrangements due weight should be given to the observations of the Public Accounts Committee which are in accordance with the principle stated above.

While the position in the matter of valuation of assets is as stated above, since honorary workers are appointed only in an advisory capacity, it is incumbent on Government to scrutinise and test-check the recommendations of honorary workers before accepting them, as also to ensure that the work entrusted to honorary experts was performed by them in as satisfactory a manner as was possible in the circumstances.

Maintenance of record of all the bids in auction.

R23. The sub-Committee agree with the Ministry of Finance that it is in consonance with the established commercial principles that record of all the bids in an auction should invariably be kept. The sub-Committee desire that the Ministry of Finance should issue necessary instructions in this behalf to all the Ministries concerned for future guidance.

The Ministry of Finance (Transport) (Fifth Report, 1957-58, page 72) had observed as follows :—

Instructions based on the procedure followed by the Directorate General of Supplies and Disposals have been issued by the Department of Transport to the D.R.T.A. for conducting auctions. Copy of the instructions is enclosed. (Annexure I).

ANNEXURE I TO PUBLIC ACCOUNT COMMITTEE'S FIFTH REPORT, 1957-58

Copy of Government of India, Ministry of Transport and Communications (Transport Wing) letter No, 31-TAG(48)/57, dated 15-1-58

SUBJECT.—Procedure for holding auctions

In exercise of the powers conferred by Section 39 of Delhi Road Transport Authority Act, 1950, the Central Government hereby directs that Authority shall adopt the following procedure in auctioning its stores.

AUCTIONING PROCEDURE :

(i) Stores earmarked for auction should be inspected by a responsible and suitably qualified person or persons who should record a certificate that the stores are no longer required by the Authority and should be auctioned. It should be open to such person or persons to recommend the removal of any serviceable items from a motor vehicle, etc., before certifying that the vehicle should be auctioned. All spare parts etc., so removed should be fully accounted for and proper records should be maintained in respect of them. When a vehicle is cannibalised, its serviceable and unserviceable parts should be segregated and listed in the presence of both the Technical and Accounts Officers concerned, properly authenticated and taken to the stock account.

(ii) A reserve price or guiding price should be fixed by a responsible and suitably qualified person or persons, duly authorised in this behalf by the Authority, before any stores are put to auction. Guiding price should be fixed at 20 per cent. of the wholesale price assessed after inspection of the stores. Where it is not possible to assess the

value of the stores, the guiding price should be fixed at 20 per cent. of the book value. The Inspecting Officers should keep in view the following points while assessing the value of stores :—

1. Condition, utility and serviceability verified after actual inspection.
2. Whether the stores command a local limited or very wide market.
3. Price obtained at previous sales.
4. Prevailing market prices of commodity where the same can be ascertained.
5. Location.

(iii) Auction should be conducted by an approved Auctioneer. A proper agreement should be concluded with the Auctioneer, setting forth in unambiguous terms the responsibilities and liabilities of the Auctioneer, including the conditions of sale in auctions. A form of the auctioning agreement, which is concluded by the Director-General of Supplies & Disposals with an approved Auctioneer for conducting Government auctions, is forwarded herewith for the guidance of the Authority.

(iv) The auction should be properly advertised sufficient in advance of the date of the auction. Important items of stores on the auctioning list should also be mentioned in the advertisement.

(v) Duly authorised officers of the Authority should be present at the site of the auction and they should supervise the auction. Subject to the realisation of the reserve price when the same have been fixed, all sales should be made to the highest bidder. In cases where guiding prices only have been fixed, the Supervising Officer will be competent to take a final decision in regard to the acceptance of any bid.

(vi) The highest bids should be recorded.

**TWENTY-FIRST REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE, 1956-57 ON THE EXCESSES
OVER VOTED GRANTS AND CHARGED APPROPRIA-
TIONS INCLUDED IN THE APPROPRIATION
ACCOUNTS CIVIL 1952-53**

*Preparation of Advance Appropriation Accounts relating to excesses
and presentation of Report of Public Accounts Committee.*

R-7. The excesses relating to a year are brought to notice at present by the Comptroller and Auditor General, through the Audit Report on the Appropriation Accounts relating to that year and the interval between the detection of the excesses soon after the accounts of that year are closed and the presentation of the Audit Report in question is fairly long. To obviate this element of delay and to facilitate the Committee to consider the excesses as quickly as possible, the Comptroller and Auditor General suggested that he would arrange to present advance Appropriation Accounts relating to the excesses exclusively. The Committee welcome this suggestion. They understand that such advance Reports will be only a temporary expedient till the work of the preparation of Appropriation Accounts relating to previous years becomes current.

R-8. The Committee, therefore, recommend that as soon as excesses in accounts relating to a year which had just closed came to notice, the Comptroller and Auditor General will, in advance of his main Report on the Appropriation Accounts, report these excesses to Parliament in the prescribed manner. The Committee will proceed to examine with reference to the facts of each case the circumstances leading to the excess and present a separate report to Parliament making their recommendations on these excesses. Thereafter, Government will proceed to take necessary action to have the excesses regularised by Parliament in the same or the following session.

*Explanations for excesses to be furnished by the Ministries within
four weeks.*

R-9. The Committee trust that the Ministries of the Government on their part would furnish to the Lok Sabha Secretariat after scrutiny by Audit in the shortest time possible, but at any rate not exceeding four weeks from the presentation of the Report of the Comptroller and Auditor General on these excesses, the reasons or the circumstances that led to the excesses under each grant or appropriation for being placed before the Committee.

*Elimination of inter-governmental and inter-departmental adjust-
ments.*

R-13. It was explained to the Committee by the Comptroller and Auditor General that the present structure of the accounting machinery is such that it is not always possible to place at the disposal of the Government an upto-date picture of what the disbursements have been. There is now a move towards a system where

the procedure of raising debits and credits in respect of inter-governmental or inter-departmental transactions will progressively be eliminated and replaced by cheque payments. Accounts Officers will under this changed system refuse to honour any demand beyond what has already been granted.

Control over provision made for payments to State Governments for agency functions

R-16. Provision under this Grant No. 39 represented payments to State Governments on account of administration of Petroleum and Explosives Act and the Indian Arms Act. These Acts are administered by the State Governments on behalf of the Union Government and fees realised by the State Governments under these Acts are credited to the Central revenues. But an amount equivalent to the fees realised is paid to the State Governments as charges for administering the Acts. It was urged by Government that as the payment to the State Governments is on the basis of actual receipts during a year, there is always a difference between the actual payments and the estimates (which are based on past trends) resulting either in a saving or in an excess. The Committee understand that with a view to avoid such a situation in future, Government proposed to limit the payments to the State Governments to the provision made in the revised estimates leaving the excess, if any, to be paid in the following year. This procedure would prevent excesses over amounts voted by Parliament. The Committee regard this procedure as satisfactory.

Copy of letter No. F. 1 (48)-B/56 dated the 16th. September 1958, from Government of India, Ministry of Finance (Department of Economic Affairs) to the Finance Secretaries of all State Governments (except Jammu & Kashmir).

SUBJECT.—*Adjustment of certain fees etc., collected by the State Governments on behalf of the Central Government*

I am directed to state that the procedure regarding the adjustment of fees etc. leviable under the India Explosive Act, the Petroleum Act, the Carbide of Calcium Rules, the Cinematograph Film Rules and the Indian Arms Act has been reviewed by the Government of India in consultation with the Comptroller & Auditor General of India.

2. At present the State Governments collect these fees on behalf of the Central Government on an agency basis. The collections are in actual practice retained by the State Governments and are treated as payments to State Government for administration of the Act, and the Rules. In the accounts of the Central Government credits equal to the net collection are given to the appropriate revenue head in April and October every year with a simultaneous entry showing payments to the State Government except in respect of the fees realised under the Indian Arms Act in territories constituting the former Part A States which are not reflected in the central budget and accounts.

3. The Government of India are advised that, as the receipts relate to the subjects included in the Union List in the Seventh Schedule to the Constitution of India, the present arrangement whereby the receipts collected under the Acts and the Rules mentioned above are retained and credited by the State Governments to their Consolidated Funds is not constitutionally proper and should be discontinued. The receipts should accordingly be credited *ab-initio* to the Consolidated Fund of the Government of India. Equivalent amounts would of course be paid separately to the State Governments as the cost of administration of the agency subject under Art. 258(3) of the Constitution. It has accordingly been decided, in consultation with the Comptroller & Auditor General of India that, with effect from 1-4-1959, the following procedure should be followed in regard to the receipts arising out of the administration of the above mentioned Acts and Rules and the connected payments to the State Governments.

4. (i) Instructions may kindly be issued by the State Governments to the district and other authorities concerned with the administration of the Acts and Rules in question that fees, fines etc., realised under the said Acts and Rules should be credited to the appropriate receipt head of account of the Central Government and the fact that these are central receipts should be clearly indicated on the 'chalans'. For facility of reference, the major and minor heads of accounts in the accounts of the Central Government to which these receipts are creditable are indicated in the 'Annexure'. Refunds, if any, of the fees etc., should also be debited to Central Government and classified under the minor head 'Deduct Refunds' under the relevant major head of account.

(ii) As the receipts will be credited *ab-initio* to the account of the Central Government, it is proposed to pay the *net* collections to the State Governments quarterly in June, September, December and March every year. The payment in each of the months mentioned will be of the net receipts (after deducting refunds if any) during the preceeding three months. Thus, the net collections during the months of March, April and May each year will be paid in the month of June as soon as the accounts for the month of May are closed by Accountant General. For this purpose statements of net receipts should be sent by the district and other authorities as at present to the Accountant General with the change that as the payments will now be made quarterly, these statements should reach the Accountant General by the 15th of the month following the last month of the quarter to which they relate. On receipt of the statements and after verification of the credits in the Central Government accounts, the Accountant General will arrange to credit the State Government through the Central Accounts Section of the Reserve Bank of India.

(iii) As payments during any financial year have to be restricted to the sanctioned grant available for the purpose and payments in excess would be unconstitutional, payments for the last quarter due in March will be for such amounts as, together with the first three quarterly payments will be equal to the Revised Estimates

for the year, the shortfall, if any, being made good in the month of June following. Thus, payment in the month of June each year will be inclusive of the arrears, if any, relating to the preceding financial year, payments in September and December would be of the actual 'net' collection during the respective quarter and the payment in March would be for the receipts during the quarter ending February subject to the condition that total payment during the financial year does not exceed the Revised Estimates.

5. As the revision of the existing arrangement has been necessitated by the constitutional requirements, the Government of India trust that the State Governments will agree to the revised procedure indicated above and issue suitable instructions to the authorities concerned with the administration of the agency subjects in question. The Government of India will appreciate if the concurrence of the State Government to the revised procedure and the action taken by them to implement the same is communicated at an early date.

ANNEXURE

Nature of the receipts	Classification
Fees and fines under the Indian Explosive Act	XXXVI—Miscellaneous Departments Miscellaneous (Central).
Fees and fines under Petroleum Act-Carbide of Calcium Rules Cinematograph Film Rules	XI.VI—Miscellaneous Miscellaneous (Central).
Fees and fines under the Indian Arms Act.	XXIII—Police-Receipts under the Arms Act, (Central).

NOTE.—In the treasury accounts these receipts should be shown as 'unclassified' receipts under the major head of account concerned and shown as such in the Receipts Schedule sent with the Cash Accounts. The receipts should be classified under the minor head concerned by the Accountant General so that on receipt of the quarterly statement from the district authorities etc., the Accountant General is in a position to verify the receipts.

NOTE.—See P.A.C. 1925-26, R. 10 (item 3) (Epitome Volume I).

Re-appropriation which leads to evasion of Parliamentary Control should be avoided.

R-19. Another feature in this case on which the Committee feel concerned is the intention of the Ministry to utilise the provision of Rs. 21 lakhs in the voted section for other purposes, by reappropriation. They think it right to call attention to the fact that a large amount has been sought to be diverted by the Ministry to other purposes. And if this practice extends expenditure not specially provided for in the Estimates presented to Parliament can be incurred without check. The Committee feel that it is an important duty of the Ministry of Finance in the field of financial control to ensure that no re-appropriation is resorted to which either tends to vitiate or anticipate the approval of Parliament.

Provision has been made by the Ministry of Finance in the Book of Financial Power as follows :—

8. (d) Funds may not be appropriated or re-appropriated to meet expenditure on a new service not contemplated in the budget as voted by the Legislative Assembly.

NOTE:—See P. A. C. 1921-22, R-21 (Epitome vol. I

TWENTY-SECOND REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE 1956-57 ON THE APPROPRIATION ACCOUNTS (POSTS AND TELEGRAPHS) 1953-54 AND AUDIT REPORT, 1955 AND AUDIT REPORT 1956 (P. & T.) PART I

Reluctance to take decisions and assume responsibility.

R-15. The Committee feel that this case typifies the reluctance on the part of the Officers to take decisions and assume responsibility where it belongs to them. The Committee would like Government to impress upon all their subordinate Officers the desirability of duly exercising the powers vested in them and take serious notice of cases where responsibility is shirked by Senior Officers.

APPENDIX V OF PUBLIC ACCOUNTS COMMITTEE'S FIRST REPORT, 1957-58, COPY OF DIRECTOR GENERAL POSTS AND TELEGRAPHS MEMO NO. 4/29/57-O. & M. DATED 9-5-1957

(To All Heads of Circles and Administrative Offices)

SUBJECT.—*Reluctance to make decisions and assume responsibility.*

A case has been brought to the notice of the Public Accounts Committee in which appropriate and timely action was not taken against an extra-departmental Branch Postmaster who reported two successive cases of thefts of Post Office cash, although the Senior Superintendent of Post Offices, as a result of departmental enquiries, considered that the retention of the extra-departmental Branch Postmaster in service after these incidents was full of risk to the Department. The result was that the indecision gave further opportunity to the same Branch Post master to commit further misappropriations of Government money.

2. The Public Accounts Committee have taken a very serious view of this case. They feel that this typifies reluctance on the part of officers to make decisions and to assume responsibility for such decisions. When powers—financial or administrative—are delegated to subordinate officers, it is the duty of the latter to see that the delegated powers are actually exercised by them. Every officer should, therefore, thoroughly acquaint himself with the powers that are delegated to him. He should also ensure that there is no occasion to make reference to higher authorities in cases which are entirely within his competence. In cases having important implications, however, the higher officers should be kept informed of what is happening. But this does not mean that their orders should be awaited. Cases in which officers, especially Senior Officers, shirk their responsibility will be viewed seriously.

3. Officers at all levels should see that decisions are taken as quickly as possible without prevarication or postponement.

4. Serious notice will be taken of cases which display unwillingness of officers to assume responsibility or to arrive at quick decisions.

Extract from D. O. No. 9/15/57-O. & M. Dated 31-3-1958 From the Director O. & M. Division to All Ministries.

The O. & M. Division has been repeatedly stressing the need for every officer to refrain from submitting cases to higher levels or making unnecessary references to other offices/sections.

2. You will agree that it is not enough that unnecessary vertical and horizontal references are eliminated in the Departments of the Government of India only. It is equally necessary that effective steps are taken to prevent references from subordinate organisations to higher formations when the heads of such organisations are fully competent to dispose of the matters under their own powers. This tendency can be cured to a large extent if instead of accepting or dealing with such needless or responsibility-shirking references, the receiving Department returns them to the referring authority with a suitable admonition. I suggest, therefore, that you might, with the approval of your Secretary, issue instructions accordingly.

Procedure for collection of dues by the P. & T. Department on behalf of other Departments.

R-32. The Committee would suggest that the Posts and Telegraphs Department should in consultation with the Government Departments or bodies on whose behalf they collect payment, evolve a procedure by which the P. & T. Department could get at regular intervals, a report of cases of non-receipt of payments into the Post Offices to enable that Department to investigate into those cases.

Copy of letter No. 40/141/57-CXI dated the 1.2.1958 from the Government of India, Ministry of Finance (Department of Revenue), New Delhi to the Collector of Central Excise, Allahabad etc. etc.,

* * * *

2. *The suggestion of the Public Accounts Committee has been considered in this Ministry and in so far as the payment of Central Excise duty and other dues by Special Revenue Money Order is concerned, it has been decided that a statement of cases of non-payment of money orders, if any, should be sent by the Chief Accounts Officer in the Central Excise Collectorate to the Superintendent of Post Offices concerned with the office of issue. The statement should be sent quarterly and should have the following particulars.*

- (i) *Date of issue of money order and number of the receipt given to the remitter.*
- (ii) *Post Office of issue.*
- (iii) *Name of the remitter.*
- (iv) *Amount and purpose for which sent.*

3. *Attention in this connection is invited to para 303 (c) (d) and (e) of the Tobacco Excise Manual according to which it would be possible for the Chief Accounts Officer who receives information regarding remittance of duty by means of Special Money order from two sources,—the Treasury Officer and the Assessing Officer—to send such a report as desired by the Posts and Telegraphs Department.*

Para 9 (ii) of Audit Report (Posts and Telegraphs) 1956***Embezzlement of the sale proceeds of Postal certificates.***

R41. A sum of Rs. 11,900 being the sale proceeds of Postal certificates sold during the period 31st July, 1951 to 9th April, 1952 at two sub-post offices had not been accounted for in the Postal Accounts, although the sale of certificates was correctly recorded in the stock registers of certificates, maintained at the two sub-offices.

R42. While explaining the procedure followed in the sub-post office in dealing with such transactions, the representative of the Director-General, Posts and Telegraphs informed the Committee that in this case the fraud was rendered possible because the clerk, who was also functioning as the Post Master, did the entire work in respect of National Savings certificates himself and the other person at the counter was attending to savings bank etc.

R43. The Committee feel that without counter-checks, the system in sub-offices is open to such risks and desire that steps be taken by the Posts and Telegraphs Department to devise a method by which recurrence of such frauds could be prevented.

R44. In this case a sub-postmaster misappropriated a sum of Rs. 8,000 during the period of January, 1950 to December, 1951 out of the sale proceeds of National Savings Certificates.

R45. In evidence, the representative of the Director General Posts and Telegraphs stated that the fraud was facilitated in this case by a wrong numbering of the invoices in which the cash certificates were sent from the Head Office. When the Head Office detected this mistake and asked the Post Master to correct the invoice numbers, the Post Master only replied to say that necessary action was being taken.

R47. The three cases commented upon in the preceding paragraphs clearly indicate that apart from procedural defects, there has obviously been lack of proper supervision and inspection on the part of the immediately higher authorities. The Committee, suggest that supervision over the handing of cash transactions in the Post Offices should be strengthened and the frequency of inspections be increased.

**APPENDIX XI TO THE PUBLIC ACCOUNTS COMMITTEE'S
ELEVENTH REPORT, 1958-59 VOL. II**

Copy of Government of India, Ministry of Transport and Communications memo. No. 30-3/57/CI dated the 23-9-59.

* * *

2. *In order to tighten up the checks and counterchecks further, it has been decided that all Head Offices should maintain for each of their sub-offices, a register of certificates supplied to and issued from sub-offices with a view to keep a check on the numbers of certificates in stock. The inspecting officers will be required to prepare, while inspecting sub-offices, a list of unsold certificates lying in the office and to get it verified by the Head Office. Necessary instructions are under issue. This measure will only lead to earlier detection and serve as a deterrent, but will not be a positive proof against occurrence of such frauds.*

*Para 11 of the Audit Report (Posts and Telegraphs) 1956**Procedure for handling cash and postage stamps etc. in the Head and Branch Post Offices.*

R52. * * * * * As regards *the modus operandi* of the fraud in this case, it was stated that this was committed by the Treasurer in the Head Post Office by inflating the figures of postage stamps in stock to cover up the shortage of cash which was not detected in spite of inspection having been carried out from time to time.

R54. The Committee would also like the Posts and Telegraphs Department to examine the existing procedure for handling of cash and postage stamps etc. in the Head and Branch Posts Offices and tighten the checks and counter-checks to be exercised by the local officers and the inspecting staff. A note stating the action taken in this respect may be forwarded to the Committee, in due course.

**ANNEXURE TO APPENDIX XIII TO THE PUBLIC ACCOUNTS
COMMITTEE'S ELEVENTH REPORT 1958-59, VOL. II**

Copy of letter No. 29-1/57-CI dated the 17th February 1958, from the Director General, Posts and Telegraphs, to all Heads of Circles.

There have been instances of misappropriation of Government money by the postal officials of the treasury branches, by showing inflated stamp balances. In order to check the recurrence of such frauds and to tighten the existing procedure of handling the cash and postage stamps, various proposals are under consideration of the Directorate. Decision on all such proposals may take time. In the meantime, it has been decided to make the following changes in the procedure to be enforced as early as possible.

1. Under Note 3 of rule 66 of the Posts and Telegraphs Financial Hand Book, Volume II, stamp registers are at present maintained in offices where authorised stamp balance is Rs. 500. The stamp registers may now also be maintained in offices where the authorised stamp balance is above Rs. 200.

2. It is proposed to introduce a separate column in the Sub-Office Account and the Branch-Office Account for the value of stamps received. Till this is done the value of stamps received daily by the sub and branch offices during the month to which the account relates should be noted in the 'Remarks' column of the Sub-Office Account or and Branch Office abstract.

3. According to note below rule 30(a) of the Financial Hand Book, Volume II, in offices where a separate Assistant treasurer is sanctioned independent of the treasurer, he will be responsible for sale, custody etc., of stamps, saleable publications etc. The Assistant treasurer can also be exempted from any of these duties by the 1st class Postmaster or Superintendent. It has now been decided that in case of 1st Class Head Offices having a number of officials working in the treasury branch, it should be so arranged that the official or officials, handling stamps do not ordinarily handle cash.

TWENTY-THIRD REPORT OF THE CENTRAL PUBLIC
ACCOUNTS COMMITTEE, 1956-57 ON THE
APPROPRIATION ACCOUNTS (CIVIL) 1952-53 AND
AUDIT REPORT, 1954, PART II AND AUDIT REPORT
(CIVIL) 1955—PART I

Entrusting work relating to the P. A. C. to a Senior Officer in each Ministry.

Paragraph 5. (Introduction).—The Committee feel that a senior officer in each Ministry should be nominated to be responsible for furnishing information called for by the Committee, taking appropriate action on other requests and for dealing with their recommendations.

The Ministries had noted the recommendation and implemented it.

Keeping of contemporaneous records of all important decisions or discussions in Government offices.

R 29. The Committee were given to understand that the permission to the mill was granted without consulting the Finance Ministry and that there was no record available in the Ministry to confirm that permission was given. The permission was given to the mill by the Textile Commissioner orally on the telephone in July, 1950 which was later confirmed by the issue of orders in October, 1950. They strongly deprecate the manner in which such a concession involving as it did serious financial implications was agreed to on the phone orally and no records of the circumstances and the conditions governing the grant of the concession were kept for subsequent reference. Had it been done, there might have been no occasion for an argument, such as had arisen. The Committee must record here that they had come across similar cases where absence of contemporaneous records had led to extravagance in expenditure or loss to Exchequer and created difficulties in the matter of fixing responsibilities. They would, therefore, strongly urge that as a rule proper records of all the important decisions and the discussions leading to them should invariably be kept.

The Ministries had noted the recommendation.

Working of Hospitality fund organisation—fixing of reasonable ceiling rates for entertainments.

R40. The Secretary, Ministry of External Affairs, stated that personal level entertainments had been allowed only for officers of the Ministries of External Affairs and of Commerce and Industry as it was considered necessary for the Officers of these Ministries alone to maintain personal contacts with foreign visitors. For personal entertainments, a sum of Rs. 10,000 per year only was allotted out of the Fund. Orders tightening up the procedure in regard to entertainments out of the Hospitality Fund had since been issued. Ceilings on expenditure on entertainments had been fixed and were being examined by Finance.

R41. At the instance of the Committee the Ministry furnished copies of orders issued by Government. The Committee are glad to note the steps taken by Government for tightening up the expenditure incurred on entertainments. While the Committee recognise the need for such entertainments, they consider that the ceiling rates fixed by the Ministry in some of the cases were too liberal specially when those rates did not include the cost of drinks. They trust that the Ministry of Finance would scrutinise the rates carefully and fix them reasonably.

**APPENDIX XIII TO THE PUBLIC ACCOUNTS COMMITTEE'S
SEVENTH REPORT, 1957-58, VOL. II
MINISTRY OF EXTERNAL AFFAIRS**

Statement showing the revised ceiling rates for various types of entertainment arranged from the Hospitality Grant of the Government of India.

Revised Ceilings

Dinner:	Rs. 30 per head
Lunch:	Rs. 20 per head
Evening party:	Rs. 10 per head

2. The above ceilings include expenditure on cigarettes, cigars, hire of furniture, lighting, drinks, etc. and are to be taken as the maximum limit and the entertainment is to be done as economically as possible in the circumstances of the particular case. Expenditure on lighting should be only necessary for parties held on the lawns in summer.

Normally functions are to be held at the Hyderabad House.

The rates set out above have been approved by the Ministry of Finance and come into effect on 8th August, 1957.

NOTE.—The previous decision of the Government not to serve liquor at official parties has since been modified to the extent that light wines and aperitifs can be served but no stronger drinks, like spirits.

Sale or transfer of cars by the Heads of Missions.

R 45. According to the note, the officer served at six different stations abroad and also returned to India twice during the four years in question, and it was, therefore, not possible for him to obtain prior permission of Government for the sale of the cars. The Ministry have added that it was "a time consuming process" to obtain authority from Government for individual transactions, as it resulted in dislocating their subsequent postings. To avoid this difficulty, Heads of Missions have been authorised in April, 1955 to sanction sale or transfer of cars in all such cases.

Marking of cutleries and crockeries of Indian Missions with the Indian Crest

R47. Instructions had since been issued that cutlery and crockery belonging to Missions should, in future, be marked with the Indian crest. As regards the existing stock of articles which were not so marked, the Committee were assured that care was being taken to note the details of manufacture, etc., in the stock registers so that there was no possibility of their substitution.

Communications of irregularities committed by an officer belonging to one Ministry to another Ministry where the officer is proposed to be re-employed.

R 54. The Committee felt that in the larger interest of Government as a whole, one Ministry should communicate such irregularities on the part of an officer intended to be re-employed by another Ministry to other Ministry for their benefit.

The Public Accounts Committee, 1957-58 (Seventh Report, 1957-58, Volume II, pages 34) were informed that the Ministries had noted the recommendation.

Levy of Income-tax on perquisites viz.—rent free accommodation and value of the cost of water and electricity charges supplied free of charge to the Ministers

R 67. In terms of Section 7 of the Income-tax Act, 1922 as it stood prior to its amendment in 1955, perquisites of an employee chargeable for Income-tax included the provision of rent-free accommodation by the employer. The manner of determining the value of perquisites was not, however, actually defined in the Act, and in practice, was governed by the orders issued by the Government of India in 1928 and 1952 according to which, the value of the perquisite of free accommodation was to be computed at 10 per cent or 12½ per cent. of the salary of the employee according as the accommodation was unfurnished or furnished. The Finance Act of 1955 amended section 7 of the Income-tax Act. This amendment defined clearly the term 'perquisites'. It provided that the value of rent-free accommodation or the value of any concession in the matter of rent respecting any accommodation provided to the assessee by his employer should be included in the assessment. This amendment was intended to cover not merely the actual rental value of the rent-free accommodation but also any concessional recovery of rent. It has been pointed out in the Audit Report that with the above amendment of Section 7 by the Finance Act, 1955, the old executive orders regarding computation of the value of rent-free accommodation ceased to be valid or applicable. Nevertheless, those orders are still being applied even in cases of Ministers and other high dignitaries of Government whose salaries and privileges are regulated by Act of Parliament and who are, in terms thereof, provided with free furnished accommodation and water and electricity free of cost.

R 68. Also there was another executive instruction in force prior to the amendment of 1955, to the effect that the perquisites for the purpose of assessment had to be received in the form of money or in a form capable of being converted into money by the recipients. Accordingly, passage, electricity, water, servants, etc., provided free by the employer were excluded for the purposes of assessment. By the amendment of 1955, 'the value of any benefit or amenity granted or provided to the assessee by the employer free of cost or at concessional rate' and also 'any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee' shall be included in the assessment for income-tax. In spite of the amendment of the law, the value of free water, electricity, etc., provided to the Ministers and dignitaries are excluded

from the computation of assessable income in accordance with the executive orders. The continued application of the old orders was resulting on the one hand in loss of revenue to the State and on the other, in giving extra legal benefit to a class of assesseees.

R 69. In this evidence before the Committee, the Chairman, Central Board of Revenue explained that the necessity for the amendment of 1955 arose on account of the legal opinion given in 1938 that the specific mention of rent-free accommodation as a perquisite in the Act excluded taxation on other perquisites such as passage, etc., which were not convertible into money. The main object of the amendment of 1955 was to bring such concessions also within the scope of taxable income. It was further explained that as stated by the Finance Minister in the Lok Sabha when the Act was being amended, it was not the intention of Government to change the existing basis of evaluating the rent-free accommodation provided the rent paid therefor by the employer was reasonable. According to Government, it was the value of rent-free accommodation to the employee which was reckoned for purposes of assessment and this was determined at a reasonable percentage of his emoluments. Where, however, the disparity between the rent paid by the employer and the evaluation of the house as determined at the prescribed percentage of the salary of the employee was unduly great, the excess was liable to tax. With reference to the observation that by continuing the old executive orders, Government were giving extra legal benefits to a class of assesseees, the Chairman, Central Board of Revenue invited the attention of the Committee to section 59(1) of the Income-tax Act which permitted the Central Board of Revenue to make rules prescribing the methods by which an estimate of income, profits and gains liable to tax may be made where such incomes, etc., could not be definitely ascertained or could be ascertained only with some amount of trouble and expense to the assesseees. The executive instructions issued by the Government were in pursuance of these provisions of the Act and as such, no extra legal benefits were involved in their continued application.

R 70. The Committee find it difficult to endorse the view taken by Government. In their opinion section 7 as it stands after amendment could not admit of the interpretation now sought to be placed thereon by Government whatever their intentions might have been at the time of amending the Act. They doubt whether the expression 'value of rent-free accommodation' used in the Act could be stretched to mean the value of the accommodation to the employee and as such was relatable to the emoluments of the employee. In view of the difference of opinion that had arisen between the Comptroller and Auditor-General and the Government, the Committee feel that the opinion of the Attorney-General should have been sought in the matter as soon as it arose.

R 71. In regard to the exclusion of the value of the cost of water and electricity provided free of charge to Ministers and other dignitaries for the purpose of income-tax, the Chairman, Central Board of Revenue stated that the Salaries and Allowances of Ministers Act, 1952 provided that 'no charge shall fall on the Minister personally in respect of the maintenance of such a residence' which, as advised by the Law Ministry, included also a charge under the

Income-tax Act. During the course of the examination, the Committee learnt that it was the view of the Board that the charges for water and electricity in respect of the Ministers' residences, which were payable by Government to separate authorities like the Municipality and State Electricity Authority, should be regarded as additional emoluments of the persons and be taxed as such; but the legal advice was otherwise. The Committee think that this is a fit case for reference to the Attorney-General for opinion. The Committee would also like to add that it would be a good practice in future to refer all similar cases, where the beneficiaries are members of the Government, to the Attorney-General for his opinion. (See also P.A.C. Seventh Report, 1957-58, R 112-116.)

APPENDIX XX TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT, 1957-58 (VOLUME II)

OPINION

The use of furnished residence without payment of rent is clearly a perquisite within the meaning of section 7(1) of the Income-tax Act. This is made clear by Explanation I(i) to the sub-section. The very language of section 7(1) read with Explanation 1(i) makes the value of rent-free accommodation a perquisite and therefore a part of the income of the assessee taxable under the head "salaries".

2. Section 60 enables the Central Government by a notification in the Official Gazette to make an exemption, reduction in rate or other modification in the circumstances there mentioned. The orders of the Revenue Department dated the 6th of September 1951 do not fall within sub-section (1) of section 60 inasmuch as they are not (a) an exemption made by the Central Government, and (b) notified in the Official Gazette. Further sub-section (3) of section 60 added by Amending Act VII of 1939 prevents the exercise after the coming into force of the Amending Act of the power conferred by sub-section (1) except for the purpose of rescinding an exemption, reduction or modification already made.

3. The orders dated the 6th of September, 1951 which in substance put a reduced value on the perquisite of free accommodation are, therefore, not in order and, if they are treated as having been made under section 60 of the Act, they offend sub-section (3) of that Section.

4. Section 4 of Act 58 of 1952 and Act 20 of 1953 provides *inter alia* that "no charge shall fall on the Minister (officer) personally in respect of the maintenance of such residence". The residence referred to is the furnished residence to the use of which he is entitled without payment of rent under the section. The Explanation to the section provides *inter alia* that "maintenance in relation to a residence includes the payment of local rates and taxes and the provision of electricity and water". In substance, the section provides that not only will the Minister or the officer be entitled without payment of rent to a furnished residence but that he shall not be subjected

to a charge *in respect of the maintenance of that resident*. The word "maintenance" clearly has reference to any expense which the Minister or the officer may have to incur in running it or repairing it or otherwise keeping it in condition. This is made clearer by the Explanation which speaks of local rates and taxes and electricity and water charges as being included in the maintenance of the residence. The inclusive definition of "maintenance" given in the Explanation it would be a matter of doubt whether the payment of local rates and taxes and for electricity and water could be said to be charges incurred for maintaining the residence. However, payment of income-tax on the value of any benefit or amenity granted to the Minister or officer by his employer or any sum paid by the employer in respect of any obligation which ordinarily would have been payable by the Minister or Officer cannot by any straining of the language be described as a charge *in respect of the maintenance of the free furnished residence granted to him*. It is a liability of the Minister or officer in respect of his income and has no relation to the maintenance of the free furnished residence.

5. Section 4 of each of the two Acts mentioned above will not, therefore protect the cost of water and electricity provided free of charge being taxed under the Income-tax Act. The free supply of water and electricity would clearly be perquisites having regard to the provisions of Explanation 1(iii) and (iv) to sub-section (1) of section 7 of the Act.

* * * * *

7. Some of the papers put before me indicate that the houses allotted to the Ministers and officers used partly for office purposes and in relation to the official duties of the Ministers and the officers. It also appears that a portion of the electricity and water charges incurred in respect of these residences arises by reason of the sentries and other staff posted at these residences. If this is the position it could not be said that the whole of these perquisites are allowed to the Minister or Officer or are due to him within the meaning of section 7, sub-section (1) of the Act. If a portion of the residence is used for office and other official purposes and if water and electricity are not used wholly by the Minister or the officer he does not get the whole benefit of the perquisites part of them being used for other purposes. The entire perquisites cannot, therefore, form part of his income. In these circumstances it would, I think, be competent to the Central Board of Revenue to make rules under section 59(1) of the Act, for the ascertainment and determination of this class of income of the Ministers and the officers. These rules will have to be made subject to the control of the Central Government, and will under sub-sections (4) and (5) of section 59 be subject to the condition of previous publication in the Official Gazette. The Central Board of Revenue will have to take into account the value of the free furnished residence and the cost of the water and electricity generally and out of such value and cost make an apportionment to the Ministers and officers having regard to the value of the accommodation and the cost of water and electricity which are generally used by the Ministers or officers for their purposes.

Answerability of the Central Government to the Central P.A.C. for detailed operations of the Contracts entered into by State Governments within the frame-work of a contract prepared by the Government of India.

R82. The representative of the Ministry of Food and Agriculture raised a question before the Committee—whether the Central Government was answerable to this Committee for the detailed operations of the contracts entered into by the State Governments with the firm. Illustrating his point, he referred to the various State schemes included in the Second Five-Year Plan for the implementation of which the States were responsible and accountable to the respective Legislatures though the schemes were within the Plan-frame as laid down by Parliament. While the Committee appreciate the force of the above argument, in their opinion, the present case is distinguishable in that the States concerned were not acting within a policy directive like food policy, but were constrained to act within the framework of a contract, prepared by the Government of India. The Committee regret to observe that the frame-work of the contract was defective in certain respects and was thus responsible for the subsequent lapses in the execution of the scheme in the States.

The Ministries had noted the recommendation for future guidance.

Taking into account of royalty in calculating profits of Forest Department.

R 83. The Committee's attention has been drawn to the fact that in working out the profits of the Forest Department, Andamans for 1952-53, no element of royalty had been taken into account. In extenuation, the representative of the Ministry of Food and Agriculture informed the Committee that this matter was considered in the past and dropped. The Committee feel that this was not correct and would suggest that in assessing the profits of the operations, there should be a set-off of an amount of royalty, which should be determined in consultation with Audit.

The Ministry of Food and Agriculture observed as follows:—The observation of the Committee has been noted. Instructions have, in consultation with Audit, been issued to the Chief Commissioner, Andamans, that the elements of Royalty should be taken up into consideration in preparing the Profit and Loss Accounts of the Andamans Forest Department, and that the same scale of Royalty should be adopted for this purpose as in the case of North Andamans which have been leased to Messrs. P. C. Ray.

Para 203 of Commercial Appendix to Appropriation Accounts (Civil) 1952-53

Avoidance of inclusion of credits of dubious nature in the Profit and Loss Account.

R 85. In this para, the Committee came across an interesting case. In the profit and loss account of the Nitrogenous Fertiliser Pool, for 1951-52, a sum of Rs. 5 lakhs representing anticipated recovery from a company was credited to the account of that year. This claim, as well as certain other counter-claims of the company, was referred

to Arbitrators who awarded a net sum of Rs. 5,44,011 to be paid by Government to the Company. In view of this, the net profit of Rs. 4,44,627 shown in the Profit and Loss account did not present the true working result of the Pool.

R 86. The Committee were informed that Government owed certain sums to the Company for services rendered in 1949 and 1950 and this claim was held up pending settlement of disputes regarding certain claims by Government on the Company. Necessary provision for payment of this amount to the Company was made in the profit and loss account for the previous year (1950-51). The Committee observe that the total of the claims preferred by the Company on Government was Rs. 12.82 lakhs. more than double the amount claimed by Government. Judging from the account of the progress of the earlier negotiation between Government and the Company as given in the note, they are at a loss to find the justification for taking-credit in the profit and loss account. Such credits of dubious nature not only distort the true picture of the working, but also go against well-recognised principles of commercial accounting. The Committee attach great importance to sound commercial accounting in view of progressive increase in the number of commercial undertakings run by Government. They would urge upon the Ministry of Finance to go into this question in consultation with the Comptroller and Auditor-General and see that the principles of commercial accounting are strictly followed.

The Ministries had accepted the recommendation of the Public Accounts Committee.

Write-off of loans to be made with the approval of Parliament.

R 94. The Committee consider that write-off of loans advanced on the authority of the Appropriation Act should be made with the approval of Parliament and would wish the Ministry of Finance to examine how such approval ought to be obtained.

APPENDIX XXIII TO THE PUBLIC ACCOUNTS COMMITTEE'S SEVENTH REPORT 1957-58 (VOLUME II)

Copy of Letter No. F. 10(33)-B/57, Government of India, Ministry of Finance (Department of Economic Affairs), New Delhi, dated the 13th March, 1958.

MEMORANDUM

2. At present, provision for such write off of loans is made in the Demands for Grants presented to the Parliament, and apart from Parliamentary control over the total amount that may be written off against the provision, Parliamentary approval is not sought to the writing off of individual items of irrecoverable loan. Government agree in principle that Parliamentary approval should be taken in all cases where substantial sums of irrecoverable loans are proposed to be written off. They would, therefore, suggest for the consideration of the Committee the establishment of a convention on the following lines.

Budget provision will continue to be made in the Demands for Grants as at present in respect of writes-off of all loans, but all proposals involving individual writes-off of Rs. 1 lakh or more for which provision is proposed in the Budget estimates will be explained in

the Budget documents i.e., in the Explanatory Memorandum on the Budget. If, in the course of the year new cases involving writes off of loans of Rs. 1 lakh or over occur, such cases will be treated as expenditure on a "New Service" and a Supplementary Grant will be obtained for the full amount or for a token sum if the additional expenditure could be met from within the amount already voted by Parliament under the particular head.

Suitable delegation of powers to avoid delay in execution of work.

R 133. In November, 1944, the Government requisitioned a house while under construction. The landlord had agreed to complete it if Government supplied the necessary materials. However, the house could not be completed due to the delay in the supply of the materials and it was released in October, 1945. Government had to pay a compensation of Rs. 3,300 as per award of the High Court besides legal expenses of Rs. 850. The High Court in their judgment observed "that somebody in the Department was not vigilant enough to complete the house". In evidence, the Committee were surprised to learn that the delay was attributable to inadequate delegation of powers. They trust that Government would review the existing powers of authorities and make suitable delegation of powers so as to avoid a recurrence of such cases.

Ministry of Works, Housing and Supply have stated as follows:—

* * * * *

2. The Government have reviewed the position and find that as the practice of requisitioning houses while they are under construction, has been discontinued, cases of this nature are not likely to arise again. It is unnecessary in the circumstances to consider the question whether these powers should not be delegated to the Estate Officer in the interest of expedition. It would be inadvisable also to delegate powers of derequisitioning to a junior officer. To obviate the possibility of houses remaining vacant pending decision regarding derequisitioning, instructions have been issued that proposals regarding derequisitioning must be put up well in advance of the date on which houses are likely to fall vacant, and ordinarily houses should not be kept vacant, while such proposals are under consideration.

Copy of letter No. EE—7(8)/57, dated the 17th January, 1958 from the Government of India, Ministry of Works, Housing and Supply, New Delhi to the Estate Officer, New Delhi.

SUBJECT:—De-requisitioning of buildings-delay in.

Cases have come to the notice of Government in which requisitioned buildings were kept vacant pending consideration of proposals for their derequisitioning. As Government's liability for compensation does not terminate until the building is actually de-requisitioned, it is requested that proposals regarding de-requisitioning must be put up well in advance of the date on which houses are likely to fall vacant and the buildings should not as a rule be kept vacant while such proposals are under consideration.

Ministries should obtain in advance explanations and comments on the irregularities included in the Audit Report

P 229. * * * The Comptroller and Auditor General informed the Committee that from the papers, it appeared that the Financial Adviser in London was not consulted in this matter and in the latter's opinion, the whole deal was unbusinesslike. The representative of the

Ministry of Finance could not throw any light on this. The Committee desired that in future the representatives of the Ministries should have in their possession all the facts relating to the cases under examination when they appeared before the Committee and for this purpose, the Ministry should take necessary action well in time by way of obtaining explanation, comments etc. on the irregularities cited in the Audit Report.

Inclusion of the transactions of the Steel Equalisation fund in the Consolidated fund.

P 232. With a view to meet the large demand of steel during the War at a uniform controlled price to the private consumer, a scheme was introduced from 1st February, 1953, whereby the controlled price was fixed at an average level which was higher than commercially profitable price at which the main producers of steel were selling but which was lower than the cost of imported steel or the price at which the marginal producers and re-rollers could be induced to manufacture. The idea was to utilise the extra price charged to the consumers towards subsidising the imports and the marginal producers. Although the scheme was intended to run on a 'no-profit, no-loss basis', as a result of the cautious policy followed, the balance in the Fund had increased to about fourteen crores, by 31st March, 1955. The transactions of the Fund have been kept outside the Consolidated Fund of India so far, though the incomings into the Fund representing amounts paid to Government by consumers were in the nature of revenue.

The Secretary stated that Government accepted the position that the transactions of the Fund should pass through the Consolidated Fund of India and that it would be implemented from the next year onwards.

Copy of letter No. F. 1(68)-B/56, dated the 19th November, 1957, from Government of India, Ministry of Finance (Department of Economic Affairs) to the Deputy Accountant General, Commerce, Steel and Mines, New Delhi and copy also to the Comptroller & Auditor General.

SUBJECT.—*Inclusion of the transactions of the Steel Equalisation Fund in the Consolidated Fund of India. Accounting procedure connected with*

I am directed to state that the Iron and Steel Equalisation Fund was set up in 1943 with the purpose of fixing a uniform selling price of iron and steel in India utilising for the purpose the difference between the equalised price and the retention price of steel. The connected transactions were, however, kept so far outside Government account. With a view to secure parliamentary control, it has been decided, in consultation with the Comptroller & Auditor General, that the corpus of the Fund should be transferred to the Public Account of India and the receipts and payments of the connected transactions routed through the Consolidated Fund of India. To give effect to this decision the following procedure should be followed with effect from 1-4-1957.

2. The amount to the credit of the Fund on 31-3-1957 should be credited to the detailed head 'Cash balance transferred to Revenue' under minor head 'Price Control of Iron and Steel' subordinate to the major head 'XXXII Industries and Supplies'. Simultaneously an equivalent amount will be debited to the minor head 'Transfer

to Iron and Steel Equalisation Fund' under the major Head "43-Industries and Supplies" by *per contra* credit under a new Major Head 'Iron and Steel Equalisation Fund' in Section "S—Deposits and Advances—Part II Deposits not bearing interest—B. Reserve Funds". The receipts from 1-4-1957 onwards should be credited to an appropriate detailed head under the minor head "Price Control of Iron and Steel" subordinate to the major head "XXXII Industries and Supplies" and transferred to the "Iron and Steel Equalisation Fund" in the Public Account by *per contra* debit to the minor head "Transfers to Iron and Steel Equalisation Fund" under major head "43—Industries and Supplies". The payments on account of subsidy to importers etc. will be debited to the relevant detailed head under minor Head "Price Control of Iron and Steel" subordinate to the major head "43—Industries and Supplies". Simultaneously an equivalent amount will be met from "Iron and Steel Equalisation Fund" in the Public Account by *per contra* credit under the minor head "Deduct—Amount" met from "Iron and Steel Equalisation Fund". All transaction in this regard will be centralised in your books.

3. Approval of the President under Article 150 of the Constitution to the opening of the Major head "Iron and Steel Equalisation Fund" in Section "S—Deposits and Advances—Part II Deposits not bearing interest—B—Reserve Funds" is hereby conveyed. It has also been decided in consultation with the Comptroller and Auditor General that the following Minor and detailed heads may be opened under the Major Heads "XXXII/43 Industries and Supplies".

<i>Major Head</i>	<i>Minor Head</i>	<i>Detailed Head</i>
1	2	3
XXXII Industries and Supplies.	Price Control of Iron & Steel.	(1) Surcharge on Iron & Steel. (2) Cash balance transferred to Revenue. (3) Other Miscellaneous Receipt. (4) Deduct-Refunds.
43 Industries and Supplies.	Price Control of Iron & Steel.	(1) Subsidy on Imports. (2) Payments to marginal Producers & Rerollers. (3) Charges on account of Technical Cooperation Agreement.
43 Industries and Supplies.	Transfer to Iron and Steel Equalisation Funds. Deduct—Amount met from Iron and Steel Equalisation Fund.	(4) Other charges.

INDEX

Explanation of Abbreviations etc.

In this index, 'I' refers to Epitome Vol. I of the P.A.C. Reports up to 1947-1948 (Pre-partition) and 'II' refers to the present volume.

R	.	.	Paragraph of the Report of the Public Accounts Committee.
RI	.	.	Paragraph of the Report of the Public Accounts Committee—Part I—Civil, Posts and Telegraphs and Defence Services.
RII	.	.	Paragraph of the Report of the Public Accounts Committee—Part II—Railways.
P	.	.	Paragraph of the proceedings of the Public Accounts Committee.
PI	.	.	Paragraph of the proceedings of the Public Accounts Committee—Part I—Civil, Posts and Telegraphs and Defence Services.
PII	.	.	Paragraph of the proceedings of the Public Accounts Committee—Part II—Railways.
P.A.C.	.	.	Public Accounts Committee.
M.A.C.	.	.	Military Accounts Committee.
M.A.G.	.	.	Military Accountant General.
G.I.	.	.	Government of India.
F.D.	.	.	Finance Department (Ministry).
H.D.	.	.	Home Department (Ministry).
R.D.	.	.	Railway Department (Board).
P. and T.	.	.	Posts and Telegraphs.
A.G.	.	.	Accountant General.
Ar. G.	.	.	Auditor General.
C. and Ar. G.	.	.	Comptroller and Auditor General.
D.C.A.	.	.	Director Commercial Audit.
I.S.D.	.	.	Indian Stores Department.
P. and L.	.	.	Profit and Loss Account.
M.E.S.	.	.	Military Engineers Service.
N.I.S.R.	.	.	Northern India Salt Revenue Department.
S.F.C.	.	.	Standing Finance Committee.
Year	.	.	(e.g. 1927-28) means the Year of the account to which the report relates.

NOTE.—The subject matter of the Index ordinarily represents the recommendations of the Public Accounts Committee ; but the decisions finally reached do not invariably accord with the recommendations. The final orders when passed by competent authority, are referred to in the body of the Epitome or in foot notes.

	A	PARAGRAPH	PAGE
ABANDONMENT OF CLAIMS—			
— to Revenue leviable under a Statute . . .		R-20/1927-28.	I-174
ABANDONMENT OF WORKS—			
Safeguarding against lighthearted—		R-7(M.A.C.)/1940-41 R-4 and 5 (M.A.C.) and P-5 and 8 (M.A.C.)/ 1941-42	I-470 I-497 I-498
ACCOUNTS—ADJUSTMENTS—			
Charging stores to Capital in Railways . . .		R-40/1921-22	I-13
Items should not be charged to suspense for want of information regarding incidence.		R-32/1922-23	I-22
Belated adjustments in accounts		(Orders below R-32/1922-23) R-44/1923-24 R-6/1924-25	I-22 I-57 I-67
Large annual adjustments		R-11/1925-26	I-123
Losses in central transactions incurred by Provincial Governments as Agents.		R-29(3) and 30-1926-27	I-166
Allocation of Railway Works expenditure . .		R-II-28/1930-31 R-II-9/1932-33	I-300 I-320
Writing off the balance under "Purchases and Sales of Silver".		PI-71/1936-37 PI-32/1937-38	I-376 I-403
— of profit on the circulation of Small Coins .		P-16/1939-40	I-446
— of premium received from Baroda Government on the purchase of Tapti Valley Railway.		P-II/1942-43	I-533
Correlation in budgeting between one Railway and another and between branches of the same Railway and inter-railway adjustments.		R-15 (3rd sub-para) 1940-41 R-20/1943-44 R-15(2) & P-60/1947-48 (Post-partition.)	I-466 I-561 II-11-12
Fictitious adjustments in accounts		R-24 and R-25/Thirteenth Report/1954-55	II-236-237
Elimination of Inter-Governmental and Inter-Departmental adjustments.		R-13/Twenty first Report/1956-57	II-305
ACCOUNTS—CLASSIFICATION—			
— Not to be changed during the course of a year		R-8-9/1921-22 R-12/(I)/1926-27 R-19/1941-42	I-1 I-153 I-495
— of expenditure on Committees appointed by Legislature and Government.		R-30/1921-22	I-12
— of expenditure between Voted and non-Voted and Capital and Revenue.		R-10/1922-23 R-27 & 29/1923-24	I-15 I-46
— to be written on bills by drawing officers . .		R-II/1922-23	I-15
Divergencies between budget and accounts due to—		R-35/1924-25 RI-5 (2nd sub-para)/1935-36	I-109 I-350
Changing — from Voted to Non-Voted		R-59/1925-26	I-149

	PARAGRAPH	PAGE
ACCOUNTS—CLASSIFICATION—<i>contd.</i>		
Misclassification to evade detection of irregularities.	R-33/1926-27	I-169
— of expenditure incurred as a matter of policy but admitted to be unjustified financially.	PII-19/1931-32	I-316
— recoveries of departmental charges of the I.S.D.	PI-28/1932-33	I-319
Accounts should follow budget even though provision in the budget might be incorrect —certain exceptions.	RI-5 (2nd sub-para)/1935-36 RII-8, PII-35 and 41/ 1937-38 P-6/1938-39 P-19/1941-42	I-350 I-417-418 I-437 I-510
— of payments to Travancore and Cochin Governments under Customs Revenue Agreement.	PI-32/1936-37 PI-34/1937-38	I-370 I-404
Avoiding net expenditure being minus in the Survey of India Department.	P-58/1942-43 P-36/1943-44	I-538 I-576
Simplification of headings in Defence Budget	P-2(M.A.C.) item 66/ 1944-45	I-633
ACCOUNTS—COMMERCIAL—		
Should accounts of commercial concerns be gross or net ?	R-8-11/1924-25	I-67-69
Commercial system of accounts in P. & T. . . .	R-15/1924-25 R-17/1925-26	I-77 I-134
Accounts of non-commercial portion of the I.S.D.	R-22/1925-26	I-135
Form of Balance Sheet of the Imperial Cattle Breeding Farm.	R-48/1925-26	I-148
Incorporation of P. & L. Account of N.I.S.R. Department in Appropriation Accounts.	R-41/1926-27	I-170
Incorporation of Balance Sheet of N.I.S.R. Department prepared by the D.C.A. in Appropriation Accounts.	R-42/1926-27	I-170
Accounts of Government Commercial Undertakings.	R-44/1927-28 R-12/1928-29 R-10/1929-30 RI-12/1932-33	I-198 I-207 I-238 I-317
Introduction of— in Government salt producing undertakings.	R-51/1927-28 P-105/1929-30	I-202 I-238
Introduction of— in Railway Collieries	R-70/1927-28 R-13/1928-29 P-49/1929-30 Appendix VI/1934-35 (Part II)	I-206 I-207 I-280 I-348
Presentation of results of the working of Railways in the form of commercial accounts.	R-13-14/1928-29 R-11-14 & P-92-96/1925-30	I-207-208 I-239-244
Commercial system of accounts in Army—Costing accounts in Army Factories.	R-15/1928-29 R-15/1929-30	I-208 I-250

	PARAGRAPH	PAGE
ACCOUNTS—COMMERCIAL—<i>contd.</i>		
Quasi-commercial accounts of I.S.D.	PI-91/1937-38	I-404
Exhibition in Appropriation Accounts of an up-to-date running account of debits and credits of Schemes connected with the War.	R-7/1942-43	I-518
Inclusion of accounts of all India Radio in Commercial Appendix.	P-70/1945-46 R-50/First Report/1951-52	I-654 II-90
Maintenance of ——— of Postal Life Insurance Organisation.	R-69/First Report/1951-52	II-103
Departmentalisation of accounts of the Hindustan Aircraft Limited.	R-41/Fourteenth Report/ 1954-55	II-246
Subsidiary ——— of the Central Research Institute, Kasauli.	R-79/ Sixteenth Report/ 1955-56	II-281
Avoidance of inclusion of credits of dubious nature in the Profit and Loss Account.	R-85-86/ Twenty third Report/1956-57	II-320-321
ACCOUNTS—GENERAL—		
Separation of Accounts from Audit	R-23/1923-24	I-36
	R-23-24/1924-25	I-96-97
	R-24/1925-26	I-136
	R-11/1947-48 (Post-partition.)	II-10-11
	Para 5 (Introduction) & R-2-3/Third Report/1952-53	II-130-138
Reconciliation of administrative or controlling officers' figures with those of A.G.	R-63/ Sixteenth Report/ 1955-56	II-281
	R-24/1923-24	I-36
	R-12(6)/1926-27	I-154
	R-7/1945-46 R-19 & P-149/First Report/ 1951-52	I-639 II-57-60
Treatment of losses of revenue in accounts	R-38/1923-24	I-52
	R-35/1925-26	I-141
Abandonment of system of cost accounting in Army.	R-67/1923-24	I-66
	R-34/1924-25	I-108
Conformity between accounts and demands for grants.	R-35/1924-25	I-109
	R-12(2)/1926-27	I-153
	RII-16/1930-31	I-297
Form of P. & T. accounts	R-62/1925-26	I-149
Irregular keep of initial accounts	R-33/1926-27	I-169
Reduction of detailed heads where possible	R-85/1926-27	I-171
Proforma account of expenditure on Auxiliary and Territorial Forces.	RI-20/1931-32	I-307
Stores accounts in Navy	R-8 (M.A.C.) and P-12 (M.A.C.)/1940-41	I-470
Accounting for stores despatched over seas	R-9(M.A.C.)/1940-41	I-474
Reorganisation of accounting arrangements in Royal Indian Navy.	R-10(M.A.C.)/1941-42	I-499

	PARAGRAPH	PAGE
ACCOUNTS—GENERAL—contd.		
Exhibition in Appropriation Accounts of an up-to-date running account of debits and credits of Schemes connected with the War.	R-7/1942-43	I-518
Accounting and auditing of expenditure relating to the grants made to Provinces for expenditure on War Publicity.	R-10 and P-89/1942-43	I-519
Accounts of the money spent on denial and similar measures in Bengal.	R11 and P-102/1942-43 R-11/1943-44	I-520 I-552
Measures to improve efficiency of the Audit Department.	P-114/1947-48 (Post-partition)	II-43-45
Comptroller and Auditor General should be consulted about audit and accounting arrangements before any big project is undertaken by Government.	R-7 and P-78/ 1947-48 (Post-partition)	II-6-8
Separation of financial and Accounts functions on the Railways.	R-22 and P-51/1947-48 (Post-partition) R-32/Tenth Report/ 1953-54.	II-15-17 II-215-217
Submission of Audit Reports on the — of Port Trusts to the Parliament.	R-56/First Report/1951-52	II-96-97
Financial, accounting and audit organisations for each project.	R85-86/Sixth Report/ 1952-53	II-161
Maintenance of initial — by the Departments.	R-113/Sixteenth Report/ 1955-56.	II-285-286
ACCOUNTS—PUBLICATIONS—		
Publication of Appropriation accounts and Audit Reports before presentation to the Legislature.	PI-87/1936-37 PI-18/1937-38	I-376 I-402
Proforma account of production and distribution of material for Foreign Publicity.	P-39/1946-47	I-663
ACCOUNTS—TRAINING—		
— of Defence Services personnel in fundamental principles of public expenditure and accounting.	P-1/1946-47	I-658
— of clerks in the Railway Accounts Offices	R-21 & P-50/1947-48 (Post-partition)	II-14-15
— of Audit and Accounts Officers in Railways	P-52/1947-48 (Post-partition)	II-42
ACCOUNTS OFFICER OR DEPARTMENT—		
Reconciliation of administrative or controlling officers' figures with those of —	R-24/1923-24 R-12(6)/1926-27 R-7/1945-46 R-19 & P-149/ First Report/1951-52.	I-36 I-154 I-639 II-57-60
Close touch between administrative and accounts authorities emphasised.	R-44/1923-24	I-57

	PARAGRAPH	PAGE
ACCOUNTS OFFICER OR DEPARTMENT—		
<i>contd.</i>		
Communication of financial sanction to audit and —.	R-25/1925-26 R-20 (7) and 21(ii)/ 1926-27 P-122/1929-30	I-137 I-157 I-280
Co-operation between Railway Accounts staff and Government Examiners (Mr. P. R. Rau's Report).	R-28/1927-28 R-24/1928-29	I-182 I-221
Collaboration between test audit and accounts Staff in Army and Railways.	RII-12/1930-31	I-295
Use of Chief Accounts Officer as Financial Adviser.	RII-22/1930-31 R-22&P 51/1947-48 (Post-partition)	I-299 II-15
Co-operation between administrative and accounts authorities and statutory audit in Army emphasised.	RI-7(M.A.C.)/1932-33	I-318
Placing Railway Accounts staff under General Managers.	RII-7 and PII-14 & 23/ 1936-37. RII-5 & PII-10/1937-38 R-12/1938-39 P-24/1946-47	I-378-380 I-413 I-429 I-662
Separation of the Financial and Accounts functions on the Railways.	R-22 & P-51/1947-48 (Post-partition) R-32/Tenth Report/ 1953-1954	II-15-17 II-215-217
ACT—		
Revision of Sea Customs Act, 1878 .	R-30/1924-25 R-16/1925-26	I-107 I-133
ADJUSTMENTS—		
See 'Accounts'		
ADMINISTRATION(IVE)—		
Representative of local ——— to appear before P.A. C.	Orders below R-9/1922- 23	I-14
Responsibility for obtaining funds for expenditure	R-22/1923-24	I-36
Facilities to ——— authorities watching progress of expenditure.	R-23/1923-24 R-23-24/1924-25	I-36 I-96-97
Reconciliation of administrative or controlling officers' figures with those of A. G.	R-24/1923-24 R-12(6)/1926-27 R-7/1945-46 R-19 & P-149/First Re- port/1951-52	I-36 I-154 I-639 II-57
Close touch between ——— and accounts authorities	R-44/1923-24	I-57-60
Audit of Railways managed by Companies ——— making audit independent of administration.	R-63/1923-24 R-71/1925-26 R-28/1927-28	I-65 I-150 I-182
Payments to Provincial Governments for Agency functions.	R-10(item 3)/1925-26	I-123
Reluctance to take decisions and assume responsibility.	R-15/Twenty second Re- port/1956-57	II-310-311

	PARAGRAPH	PAGE
ADMINISTRATION REPORT—		
Figures in — and Appropriation Accounts to agree.	R-54 & 68/1927-28	I-204-205
ADMINISTRATIVE AUDIT—		
See 'Audit'		
ADMINISTRATIVE VIGILANCE DIVISION—		
Creation of — in the Ministry of Home Affairs.	R-58/Sixteenth Report/1955-56	II-280-281
ADMINISTRATOR—		
Appointment of an — in the Hirakud Dam Project.	R-91/Sixth Report/1952-1953	II-163
ADVANCES—		
See 'Loans and Advances'		
AGENCY SUBJECTS—		
Payments to Provincial Governments for Agency functions.	R-10(item 3)/1925-26	I-123
Control over provision made for payment to State Government for agency functions.	R-16/Twenty-first Report/1956-57	II-3 6-308
AGENCY SYSTEM—		
— for Government purchases should not be adopted.	P-44/1945-46	I-653
AGREEMENTS—		
See 'Contracts'		
AIR FORCE—		
See 'Defence Services'		
AIR INDIA INTERNATIONAL LIMITED—		
Agreement with —	P-34/1947-48 (Post-partition)	II-39-40
ALLOCATION—		
— of Railway Works expenditure	RII-28/1930-31 RII-9/1932-33 RII-9/1934-35	I-300 I-320 I-343
— of expenditure on rolling stock on Company-managed railways.	RII-10/1932-33	I-321
— of expenditure written back from capital on account of abandoned projects.	RII-9 & PII-43/1937-38 P-7/1938-39	I-418-419 I-439
— of Defence Services expenditure and charges on account of War measures.	R-2(M.A.C.)/1939-40 R-2(M.A.C.)/1941-42 R-2 and 3 (M.A.C.)/1942-43	I-449 I-496 I-524-525
— of expenditure on evacuees and refugees from War Zones.	R-9/1942-43	I-519
— of works expenditure between Railways and Defence Services.	P-22/1943-44	I-576

	PARAGRAPH	PAGE
ALLOCATION—contd.		
— of Defence Works expenditure to 'Maintenance' or 'Capital'.	P-6/1947-48 (Post-partition).	II-31-32
	R-3/Second Report/1951-52	II-118-119
— of the cost of compensation for sub-merged land, reclamation and resettlement of displaced persons to Hirakud Dam Project.	R-82/Sixth Report/1952-53	II-159-160
ALLOTMENT—		
Late — of funds	R-25/1923-24	I-37
Rules governing — of residences be redrafted	R-37/1924-25	I-110
System of over allotment in Railways	R-9 & 12(4)/1926-27	I-151 & I-153
	R11/1927-28	I-173
	R-23/1928-29	I-220
	R11-14/1931-32	I-309
Distribution of — after the close of the year	R11-9(i)/1930-31	I-294
AMORTIZATION—		
Adequacy of the provision of Rs. 5 crores for — of debt.	R-24(i)/Fifteenth Report/1954-55	II-259
APPOINTMENT—		
No provision be made in budget for — kept in abeyance.	R-46/1923-24	I-58
— of honorary workers for valuation of assets	R-17/Twentieth Report/1955-56	II-302-303
APPRAISING—		
See 'Customs'		
APPROPRIATION ACCOUNTS AND AUDIT REPORT—		
Expenditure on purpose not approved by the Assembly or S.F.C. be mentioned in —.	Orders below R-21/1921-22	I-6
Remodelling of —	R-34 and 66/1923-24 R-38/1924-25	I-51 & 66 I-111
Details of allotments made out of the Reserve at the disposal of the P.W.D. be given in —.	R-51/1923-24	I-60
First Central (Civil) Report prepared on revised model.	R-38/1924-25	I-111
Subsidiary account of institutions supported by grants-in-aid from Government.	R-38/1924-25 P-III/1928-29 (reproduced as Note below R-38/1924-25)	I-111 I-112
Mention of cases of financial irregularities etc. in —.	R-34/1923-24 R-38/1924-25	I-51 I-111
Exhibition of balance Sheets of Imperial Cattle Breeding Farm in —.	R-48/1925-26	I-148
Balance Sheets to be included in — should conform to the type adopted by D.C.A.	R-48/1925-26	I-148

	PARAGRAPH	PAGE
APPROPRIATION ACCOUNTS AND AUDIT		
REPORT—contd.		
Form of P. & T. —	R-62/1925-26	I-149
Conformity between Demands for Grants (Railways) and the —.	R-69/1925-26 R-47/1927-28	I-150 I-200
Reconciliation of controlling officers' figures with accounts office figures before—are prepared.	R-12(6)/1926-27	I-154
Difficulties in interpreting 'New Service' be brought out in —.	R-22-23/1926-27	I-158-159
Mention of irregular concessions to contractors in —.	R-27(3)/1926-27	I-162
Inclusion in — of cases of lump sum contracts although advantageous not entered into.	R-27(6)/1926-27	I-163
P. & L. Account of the N.I.S.R. Department .	R-41/1926-27	I-170
Balance Sheet of the N.I.S.R. Department prepared by the D.C.A. be incorporated in the—.	R-42/1926-27	I-170
When cases of authorisation of expenditure in anticipation of approval of the S. F. C. etc. need not be mentioned in —.	R-87/1926-27	I-171
Exhibition of Reviews and Accounts of Government Commercial Undertakings in —.	R-44/1927-28 R-12/1928-29 R-10/1929-30 RI-12/1932-33	I-198 I-207 I-238 I-317
Discontinuance of advance reviews of Government Commercial Undertakings.	RI-12/1932-33	I-317
Figures of Administration Report and — should agree.	R-54 & 68/1927-28	I-204-205
Observations on Commercial Appendix to —.	R-12/1928-29 R-10/1929-30	I-207 I-238
Presentation of the results of working of Railways in —.	R-13-14/1928-29 R-11-14 and P-92-96/1929-30	I-207-208 I-239-244
Continuance of Commercial Appendix to — even after decentralisation of Commercial Audit Branch.	R-10/1929-30	I-238
Improved form of narrative survey in Army —.	R-24/1929-30	I-257
Improvements in the form of Railway —.	R-25/1929-30	I-258
Is — a privileged document?	P-19/1929-30	I-279
Commercial Appendix to — should mention whether stores balances were justified.	RI-21/1930-31	I-291
Preparation of — of individual Railways .	RII-20/1930-31	I-298
Discontinuance of printing of — of individual Railways.	PII-20/1932-33	I-324
Progressive accounts of expenditure from funds created for special expenditure be included in —.	RI-12/1933-34	I-325

	PARAGRAPH	PAGE
APPROPRIATION ACCOUNTS AND AUDIT REPORT—contd.		
Exhibition of receipts of centrally administered areas in —.	PI-32/1933-34	I-331
Discontinuance of exhibition of refunds in Demands for Grants and —.	RI-17/1934-35	I-336
Stock verification in Defence Services . . .	PI-12-14 (M.A.C.)/1934-35	I-338-339
Scope of Review of Railway — . . .	PII-60/1935-36	I-365
Publication of — before their presentation to the Legislature.	PI-87/1936-37 PI-18/1937-38	I-376 I-402
Statement of unsanctioned expenditure in Railway —.	R-14/1938-39	I-435
Percentage limit for explanations of variations in —.	R-8 (1st sub-para)/1939-40 R-8 (1st sub-para)/1940-41	I-446 I-462
Furnishing details of sub-head "Contingencies" in —.	R-8 (2nd sub-para)/1939-40 R-8 (2nd sub-para)/1940-41	I-446 I-463
Railway Administrations to furnish explanations for variations demanded by Audit.	R-18/1940-41	I-468
Exhibition in — of an up-to-date running account of debits and credits of Schemes connected with the War.	R-7/1942-43	I-518
P. & L. accounts of Railway grain shops . . .	P-9/1942-43	I-533
Inclusion in Civil Audit Report a section dealing with financial irregularities, losses and nugatory expenditure.	R-13/1943-44	I-561
Form of public accounts not to be changed without Ar. G.'s consent.	P-7/1943-44	I-572
Exhibition in the Grand Summary of —, excesses or savings in each grant compared with original grant or appropriation.	P-27/1943-44	I-576
Remodelling of Defence Audit Report . . .	R-11 (M. A. C.) & P-1 (M. A. C.)/1943-44	I-567-568
Amplification of Annexure 'D' to Railway —.	P-12/1944-45	I-605
Abolition of Annexure 'F' to Railway . . .	P-13/1944-45	I-607
Scrutiny of Defence — by the P. A. C. instead of the M. A. C.	R-3/1945-46	I-637
Inclusion of accounts of All India Radio in Commercial Appendix.	P-70/1945-46	I-654
Important financial irregularities be reported to the P. A. C. soon after their occurrence.	R-5/1947-48 (Pre-partition)	I-666
Discussion of P. A. C. Reports on the accounts relating to Pre-partition period by the Parliament.	P-9/1947-48 (Post-partition)	II-45-47

	PARAGRAP	PAGE
APPROPRIATION ACCOUNTS AND AUDIT REPORT—<i>concl.</i>		
Examination of the — by the P. A. C. before presentation to Parliament.	P-4 & P-3/1947-48 (Post-partition)	II-47
Delay in presentation to Parliament of Railway —.	R-5 & P-5/First Report/1951-52	II-52
Procedure for communication of draft paragraphs for the — on Missions abroad to the Ministries.	R-22 (i)/First Report/1951-52	II-69
Prompt action on irregularities reported in the Audit Report.	R-26 (i)/First Report/1951-52	II-73
Verification of facts included in the —	R-37/First Report/1951-52	II-77-79
Changes in the explanations for variations and the statement of expenditure appended to the—	Annexure I (page 114)/First Report/1951-52	II-105
Procedure for the preparation and submission of — to Parliament.	P-7 & P-8/First Report/1951-52	II-111-114
Inclusion of a paragraph regarding remission of outstanding demurrage and wharfage charges in—.	R-22/Tenth Report/1953-54	II-213-214
Presentation of Advance Audit Report in case of delay in compilation of—.	R-2/Fifteenth Report/1954-55	II-248
Expeditions compilation of—	R-10/Fifteenth Report/1954-55	II-250
Preparation of Advance Appropriation Accounts relating to excesses and presentation of Reports of Public Accounts Committee.	R-7 and R-8/Twenty First Report/1956-57	II-305
Ministries should obtain in advance explanations and comments on the irregularities included in the Audit Report.	P-229/Twenty-third Report/1956-57	II-323
APPROPRIATION AUDIT—		
Comparing actuals with both the original and final appropriations.	RI-4 and PI-70/1937-38	I-392
ARBITRATION—		
—tribunal to consist of not less than three persons.	R-6(2)/1947-48 (Post-partition) R-102/Nineteenth Report/1955-56	II-6 II-297-298
Reference of cases to — in which 'NO Claim' certificate has been signed by the contractors.	R-11/Fifth Report/1952-53 R-35/Tenth Report/1953-54 R-84/Thirteenth Report/1954-55	II-149 II-217-219 II-237-239
ARMY—		
See "Defence Services"		
ASSEMBLY—		
No re-appropriation should be proposed in placing supplementary demands before the—.	R-15/1921-22	I-2
—should not be asked to reduce grant already made.	R-16/1921-22	I-3

	PARAGRAPH	PAGE
ASSEMBLY—<i>contd.</i>		
A grant cannot be exceeded without sanction of the—.	R-18/1921-22 R-16/1923-24	I-3 I-34
Excess over total grant be brought to the notice of the — with the P. A. C.'s recommendation.	R-19/1921-22	I-3
Expenditure on purposes not approved by the — be brought to their notice through Appropriation Report — Exception.	(Orders below) R-21/1921-22 R-87/1926-27	I-6 I-171
Should — vote both gross and net grant.	R-27/1921-22 R-27/1922-23 R-8-11/1924-25	I-7 I-18 I-67-69
Regularisation of excesses over grants . . .	R-10/1923-24	I-33
Expenditure on 'New Service' be brought to the notice of the—.	R-20/1923-24 R-19/1924-25 R-7/1926-27	I-44 I-92 I-151
How losses of revenue be brought to notice of the Legislature.	R-38/1923-24 R-35/1925-26	I-52 I-141
Presenting to — a statement of non-voted supplementary grants sanctioned by F. D.	R-22/1924-25	I-95
Deliberate underspending under voted grants for meeting non-voted expenditure.	R-27/1925-26	I-139
—be given an opportunity to express their views before a votable item is declared as non-votable.	R-59/1925-26	I-149
Presentation of Supplementary Demands or Grants to—.	R-9/1926-27 R-17/1927-28	I-151 I-173
Procedure for considering the Report of the P. A. C. by—.	R-30/1927-28 R-11/1928-29	I-183 I-207
Test for determining whether a specific vote of the — is required.	R-32/1928-29 R-28/1929-30	I-231 I-280
Curtailement of information in regard to Railway receipts and expenditure as a measure of retrenchment.	R-36/1929-30	I-273
A specific vote of — be obtained for expenditure even though — is apprised of such expenditure being incurred.	RI-15/1931-32	I-307

AUCTION SALES—

Form and conditions of agreements	RII-13/1933-34 PII-5/1936-37 PII-18/1937-38 P-2/1938-39	I-334 I-383 I-423 I-441
Maintenance of record of all the bids in—	R-23/Twentieth Report/ 1955-56	II-303-304

	PARAGRAPH	PAGE
AUDIT—		
Should—bring to notice all excesses over grants placed at the disposal of disbursing officers.	R-10/1923-24	I-33
Separation of Accounts from —	R-23/1923-24 R-23-24/1924-25 R-24/1925-26 R-11/1947-48 (Post-partition) Para 5 (Introduction) and R 2-3/Third Report/1952-53 R63/Sixteenth Report/1955-56	I-36 I-96-97 I-196 II-10-11 II-130-131 II-281
— of customs receipts	R-40-41/1923-24 R-29/1924-25 R-20(6) & 21(i)/1926-27 R-19/1927-28 RI-36/1930-31 RI-13/1933-34 PI-29/1936-27 RI-8 and PI-23/1937-38	I-54-55 I-107 I-156-157 I-174 I-294 I-325 I-369 I-394
— of Railways managed by Companies under contract and other improvements	R-63/1923-24 R-71/1925-26	I-65 I-150
— to watch that expenditure on "New Service" is brought to the notice of the Assembly.	R-19/1924-25	I-92
Irregularities noticed in local audit and inspection of N.I.S.R. Department accounts.	R-26-27/1924-25 R-13/1925-26	I-105-106 I-131
Local — in Army	R-4/1924-25	I-108
Communication of financial sanctions to — .	R-25/1925-26 R-20(7) & 21(ii)/1926-27	I-137 I-157
— of receipts and stores	R-29-34 and 45/1925-26 R-20(6) & 21(i)/1926-27	I-139-140 and I-148 I-156-157
— of Secret Service Expenditure	R-41/1925-26	I-148
Improving — on Company lines	R-71/1925-26 R-28/1927-28	I-150 I-182
— to bring to notice of P.A.C. difficulties in interpreting "New Service".	R-22-23/1926-27	I-158-159
Irregular procedure to evade — objections .	R-33/1926-27	I-169
Prompt disposal of — objections	R-33/1926-27 R-9/1947-48 (Post-partition) R-98 & P 152/First Report/1951-52	I-169 II-9 II-79-84
Co-operation between Railway Accounts staff and Governments Examiners.	R-28/1927-28 R-24/1928-29	I-182 I-221
Responsibility of Railway board and Government Examiners in respect of allocation of expenditure.	R-64/1927-28	I-205
Retrenchment in Commercial Audit Department	R-10/1929-30	I-238
— of Police Clothing and Equipment Funds and similar funds.	RI-14/1930-31	I-282

	PARAGRAPH	PAGE
AUDIT—contd.		
Collaboration between the test audit and accounts staffs in internal check of Railway and Army Accounts.	RII-12/1930-31	I-295
Test audit of Railway transactions	RII-13(i)/1930-31	I-296
Limitations of — in detecting fraud.	RI-7(M.A.C.)/1932-33	I-318
— of income-tax receipts	PI-33/1936-37 RI-8 and PI-37/1937-38	I-370 I-394-395
Result of audit and allocation of Defence Services expenditure.	R-2(M.A.C.)/1939-40	I-449
Dilution of staff and relaxation of —	R-7/1941-42 R-12 and P-110 & 111/ 1942-43 R-11 & P-62/1945-46	I-488 I-521-523 I-647
Accounting and auditing of grants made to provinces for expenditure on War Publicity.	R-10 & P-89/1942-43	I-519
Delay in getting replies from M.E.S. to — objections.	P-14(M.A.C.)/1942-43	I-542
— requirements be dealt with promptly by Administrative Departments.	R-12/1943-44	I-560
— view should be accepted and acted upon provisionally pending a decision by higher authorities.	P-21/1946-47	I-661
— of the money spent on denial and other similar measures in Bengal.	R11 and P-102/1942-43 R11/1943-44	I-520 I-552
— of Statutory Corporations and Government Companies	R8, P6, P76, P103 & P104/ 1947-48 (Post-parti- tion) R-24/First Report/1951- 52 R-5/Third Report/ 1952-53.	II-8-9 II-72 II-138-143
Large Spending Departments should formulate comprehensive rules and regulations in connection with administrative — in their organisations.	R-10/1947-48 (Post-par- tition)	II-10
Separation of Treasury functions with — functions	R-11/1947-48 (Post-par- tition)	II-10-11
— of grants-in-aid by the Government of India to the Central Universities.	R-36 & P-100/First Re- port/1951-52 R-43/Fifteenth Report/ 1954-55	II-74-77 II-261-262
Separation of Accounts from — and Exchequer control over Public expenditure.	Para 5 (Introduction) & R-2 and 3/Third Re- port/1952-53 R-63/Sixteenth Report/ 1955-56	II-130-138 II-281
Vetting of Ministries notes/Memoranda by — before submission to the Public Accounts Committee.	R-7/Fifth Report/1952- 53	II-148
— to be apprised of financial and other aspects of all new major works.	R-34/Fifth Report/1952- 53	II-157

	PARAGRAPH		PAGE
AUDIT—concl'd.			
Internal ——— of accounts of the Embassies and Missions abroad.	R-83/Seventh 1952-53	Report/	II-183
——— of accounts of the Council of Scientific and Industrial Research by the Comptroller & Auditor General of India and the submission of the audited accounts and the Audit Report to Parliament.	R-86/Seventh 1952-53	Report/	II-183
Introduction of the Administrative Audit System in the various multipurpose River Valley projects.	P-134/Seventh 1952-53	Report/	II-184-190
Verification by ——— of the reasonableness of the prices charged by the Automatic Telephone & Electric Company Limited.	R-66(ii)/Tenth 1953-54	Report/	II-222
Appointment and functions of Chief Technical Examiner for large spending Ministries and big projects.	P-57/Eleventh 1953-54	Report/	II-227
Proposal to delegate powers to officers at various levels to dispose of ——— objections.	R-42/Fourteenth 1954-55	Report/	II-246-247
——— of accounts of the Visva Bharati University	R-43/Fifteenth 1954-55	Report/	II-261-262
——— objections should not be dealt with by the officers responsible for the irregularity.	R-44/Fifteenth 1954-55	Report/	II-263
The officers should not put forth as a plea for any act of irregularity committed by them, the failure of ——— to detect it.	R-40/Sixteenth 1955-56.	Report/	II-275

AUDIT DEPARTMENT—

Retrenchment in Commercial ———	R-10/1929-30		I-238
Retrenchment, re-organisation and reform in ———	RI-36/1930-31		I-294
Dilution of staff and relaxation of audit	R-7/1941-42 R-12 and 1942-43 R-11 and P-62/1945-46	P-110-111/	I-488 I-521-523 I-647
A. G. be consulted about audit and accounting arrangements before undertaking new schemes.	R-11 and P-62/1945-46		I-647
Measures to improve efficiency of the ———	P-114/1947-48 (Post-partition)		II-43-45

AUDITOR GENERAL—

Reporting excesses over the lower maximum fixed by F. D. for control purposes.	R-18/1921-22		I-3
Reporting cases of expenditure incurred on purposes not approved of by Assembly or S.F.C.	Orders below R-21/1921-22		I-6
Undue application of powers of re-appropriation be brought to notice by ———.	R-21/1922-23		I-16
Bringing to the notice of Assembly expenditure on 'New Service'.	R-19/1924-25		I-92
Reporting cases of irregularities in contracts	R-13/1925-26		I-126

	PARAGRAPH	PAGE
AUDITOR GENERAL—contd.		
— to furnish to P.A.C. a Memorandum on doubtful cases of 'New Service' — Discontinued.	R-31/1927-28 RII-11/1932-33	I-194 I-322
—'s consent and advice a pre-requisite for relaxation of normal works procedure.	R-5(M.A.C.)/1942-43	I-525
AUTOMATIC TELEPHONE AND ELECTRIC COMPANY—		
Verification by the Comptroller and Auditor General of the reasonableness of the prices charged by —.	R-66(ii)/Tenth Report/ 1953-54	II-222
B		
BALANCES—		
Review of Provincial—	R-37/1928-29	I-236
Utilisation of— in General Reserve Fund Lighthouses 'and' Lightships.	P-63/1944-45	I-629
Stores— in the P. & T. Department	P-74/1945-46 R-25/Fifth Report/ 1952-53	I-656 II-154-155
Verification of Ground — of Military stores	P-11/1947-48 (Post-partition).	II-33-35
BALANCE SHEETS—		
See 'Accounts-Commercial, Appropriation Accounts and Audit Report'.		
BENGAL PILOT SERVICE—		
Heavy Repairs Reserve for—	PI-65/1936-37	I-375
BLACKLISTING—		
— of contractors who fail to refund the amounts paid to them in excess.	R-25/Seventh Report/ 1952-53	II-168
— of contractors with bad record and circulation of the list to all Ministries.	R-18/Eighth Report/ 1953-54	II-192-193
BORROWING—		
— money from a Municipality to meet expenditure debitable to Government is irregular.	R-48/1923-24	I-59
BUDGET—		
See 'Estimate', 'Grant'.		
BUILDING(S)—		
Houses built for officers of higher status should not be allotted to officers of lower status.	R-37/1924-25	I-110
Repairs to P. & T. —	R-23/1927-28	I-175
Hiring of a private — for Railway use	R-17(v)/Second Report/ 1951-52	II-129
Policy for construction of — by the Posts & Telegraphs Department.	R-36/Fifth Report/ 1952-53	II-157-158

	PARAGRAPH	PAGE
BUSINESS VERSUS PUBLIC INTEREST—		
Terms of employment of officers drawn from business houses.	R-11(M.A.C.)/1940-41	I-479
C		
CANTEEN STORES DEPARTMENT—		
Set up of—	R-40/Fourteenth Report/ 1954-55	II-244
CAPITAL—		
Charging stores to—in Railways	R-40/1921-22	I-13
Estimating— expenditure on Railways	R-8/1923-24 R-14/1924-25 R-11/1927-28 R-21/1928-29	I-32 I-76 I-173 I-219
Importance of correct estimating of— expenditure.	R-8/1925-26	I-121
G.I. to examine financial prospects of projects, financed from loans to be granted by them.	R-35/1929-30 RI-12/1930-31	I-272 I-261
Classification of expenditure incurred as a matter of policy but admitted to be unjustified financially.	PII-19/1931-32	I-316
Allocation of expenditure on rolling stock on company-managed railways.	RII-10/1932-33	I-321
Write off of—represented by assets not in use or by no tangible assets.	PII-9/1932-33	I-324
Allocation of Railway Works expenditure between— and Revenue.	RII-9/1934-35	I-343
Reduction in—at charge of Railways consequent on adoption of statutory rate of exchange.	RII-8/1935-36	I-357
Retaining several grants for— expenditure and a—head for expenditure on the commutation of pensions.	RI-8/1935-36 PI-21/1936-37	I-353 I-369
Charging unremunerative expenditure to Revenue.	PI-23/1936-37	I-369
Providing a fund for— Works expenditure	RI-6/1936-37 RI-6(2nd sub-para) and PI-51/1937-38	I-367 I-393-394
Providing a Development Fund for Railway— expenditure.	RII-4/1936-37 RII-4/1937-38	I-378 I-410
Allocation of expenditure on abandoned projects written back from—.	RII-9 and PII-43/1937-38 P-7/1938-39	I-418-419 I-439
Improving return on— invested in Railway residential buildings.	PII-36/1937-38	I-425
Accounting of premium received from Baroda Government on purchase of Tapti Valley Railway.	P-11/1942-43	I-533
Goodwill should not be taken as—employed in calculating profit.	R-9(1st sub-para) M.A.C. P-24(M.A.C.)/1943-44	I-566

	PARAGRAPH	PAGE
CAPITAL—contd.		
— expenditure on expansion of Jubbulpore Workshop.	P-26 (1st sub-para)/1944-45	I-610
Control over — grants and surrender of funds thereof.	R-13(b)/Fifteenth Report/1954-55	II-251
CAPITAL OUTLAY ON NEW DELHI—		
Exhibiting recoveries from Railways, P. & T. and War Estimates in running account of—.	P-104/1943-44	I-582
CAPITAL (STATEMENTS)—		
— should show book value and not actual value of Railway assets.	PII-28/1936-37	I-390
CAR—		
Purchase of a — by High Commissioner without prior sanction of Government.	R-26 (iv)/First Report/1951-52.	II-73
CASH—		
Regarding — sales in India Stationery Office, Calcutta.	P-33/1947-48 (Pre-partition).	I-667
Procedure for handling — and postage stamps etc. in the Head and Branch Post Offices.	R-52 and R-54/Twenty-second Report/1956-57	II-313
CASH BALANCES—		
Periodical verification of — balances with the Imprest Holders.	R-57 & R-58/Ninth Report/1953-54.	II-203
CASH CERTIFICATE(S)—		
Embezzlement of the sale proceeds of Postal Certificate.	R-41-45 and R-47/Twenty-second Report/1956-57.	II-312
CASHIER(S)—		
Furnishing of securities by — in the form of both cash and property.	R-22/Seventh Report/1952-53.	II-165-168
CENTRAL RESEARCH INSTITUTE—		
— subsidiary Accounts of the Central Research Institute, Kasauli.	R-79/Sixteenth Report/1955-56.	II-281
CENTRAL TRACTOR ORGANISATION—		
Working of the —	R-7 and P-78/1947-48 (Post-partition).	II-6-8
CENTRAL WATER AND POWER COMMISSION—		
Functions of the — and Chairman of the —	R-90/Sixth Report/1952-53.	II-161-163
Functions of the —	P-131/Seventh Report/1952-53.	II-183-184
CENTRAL UNIVERSITIES—		
Audit of grants-in-aid paid by the Government of India to the —.	R-36 and P-100/First Report/1951-52.	II-74-77

	PARAGRAPH	PAGE
CERTIFICATE (S)—		
Perfunctory signing of—— and statements . . .	R-39/1925-26	I-147
Form of—— of Secret Service expenditure in England.	R-41/1925-26	I-148
Reference of cases to arbitration in which "No Claim" certificate had been signed by the contractors.	R-11/Fifth Report/1952-53	II-149
CHECK—		
—— of Dead Stock Registers . . .	R-35/1922-23	I-24
—— of Customs receipts. . .	R-40-41/1923-24 R-29/1924-25 R-20(6) & 21(i)/1926-27 R-19/1927-28 RI-36/1930-31 RI-13/1933-34 PI-29/1936-37 RI-8 and PI-23/1937-38	I-54-55 I-107 I-156-157 I-174 I-294 I-325 I-369 I-394
—— over current purchases of stores (P. & T.) . . .	R-65/1925-26	I-149
Internal—— of Army and Railway accounts . . .	RII-12/1930-31	I-295
CHIEF TECHNICAL EXAMINER—		
Appointment and functions of—— for large spending Ministries and big projects.	P-57/Eleventh report/1953-54	II-227
CIVIL AVIATION—		
Subsidy given by Central Government for ——.	P-51/1945-46	I-655
Provision for major works should be made in consultation with P.W.D.	P-37/1947-48 (Post-partition).	II-40
CLASSIFICATION—		
See under 'Accounts'		
CLASSIFICATION, CONTROL AND APPEAL RULES—		
Amendment of —— to secure prompt disciplinary action against persons responsible for irregularities.	R-1 and P-40/1946-47 R-2 and 4/1947-48 (Pre-partition). R-48/First Report/ 1951-52 R-37/Seventh-Report/ 1952-53.	I-658 I-664 II-88-90 II-170-171
COAL RATES—		
Intimation of revised —— by the Goal Commissioner to the Railway Administration.	R-17 (iii)/Second Report/ 1951-52	II-126
CODES, MANUALS, ETC.—		
Revision of Sea Customs Act . . .	R-30/1924-25 R-16/1925-26	I-107 I-133
Simplification of Army Regulations and preparation of basic rules for various classes of personnel.	RI-3 (M.A.C.)/1931-32 P-23 (M.A.C.)/1939-40	I-308 I-459
Reducing the size of Railway Codes.	RII-5 and PII-4/1936-37	I-378

	PARAGRAPH	PAGE
CODES, MANUALS, ETC.—<i>contd.</i>		
An introduction containing precepts from certain ancient Hindu books be added in the various Public Account Codes published by the C. & Ar. G.	P-4/1947-48 (Post-partition).	II-51
Procedure regarding submission and disposal of cases.	R-20 & R-24/ Fourth Report/1952-53	II-144-147
COLLIERTIES—		
Commercial accounts of ——— worked by Railways	R-70/1927-28 R-13/1928-29 P-49/1929-30 Appendix VI /1934-35 (Part-II)	I-206 I-207 I-280 I-348
	P-69/1947-48 (Post-partition)	II-43
Railway ——— should not be so worked as to subsidise coal industry.	RII-9(3rd sub-para)/ 1933-34	I-331
Charging value of coal supplied by ——— to Railways owning them and to foreign Railways.	R-21/1941-42 P-2(item I)/1942-43 P-4(5th sub-para)/1944-45.	I-495 I-530 I-604
Adjustment of losses on Railway ———	PII-14/1937-38	I-422
COMMERCIAL ACCOUNTS—		
See 'Accounts', 'Appropriation Accounts and Audit Report'.		
COMMITTEE—ESTIMATES—		
Functions of P.A.C. and ———	Annexure I to Appendix XLIX/First Report/ 1951-52.	II-106-111
COMMITTEE—FINANCE—		
Expenditure incurred on purposes not approved by Assembly or S.F.C. be brought to P.A.C.'s notice by Ar. G.	Orders below R-21/1921-22.	I-6
Advance indents for Railway stores	R-30-31/1922-23	I-19
Approval of ——— necessary for new and important items not contemplated in budget.	R-20/1923-24	I-44
Functions of Railway ——— in respect of form of Railway Demands for Grants.	R-69/1925-26 R-47/1927-28	I-150 I-200
——— to consider cases of 'New Service' in the light of case law evolved by the P.A.C.	R-22/1926-27 R-39/1927-28	I-158 I-196
COMMITTEE—GENERAL—		
Classification of expenditure approved by Legislature or by Government.	R-30/1921-22	I-12
Examination of cost accounting system in Army by a special ———.	R-57/1923-24	I-66
Institution of a ——— to co-ordinate purchases of stores for various Departments.	R-21/1925-26	I-135

	PARAGRAPH	PAGE
COMMITTEE—MILITARY ACCOUNTS—		
Constitution of—and its subsequent dis- solution.	R-31/1929-30 R-3/1945-46	I-260 I-637
COMMITTEE—PUBLIC ACCOUNTS—		
Reporting to—excesses over lower maximum limit fixed by F. D.	R-18/1921-22	I-3
— to examine excesses over grants before being brought to the notice of Assembly.	R-19/1921-22	I-3
Representative of a local administration to appear before — when necessary.	Orders below R-9/1922- 23.	I-14
Extent to which — is competent to deal with receipts.	R-38/1923-24 R-29/1925-26	I-52 I-139
How losses of revenue etc., be brought to the notice of—.	R-38/1923-24 R-35/1925-26	I-52 I-141
Form of Demands for Grants and Appropriation Accounts primary concern of —.	R-9/1924-25	I-67
— to report to Assembly cases of deliberate under-spending under voted grants for meet- ing non-voted expenditure.	R-27/1925-26	I-139
— be given an opportunity to express their views before a votable item is declared as non- votable.	R-59/1925-26	I-149
Audit to bring to notice of — difficulties in in- terpreting 'New Service'.	R-22-23/1926-27	I-158-159
Report of — once made cannot be unmade by anybody.	R-30/1927-28	I-183
Procedure for considering Report of — by As- sembly.	R-30/1927-28 R-11/1928-29	I-183 I-207
Disposal of —'s Report by Government — discontinuance of omnibus resolutions — quarterly statements for members of the com- mittee.	(Orders below R-30/1927- 28). R-11/1928-29 R-21/1929-30	I-185 I-207 I-257
Functions of — in respect of form of Railway Demands.	R-47/1927-28	I-200
D.C.A.'s note to — for examining the accounts of Commercial concerns.	R-14/1928-29	I-208
Duty of — in respect of Railway accounts and preparation of Financial Commissioner's Review.	R-11-14 and P-92-96/ 1929-30 R-25/1929-30	I-239- 244 I-258
Prompt action on —'s recommendations em- phasised.	R-21/1929-30 RII-15/1933-34 R-9/1944-45 R-38/Fifth Report/1952- 53 R-5 (Introduction)/ Six- teenth Report/1955-56	I-257 I-335 I-590 II-158 II-271
Functions of — in respect of Army Appropria- tion Report.	R-31/1929-30	I-260

	PARAGRAPH	PAGE
COMMITTEE—PUBLIC ACCOUNTS—contd.		
— meetings be held in private. Method of publishing the proceedings of the Committee.	P-13/1929-30	I-279
Printing and publication of verbatim record of evidence and discussions of —.	PII-19/1935-36 R11/1940-41	I-363 I-466
Supply of copies of Central Finance Accounts to members of —.	PI-17/1937-38	I-402
Scrutiny of Defence Appropriation Accounts by — instead of M.A.C.	R-3/1945-46	I-637
Important financial irregularities be reported to — soon after occurrence.	R-5/1947-48 (Pre-partition).	I-666
Discussion of P.A.C. Reports on the accounts relating to Pre-partition period in the Parliament.	P-3/1947-48 (Post-partition).	II-45-47
Examination of the Accounts and Report by the — before presentation to Parliament.	P-4 & P-3/1947-48 (Post-partition).	II-47
Audit of receipts	P-6/1947-48 (Post-partition).	II-47
Form and structure of the Report of — and consideration of Finance Accounts.	P-3/1947-48 (Post-partition).	II-48-51
Presence of the representatives of the Ministries at the meetings of the —.	R-72 & P-87/ First Report/1951-52	II-103-104
Disclosure to — of the names of officers responsible for irregularities.	P-167/First Report/1951-52	II-104
Functions of — and Estimates Committee .	Annexure I to Appendix XLIX/First Report/1951-52.	II-106-111
Form and structure of the Report of the — and scrutiny of the accounts of Revenues, Borrowings, Public Debt, etc.	Appendix LI/First Report/1951-52	II-114-116
Vetting of Ministries notes/Memoranda by Audit before submission to the —.	R-7/Fifth Report/1952-53	II-148
Examination of the accounts of the Hirakud Dam Project by the Central —.	R-2, 3 & 4/Sixth Report/1952-53	II-159
Notes/Memoranda for — to be signed by Secretary or Joint Secretary.	P-249/Seventh Report/1952-53	II-190
Implementation of the recommendations made by the —.	R-55/Tenth Report/1953-54	II-221
Presentation of the Champkekar Committee Report on the Mahanadi Bridge (Hirakud Dam Project) to Parliament before consideration by the —.	P-16-19/Eleventh Report/1953-54.	II-225-227
Review of outstanding items of previous reports of — procedure in reporting.	P-235/Thirteenth Report/1954-55	II-240
Scope and extent of control by the Central Govt., over Bhakra Nangal Project and the jurisdiction of Central — to examine its Accounts and Report.	R-5 and P184-186/Fifteenth Report/1954-55.	II-248-250

	PARAGRAPH	PAGE
COMMITTEE—PUBLIC ACCOUNTS—<i>contd.</i>		
Representatives of the Ministries appearing before — should possess correct and relevant facts.	R-106/Nineteenth Report/1955-56.	II-298
Preparation of advance Appropriation Accounts relating to excesses and presentation of Reports of —.	R-7 and R-8/Twenty-first Report/1956-57.	II-305
Entrusting work relating to the — to a senior officer in each Ministry.	Paragraph 5 (Introduction) Twenty-third Report/1956-57.	II-314
Answerability of the Central Govt. to the — for detailed operations of the contracts entered into by State Governments within the frame work of a contract prepared by the Govt. of India.	R-82/Twenty-third Report/1956-57.	II-320
Ministries should obtain in advance explanations and comments on the irregularities included in the Audit Report.	P-229/Twen-tythird Report/1956-57.	II-323
COMPENSATION—		
Payments on account of — should be paid only on the authority of the certificate of the Military authorities requisitioning the land.	P-24/1947-48 (Post-partition).	II-37-38
Period of retention of files relating to — claims on Railways.	P-190 and P-191/Thirteenth Report/1954-55.	II-239
COMPTROLLER AND AUDITOR GENERAL—		
Before Statutory Corporations involving financial commitments are created, the — be consulted in regard to the provision for accounting and audit control.	R-8, P-6, P-76, P-103 & P-104/1947-48 (Post-partition). R-24/First Report/1951-52	II-8-9 II-72-73
Working and Audit of Private Limited Companies.	R-5/Third Report/1952-53	II-138-143
CONCESSIONS—		
Sanction of G. 2, necessary for free use of trunk telephone line by a firm having business transactions with P. & T. Department.	R-28/1926-27 R-20/1927-28	I-165 I-174
Railway grain shops — . . .	P-8/1942-43	I-532
Irregular — to contractors . . .	R-27(3)/1926-27 P-21(1st sub-para)/1944-45.	I-162 I-608
Curtailing — on multiple address press Telegrams.	RI-10 and PI-76/1936-37 RI-11 and PI-76/1937-38	I-368 I-397
CONSOLIDATED FUND OF INDIA—		
Exhibition in accounts of adjustments between the — and the Public Account regarding expenditure from various Reserves created out of Railway revenues.	P-109/Tenth Report/1953-54	II-223-224
Inclusion of the transactions of the Steel Equalisation Fund in the —.	P-232/Twenty-third Report/1956-57.	II-323-324
CONTINGENCY FUND—		
Starving a— in India	R30-33/1923-24 R-12/1924-25	I-47-50 I-74

CONTRACTS—GENERAL—

	PARAGRAPH	PAGE
Sanction of F. D. necessary for unusual conditions and material variations in —	R-49/1923-24 R-18/1924-25 R-13/1925-26 R-27(1)/1926-27	I-60 I-91 I-126 I-162
Drafting of — and scrutiny of rates . . .	R-18/1924-25 R-13/1925-26	I-91 I-126
Rules and procedure for giving out — . . .	(Orders below R-18/1924-25). R-13/1925-26 R-27/1926-27	I-91 I-126 I-162
Scrutiny into financial status of firms or contractors before — are given.	R-13/1925-26	I-126
Conditions of — must be clear and definite .	R-13/1925-26 R-27(1)/1926-27	I-126 I-162
— should not be given without agreement as to price.	R-13/1925-26	I-126
Ar. G. to bring to P.A.C.'s notice irregularities in —.	R-13/1925-26	I-126
Prompt steps be taken to revise terms of — if found defective or contrary to original intention.	R-27(2)/1926-27	I-162
Irregular concessions to contractors . . .	R-27(3)/1926-27 P-21 (1st sub-para)/1944-45.	I-162 I-608
<i>Ex-gratia</i> payments to contractors . . .	R-27(4)/1926-27 P-21 (2nd sub-para) M.A.C./1943-44. P-17(M.A.C.)/1944-45.	I-162 I-587 I-636
Lump sum — though advantageous but not entered into be mentioned in Appropriation Report.	R-27(6)/1926-27.	I-163
Relaxation of terms of agreement should not be allowed in Railways without the advice of Chief Accounts Officer.	RII-22 & 26/1930-31	I-299
Agreement for — and subsequent modifications should be in writing.	RII-27/1930-31	I-300
Form and conditions of agreements . . .	RII-13/1933-34 PII-5/1936-37 PII-18/1937-38 P-8/1938-39	I-334 I-383 I-423 I-441
Lump sum — cannot be based upon a previous one unless the work is completely identical.	P-9(M.A.C.)/1939-40	I-458
Placing independent orders for jute and jute goods instead of through the Jute Adviser to Government.	P-21 (M.A.C.)/1940-41	I-483
Centralising information regarding rates paid for works executed by M.E.S.	P-9(M.A.C.)/1941-42	I-513
Procurement of War Supplies . . .	R-11 (M.A.C.)/1941-42 P-24 (M.A.C.)/1942-43	I-501 I-542

	PARAGRAPH	PAGE
CONTRACTS—GENERAL—contd.		
Material for checking—should be conserved .	P-10(M.A.C.)/1941-42	I-514
*Commencing work on verbal understanding that lump sum prices would be settled by negotiation after completion of the work.	P-11(M.A.C.)/1941-42	I-514
System for placing — in Military Department	R-6(M.A.C.) and P-6 (M.A.C.)/1942-43.	I-526
No work of any kind should be commenced without prior execution of contract documents — exceptional course requires approval of financial authorities.	R-19/1942-43 R-7(M.A.C.)/1942-43 P-8/1943-44 R-25/Eighteenth Report/1955-56.	I-524 I-527 I-573 II-289
Advance payments to contractors.	R-8(M.A.C.)/1943-44 R-10(M.A.C.)/1944-45	I-564 I-603
Goodwill should not be taken as capital employed in calculating profit.	R-9(1st sub-para) M.A.C. and P-24(M.A.C.)/1943-44	I-566
Inspection of books of companies and firms for purpose of cost investigation.	R-9(3rd sub-para) M.A.C. /1943-44.	I-567
— should provide that if costs are increased or decreased by an Act of Legislature the contract price shall be correspondingly varied.	P-21(1st sub-para) M.A.C. /1943-44*	I-586
Abolition of system of — employing labour through contractors in Telegraph Workshop, Alipore.	P-26(4th sub-para)/1944-45	I-618
Giving the system of employing agents instead of contractors for Government purchase.	P-44/1945-46	I-653
Legal advice be taken before cancelling — .	P-30/1947-48 (Pre-partition).	I-666
Standard contract forms should be drawn up and contracts entered into after obtaining legal, financial and technical advice.	R-6(i) and R-17/1947-48 (Post-partition) P-167/Ninth Report/ 1953-54.	II-5-6 II-207-209
Arbitration by a Tribunal consisting of not less than three persons.	R-6(2)/1947-48(Post-partition). R-102/Nineteenth Report/ 1955-56.	II-6 II-297-298
Railway Administrations should draw up standard forms of Agreements with the approval of the Railway Board after taking legal and financial advice.	R-17/1947-48 (Post-partition).	II-6
Agreement with Air India International Limited	P-34/1947-48 (Post-partition).	II-39-40
Loss due to change in specifications after placing of orders.	R-33/First Report/ 1951-52	II-74
“Cost-plus” — should be avoided except, when inevitable.	R-13/Fifth Report/1952-53	II-149-150

	PARAGRAPH	PAGE
CONTRACTS—GENERAL—concl.		
Recovery from contractors employed for the handling of treasury work in the Post Offices.	R-27/Fifth Report/1952-53.	II-155
Loss in import of fertilizers due to purchase through intermediaries and not on Government to Government basis.	R-17/Seventh Report/1952-53.	II-165
Black listing of contractors, and circulation of the list to all Ministries of Government of India.	R-25/Seventh Report/1952-53. R-18/Eighth Report/1953-1954.	II-168 II-192
Payments by All India Radio to the news agencies should be made on the wordage.	R-46/Seventh Report/1952-53.	II-173-174
Irregular transfer of —	Para-3 (Introduction)/Eighth Report/1953-54	II-191
Splitting up of big — involving sale of goods into sizeable lots.	R-17/Eighth Report/1953-54.	II-191-192
Verification of the antecedents of the tenderers and black listing of contractors with bad records.	R-18/Eighth Report/1953-54.	II-192-193
Payments relating to settlement of cases out of Court.	R-46/Ninth Report/1953-54.	II-200-202
Comprehensive procedure should be laid down to cover cases where normal rules cannot be followed.	R-30/Tenth Report/1953-54.	II-214-215
Provision for future revision of agreement	R-68/Tenth Report/1953-54	II-222
Changing of specifications in a — requires sanction of the Head of the Department.	R-3/Twelfth Report/1953-54.	II-228
Concessions in — to be made not through exchange of letters but by making specific provision in the original or supplementary agreement.	R-57/Thirteenth Report/1954-55.	II-237
Letter of Intent should be communicated to Audit.	R-34/Fifteenth Report/1954-55.	II-260-261
Warranty clause should invariably be provided in —.	R-49/Fifteenth Report/1954-55.	II-263-265
Officers sent abroad for procuring supplies etc., should associate with the Head of the Supply Mission before starting direct negotiations.	R-50/Fifteenth Report/1954-55.	II-265
Proposal to insert a mandatory clause in — whereby the contractors should notify vacancies to the Employment Exchanges.	R-55/Fifteenth Report/1954-55.	II-265
Legislation to review concluded contracts and to effect recovery of overpayment.	R-90/Fifteenth Report/1954-55.	II-269
Answerability of the Central Government to the Central P. A. C. for detailed operations of the contracts entered into by State Governments within the framework of a contract prepared by the Government of India.	R-82/Twentythird Report/1956-57	II-320

	PARAGRAPH	PAGE
CONTRACTS—PENALTIES—		
A civil suit against a contractor should not be withdrawn without the sanction of competent authority.	R-27(5)/1926-27	I-162
CONTRACTS—TENDERS—		
—should not be given without inviting tenders.	R-18/1924-25 R-13/1925-26 R-27/1926-27 RII-25/1930-31.	I-91 I-126 I-162 I-299
Irregularities in accepting tenders be reported to P. A. C. by Ar. G.	R-13/1925-26	I-126.
Replacement of contracts on actual cost plus profit basis by contracts at fixed prices.	R-5(M. A. C.)/1939-40	I-450
Guarding against high rates where non-competitive single tenders and negotiated — are accepted.	R-5(M. A. C.)/1940-41	I-469
System for placing — in Military Department.	R-6(M. A. C.) and P-6 (M. A. C.)/1942-43.	I-526
Schedule of rates in M. E. S. and transfer of Chief Technical Examiner from Quarter Master General to Engineer-in-Chief.	P-13(M. A. C.)/1942-43	I-541
<i>Ex-gratia</i> payments to contractors	R-27(4)/1926-27 P-21(2nd sub-para) M. A. C./1943-44 P-17(M. A. C.)/1944-45.	I-162 I-587 I-636
When only one approved contractor tenders for a work, fresh tenders should be invited unless the work is very urgent.	P-21(4th sub-para)/1944-45	I-609
Verification of antecedents of tenderers and black listing of contractors with bad records.	R-18/Eighth Report/ 1953-54.	II-192-193
CONTROL—EXECUTIVE—OVER EXPENDITURE—		
F. D. to fix a lower maximum to the spending Departments for control purposes.	R-18/1921-22 R-12/1925-26	I-3 I-125
Funds should be obtained before expenditure is incurred.	R-20/1921-22 R-21/1923-24 R-6 and P-61/1945-46 R-4/1947-48 (Post-partition).	I-4 I-35 I-639 II-1-3
Preventing excess expenditure by limiting money issues.	Orders below R-20/1921-22.	I-5
Responsibility for excess expenditure under each vote.	R-20/1921-22	I-4
—tour expenses of Members of Executive Council.	R-29/1921-22 R-10(item 2)/1925-26	I-11 I-122
Every Department should watch all expenditure whether directly incurred by it or by an agent acting on its behalf.	R-35/1921-22 R-15(iii)/First Report/ 1951-52.	I-12 II-54

	PARAGRAPH	PAGE
CONTROL—EXECUTIVE—OVER EXPENDITURE—<i>contd.</i>		
Control from headquarters of expenditure in local areas.	R-9/1922-23 R-24/1923-24	I-14 I-36
Record of classification on bills by drawing officers.	R-11/1922-29	I-15
High Commissioner's powers of re-appropriation.	R-26/1922-23	I-18
Principles for preventing excesses over grants.	R-32/1922-23 R-44/1923-24 R-6/1924-25	I-22 I-57 I-67
Financial control over non-voted expenditure .	R-18/1923-24	I-35
Watching progress of expenditure by administrative authorities.	R-19 & 21-25/1923-24 R-22/1924-25 Appendix VIII/1934-35 (Part I) Appendix V/1935-36 (Part I).	I-35-37 I-93 I-340 I-354
Separation of audit from accounts facilitated control over expenditure.	R-23/1923-24 R-23-24/1924-25 R-24/1925-26 R-19/1928-29	I-36 I-96-97 I-136 I-219
Submission of periodical statements of expenditure to facilitate watching progress of expenditure.	R-24/1923-24	I-36
Late allotment of funds undesirable . . .	R-25/1923-24	I-37
Regularisation of excesses disclosed after expiry of the year.	Paragraph 12 of G. I. Resolution dated 1-6-26 below R-26/1923-24 R-21-22/1924-25	I-38 I-94-95
Preventing excesses due to variations in percentages for establishment and tools and plant.	R-52/1923-24	I-60
—in P. and T. Department	R-55/1923-24	I-64
Payments to Provincial Governments for Agency functions.	R-10 (item 3)/1925-26	I-123
Control over works expenditure in Railways.	R-80/1926-27	I-170
Re-appropriations should be sanctioned as soon as necessity for additional expenditure is foreseen.	R-41/1927-28	I-197
—undertaken by one department on behalf of another.	R-48/1927-28	I-201
Budgeting and control over works expenditure	RI-27/1930-31 R-7/1940-41 RI11-13/1941-42	I-292 I-460 I-492
Devising a procedure to meet special difficulties involved in budgeting for works expenditure.	RI-6/1935-36	I-351
Latest actuals to be studied before presenting a supplementary demand.	RI-5/1936-37	I-366

	PARAGRAPH	PAGE
CONTROL—EXECUTIVE—OVER EXPENDITURE—<i>contd.</i>		
Plea of urgency for not observing prescribed rates and procedure be rigidly scrutinised.	R-6(M. A. C.)/1940-41	I-470
Strict compliance of orders relating to procedure to prevent losses in Government stores.	R-4(M. A. C.)/1943-44	I-563
Railway Administrations should avail of the assistance of Financial Adviser and Chief Accounts Officer in preparing budget estimates and in controlling expenditure.	R-15 & P-19/1944-45	I-590-591
—by administrative authorities emphasised.	R-7 & P-61/1945-46	I-639
Responsibility of the Ministries for budgeting and control over expenditure.	R-4/1947-48 (Post-partition) R-14, R-17 and R-15 (iii) /First Report/1951-52.	II-1-3 II-52-54
Executive Officers should not incur expenditure on works in excess of the sanctioned estimate without prior sanction of competent authority.	R-14(4)/1947-48 (Post-partition).	II-11
Financial control exercised by the Ministry of Finance over Defence expenditure.	P-3/1947-48 (Post-partition).	II-17-30
Execution of works without budget provision.	R-10/Thirteenth Report/ 1954-55.	II-230-232
Scope and extent of control, of the Central Government and the three participating States, over the expenditure incurred on the execution of the Bhakra-Nangal Project and the jurisdiction of the Central P.A.C. to examine its accounts.	R-5 and P-184-186/Fifteenth Report/1954-55.	II-248
Mention of financial control exercised on the capital projects executed out of Central assistance in the Budget Memorandum.	P-148/Fifteenth Report/ 1954-55.	II-270
CONTROL—EXECUTIVE—OVER ESTIMATE		
F.D. to keep a watch over estimates and counteract tendency of over-estimating.	R-22-23/1922-23 R-6/1925-26 R-7/1926-27 R-18 & P-150/First Report/ 1951-52.	I-17 I-120 I-151 II-55-57
Preventing excesses due to variations in percentages for establishment and tools and plant.	R-52/1923-24	I-60
Lump cut as a control against over-estimation.	R-13-14/1924-25 R-7-8/1925-26 R-12(4)/1926-27	I-76 I-120-121 I-153
Budgeting and control over works expenditure.	RI-27/1930-31 R-7/1940-41 R-11-13/1941-42	I-292 I-460 I-492
Budgeting for Civil works	PI-50/1936-37	I-375
Sanctioning works on the basis of abstract estimates	PII-42/1936-37	I-391
Lump cuts be applied rigorously to counteract the persistent tendency towards over-budgeting for works expenditure.	RI-6 (1st sub-para)& PI-20 and 50/1937-38 R-7/1938-39 R-5 and P-60/1939-40	I-392-393 I-429 I-445
Executive officers should not incur expenditure on works in excess of the sanctioned estimate without prior sanction of competent authority.	R-14(4)/1947-48 (Post-partition).	II-11

	PARAGRAPH	PAGE
CONTROL—EXECUTIVE—OVER ESTI-		
MATE—contd.		
Improvement in the overall budgetary and control over expenditure on the Railways.	R-13/Tenth Report/1953-54.	II-210-212
CONTROL—EXECUTIVE—OVER BOOKS AND ACCOUNTS—		
Drawing Officers should record classification on bills.	R-11/1922-23	I-15
Value of local inspections emphasised	R-34/1922-23 R-29/1926-27	I-24 I-165
Check of Dead Stock Registers	R-35/1922-23	I-24
Reconciliation of administrative or controlling officers' figures with those of A.G.	R-24/1923-24 R-12(6)/1926-27 R-7/1945-46	I-36 I-154 I-639
Close touch between administrative and accounts authorities emphasised.	R-44/1923-24	I-57
Large annual adjustments	R-11/1925-26	I-123
Co-operation between Railway Accounts staff and audit Staff— Mr. P.R. Rau's Report.	R-28/1927-28 R-24/1928-29	I-182 I-221
Control over stores accounts	R-18 and 33/1929-30 RI-21/1930-31	I-256 & 270 I-291
Responsibility of departmental officers for correct recording of original facts on bills, vouchers, etc.	RI-7(M.A.C.)/1932-33	I-318
CONTROL—EXECUTIVE—MISCELLANEOUS—		
Revision of pay etc., should not ordinarily be sanctioned with retrospective effect.	R-25/1921-22	I-7
Revival of posts kept in abeyance.	R-46/1923-24	I-58
Powers of officers in charge of a major work in a remote locality etc., to be clearly defined.	R-26/1924-25	I-105
Withdrawal of money in advance of requirements to be sternly discountenanced.	R-31/1924-25	I-108
Liabilities on account of customs refunds to be carefully watched.	R-10 (item 13)/1925-26	I-123
Clerks who maintain accounts should not be allowed to make disbursements.	R-51/1925-26	I-148
When important schemes of development are taken up attention should be paid to their anticipated effect upon the cost of production.	R-18/1926-27	I-155
Starting a 'New Service' with the approval of S.F.C. in anticipation of Legislature's approval.	R-37/1927-28 R-25/1928-29	I-195 I-229
Pay and Accounts Officers to be consulted in respect of supplementary grants, re-appropriations and surrenders.	R-19/1928-29	I-219

	PARAGRAPH	PAGE
CONTROL—EXECUTIVE—MISCELLANEOUS		
<i>—contd.</i>		
Programme for major works should be thought out with great care when budget estimates are prepared.	R-5/1939-40	I-445
Irregular concessions to contractors	R-27(9)/1926-27 P21 (1st sub-para)/1944-45.	I-162 I-608
CONTROL—PARLIAMENTARY—		
Assembly should not be asked to reduce grant already made.	R-16/1921-22	I-3
Excesses over lower maximum fixed by F.D. be reported to P.A.C.	R-18/1921-22	I-3
P.A.C. to examine excesses over grants before they are brought to the notice of Assembly.	R-19/1921-22	I-3
Splitting up a vote into two or more votes to prevent abuses of powers of reappropriation.	R-21/1921-22	I-5
Splitting up P. & T. and Railway votes.	R-22/1921-22	I-6
Should both gross and net grants come under the control of the Assembly?	R-27/1921-22 R-27/1922-23 R-8-11/1924-25	I-7 I-18 I-67-69
Importance of proper classification of expenditure between voted and non-voted.	R-10/1922-23	I-15
Advance indents for Railway stores	R-30-31/1922-23	I-19
New and important items not contemplated in the budget.	R-20/1923-24	I-44
Separation of audit from accounts facilitated control over expenditure.	R-23/1923-24- R-23-24/1924-25 R-24/1925-26 R-19/1928-29	I-36 I-96-97 I-136 I2-19
Preventing excesses due to variations in percentages for establishments and tools and plant.	R-52/1923-24	I-60
Excess expenditure or expenditure on New Service under non-voted heads regularised by F. D. should be brought to the notice of Assembly.	R-22/1924-25	I-95
Payments to Provincial Governments for Agency functions.	R-10(item 3)/1925-26	I-123
Large annual adjustments	R-11/1925-26	I-123
System of net grants in Army	R-26/1925-26	I-138
Deliberate underspending under voted grants for meeting non-voted expenditure.	R-27/1925-26	I-139
Starting a 'New Service' with the approval of S.F.C. in anticipation of Legislature's approval.	R-37/1927-28 R-25/1928-29	I-195 I-228
Curtailement of information in regard to Railway receipts and expenditure as a measure of retrenchment.	R-36/1929-30	I-273
Unnecessary Supplementary Grants	RI-19/1930-31	I-290

	PARAGRAPH	PAGE
CONTROL—PARLIAMENTARY—concl'd.		
Devising a procedure to meet special difficulties involved in budgeting works expenditure.	R-16/1935-36	I-351
Distribution of provision for works between spending authorities.	R-19/1940-41	I-468.
Re-appropriation which leads to evasion of parliamentary control should be avoided.	R-19/Twenty-first Report/1956-57.	II-308
CORRUPTION—		
Eradicating — on Railways	R-18/1944-45	I-603.
CO-ORDINATION—		
— between the different Directorates in the Railway Boards' Office.	R-17/Tenth Report/1953-54.	II-212-213.
COSTS—		
Procurement of War Supplies	R-11(M.A.C.)/1941-42 P-24(M.A.C.)/1942-43	I-501 I-542
Contracts should provide that if— are increased or decreased by an Act of Legislature, the contract prices should be correspondingly varied.	P-21 (1st sub-para) M.A.C./1943-44.	I-586.
Placing independent orders for jute and jute goods instead of through the Jute Adviser to Government.	P-21(M.A.C.)/1940-41	I-483.
Method of calculation of the operating —	P-55 & P-59/1947-48 (Post-partition).	II-42-43
"Cost-plus" contracts should be avoided except when inevitable.	R-13/Fifth Report/1952-53.	II-149-150.
COST ACCOUNTING—		
Examination of — system in Army	R-67/1923-24	I-66
Abandonment of — system in Army	R-34/1924-25	I-108.
Supply of Cost Accountants to the Supply Department.	R-6(M.A.C.)/1939-40	I-457
Cost account examination of Supply Department contracts.	R-12(M.A.C.)/1941-42	I-506.
Inspection of books of companies and firms for —.	R-9(3rd sub-para) M.A.C./1943-44.	I-567
Accounting of over-head expenses in Ordnance Factories.	P-30/1947-48 (Post-partition).	II-38.
— system in the Posts and Telegraphs Workshops.	R-33/Fifth Report/1952-53. R-22/Thirteenth Report/1954-55.	II-157 II-236.
Introduction of — system in Naval Dockyards and Government Commercial undertakings.	R-63/Ninth Report/1953-54.	II-206.
Introduction of — system in the Films Division	R-89/Sixteenth Report/1955-56.	II-281-282.

	PARAGRAPH	PAGE
COUNCIL OF SCIENTIFIC AND INDUSTRIAL RESEARCH—		
Audit of account of the — by the Comptroller and Auditor General of India and the submission of the audited accounts and the Audit Report to Parliament.	R-86/Seventh 1952-53.	Report/ II-183
Waiver of recovery of rent from the —	R-37/Fifteenth 1954-55.	Report/ II-26a
Power and Functions of the — should be enacted by an Act of Parliament.	R-98/Sixteenth 1955-56.	Report/ II-284
COURT—		
Payments relating to settlement of cases out of —	R-46/Ninth 1953-54.	Report/ II-200-202
CREDITS—		
Utilisation of unanticipated —	RI-29 and RII-9(iii)/1930-31 RI-11/1931-32 R-8-10/1941-42 R-8/1943-44 R-5/1944-45 R-15/1945-46	I-293 I-295 I-304 I-488-489 I-549 I-588 I-650
Exhibition of excesses after excluding the unanticipated — in Railway Appropriation Accounts.	RII-10/1934-35	I-347
CUSTOMS—		
Internal check and audit of — receipts	R-40-41/1923-24 R-29/1924-25 R-20(6) and 21(i)/ 1926-27 R-19/1927-28 RI-36/1930-31 RI-13/1933-34 PI-29/1936-37 RI-8 and PI-23/1937-38	I-54-55 I-107 I-156-157 I-174 I-294 I-325 I-369 I-394
Supervision of the work of the appraising staff should be improved.	R-28/1924-25 R-19/1927-28	I-107 I-174
Revision of the Sea Customs Act, 1878	R-30/1924-25 R-16/1925-26	I-107 I-133
Watching of — refunds liabilities	R-10 (item 13)/1925-26	I-123
D		
DAMODAR VALLEY CORPORATION—		
Decision to purchase equipment for projects should be taken at high technical level.	R-36/Eighteenth /1955-56.	Report II-289-290
DEBITS—		
Adjustment of — for supplies and Services	R-5 and R-1 :)/(Part- partition)/1947-48. R-7/Seventeenth Report, /1955-56.	II-5-5 II-287-288
DEBT(S)—		
Voting of repayment of — to Railway Depreciation Fund.	PII-16/1936-37	I-390
Provision for amortisation of Railway —	R-9/1940-41 P-24/1944-45	I-464 I-610

	PARAGRAPH	PAGE
DEBT(S)—contd.		
Provision for amortisation of — raised from Rs. 3 crores to Rs. 5 crores.	P-24/1944-45	I-610
Adequacy of the provision of Rs. 5 crores for amortisation of —	R-24(i)/Fifteenth Report/1954-55.	II-259
Provision for bad and doubtful —	R-102/Fifteenth Report/1954-55.	II-270
Writing off — requires Parliament's approval .	P-141/Fifteenth Report/1954-55.	II-270
DEFENCE—		
Standard contract form should be drawn up and contracts entered into after obtaining legal, financial and technical advice.	R-6(i) and R-17/1947-48 (Post-partition). P-167/Ninth Report/1953-54.	II-5-6 II-207
Financial control exercised by the Ministry of Finance over Defence expenditure.	P-3/1947-48 (Post-partition).	II-17-30
Revival of Equalisation Fund in the —	P-5/1947-48 (Post-partition).	II-30-31
Allocation of — works expenditure to 'Maintenance' or 'Capital'.	P-6/1947-48 (Post-partition).	II-31-32
Verification of Ground Balances of Military Stores.	P-11/1947-48 (Post-partition).	II-33-35
Disposal of surplus or unserviceable Defence Stores.	P-13/1947-48 (Post-partition).	II-36
Over-estimating of (Defence) Works expenditure	P-16/1947-48 (Post-partition).	II-36
The imprest given to Military Officers should be restricted and subjected to periodical verification by the Military Accounts Department.	P-20/1947-48 (Post-partition).	II-36-37
Fixation of the amount of imprest of Military Officers.	P-20/1947-48 (Post-Partition).	II-36-37
Payments on account of compensation should be made only on the certificate of the Military authorities requisitioning the land.	P-24/1947-48 (Post-partition).	II-37-38
Provisioning and accounting of food supply for the —.	P-31/1947-48 (Post-partition).	II-38-39
Savings should be surrendered and not utilised on items not provided for in the budget.	R-2 and 14(Sub-para 2)/ Second Report/1951-52	II-117-118
Inter-depot transfer of stores.	R-4/Second Report/1951-52	II-120
Reporting of cases of loss or fire in — Stores Depots and Installations to the Police.	R-16/Ninth Report/1953-54	II-195
Inspection of — Stores purchased abroad .	R-19/Ninth Report/1953-54	II-197
Periodical verification of cash balances with the Imprest Holders.	R-57 & R-58/ Ninth Re- port/1953-54.	II-203-205
Fixation of the amount of Imprest and use of emergency cash requisition in Defence Services.	P-85/Ninth Report/ 1953-54.	II-206

	PARAGRAPH	PAGE
DEFENCE—<i>contd.</i>		
Periodical review of stock balances and the system of procurement, stocking and accounting of stores.	R-11 & R-12/ Fourteenth Report/1954-55.	II-241-243
Commencement of work without administrative approval.	R-15/Fourteenth Report/1954-55.	II-243
DEFENCE PRODUCTION BOARD—		
Full utilisation of productive capacity of Ordnance Factories.	R-74/Nineteenth Report/1955-56.	II-295.
DEFENCE RESERVE FUND—		
Exhibition of details of transfers to and from — in budget.	RI-4(M.A.C.)/1934-35	I-337
Continuance of — on the lines on which it had been maintained in the past.	RI-6(M.A.C.) and PI-29 (M.A.C.)/1936-37 RI-6(M.A.C.) and PI-9 M.A.C./1937-38	I-377 I-409
DEFENCE SERVICES—AIR FORCE—		
Reviews of Royal Air Force stocks	PI-5(M.A.C.)/1937-38	I-410
DEFENCE SERVICES—ARMY—		
— should charge and be charged for services to and from other Departments.	R-47/1922-23	I-31
System of cost accounting in — and its abandonment.	R-67/1923-24 R-34/1924-25	I-66 I-108.
Local audit in —	R-34/1924-25	I-108.
System of net grants in —	R-26/1925-26	I-138
Financial Adviser Military Finance mouth-piece of F. D. in matters of Military Finance.	R-20(7) and 21 (ii)/1926-27.	I-157
Commercial system of accounts in Army. Cost accounts in Army factories.	R-15/1928-29 R-15/1929-30	I-208 I-250
Form of — Appropriation Accounts	R-24/1929-30	I-257
Abolition of priced stores ledgers	R-32/1929-30	I-264
Collaboration between test audit and accounts staff in internal check of accounts.	RII-12/1930-31	I-295
<i>Pro forma</i> account of Auxiliary and Territorial Forces.	RI-20/1931-32	I-307
Simplification of — Regulations	RI-3(M.A.C.)/1931-32 P-23(M.A.C.)/1939-40	I-308 I-459
Relations between the administrative, departmental accounts authorities in — and the audit authorities.	RI-7(M.A.C.)/1932-33	I-318
Supply of — stores	PI-29(M.A.C.)/1933-34	I-330
Exhibition of details of transfers to and from the Defence Reserve Fund in budget.	RI-4(M.A.C.)/1934-35	I-337

	PARAGRAPH	PAGE
DEFENCE SERVICES—ARMY—contd.		
Stock verification in Defence Services	PI-12-14(M.A.C.)/1934-35	I-338-339
Continuance of Defence Reserve Fund on the lines on which it had been maintained in the past.	RI-6(M.A.C.) and PI-29 (M.A.C.)/1936-37 RI-6(M.A.C.) and PI-9 (M.A.C.)/1937-38.	I-377 I-409
Deviation from original programme should be limited to cases of extreme urgency.	RI-5 (M.A.C.) and PI-20 (M.A.C.)/1937-38	I-408
Reduction in percentage of establishment charges in M.E.S.	RI-4(M.A.C.) and PI-7 (M.A.C.) / 1937-38 P-6 (M.A.C.)/1938-39 R-4(M.A.C.)/1939-40	I-405 I-444 I-450
Allocation of Defence Services expenditure and charges on account of War measures.	R-2(M.A.C.)/1939-40 R-2(M.A.C.)/1941-42 R-2-3(M.A.C.)/1942-43	I-449 I-496 I-524-525
Replacement of contracts on actual cost plus profit basis by contracts at fixed prices.	R-5(M.A.C.)/1939-40	I-450
Supply of qualified Cost Accountants to the Supply Department.	R-6(M.A.C.)/1939-40	I-457
Review of the working of the M.E.S.	R-4 and 5 (M.A.C.) and P-5 and 8 (M.A.C.)/1941-42	I-497-498
Supervision and accounting of stores	R-7-9 (M.A.C.)/1941-42	I-498-499
Setting up a Salvage Organisation in War Department.	R-13(M.A.C.)/1941-42	I-506
Centralising information regarding rates paid for works executed by M.E.S.	P-9(M.A.C.)/1941-42	I-513
System for placing contracts in Military Department.	R-6 and P-6(M.A.C.)/1942-43	I-526
Allocation of works expenditure between Railways and Defence Services.	P-22/1943-44	I-576
Recovery of the cost of work done by Government Test House Calcutta on behalf of Defence Services.	P-83/1943-44	I-579
Report on the methods of accounting, storage, etc. of Military Stores Depots.	P-3(M.A.C.)/1943-44	I-583
Scrutiny of Defence Appropriation Accounts by P. A. C. instead of M.A.C.	R-3/1945-46	I-637
Training of Defence personnel in fundamental principles of public expenditure and accounting.	P-1/1946-47	I-658
DEFENCE SERVICES—NAVY—		
Stores accounts in ———.	R-8(M.A.C.) and P-12 (M.A.C.)/1940-41.	I-470
Reorganisation of accounting arrangements in Royal Indian Navy.	R-10(M.A.C.)/1941-42	I-499
Irregularities in purchase of Naval stores	P-1(M.A.C.)/1941-42	I-511

	PARAGRAPH	PAGE
DELEGATION—		
Suitable — of powers to avoid delay in execution of work.	R-133/ Twenty-third Report/1956-57.	II-322
DELHI ROAD TRANSPORT AUTHORITY—		
Payment of compensation for acquisition of motor vehicles by —.	R-3, and R7-9/ Twentieth Report/1955-56.	II-300-302
DEMAND—		
See 'Grant'.		
DEMURRAGE CHARGES—		
Remission of outstanding — and wharfage charges.	R-17(iv)/Second Report/1951-52.	II-127-129
Inclusion of paragraph in the Railway Board's Review on the Appropriation Accounts regarding remission of — and wharfage charges.	R-22/ Tenth Report/1953-54.	II-213
DENIAL MEASURES—		
Accounts of the money spent on — and similar measures in Bengal.	R-11 and P-102/1942-43 R-11/1943-44.	I-520 I-552
DEPARTMENT (AL)—		
Every — should watch all expenditure whether directly incurred by it or by an agent acting on its behalf.	R-35/1921-22	I-12
Financial powers of — s of G. I.	R-25/1925-26 R-20(7) and 21 (ii)/ 1926-27.	I-137 I-157
Procedure for control of expenditure undertaken by one — on behalf of another.	R-48/1927-28	I-201
— enquiry in cases of frauds and embezzlements.	PII-33/1930-31 PI-21(M.A.C.)/1933-34. P-61/1938-39 P-37/1939-40	I-302 I-326 I-442 I-447
DEPRECIATION—		
Providing for — in case of collieries worked by Railways.	P-69/1947-48 (Post-partition).	II-43
DEPRECIATION RESERVE FUND—		
— P. & T.	R-35/1926-27 R-24/1927-28 PI-54/1933-34	I-170 I-175 I-331
Calculating contribution to — Railways	RII-9/1932-33 RII-9/1934-35 P-91/1939-40	I-320 I-343 I-448
Constitution of a Renewals and Replacements Reserve Fund for — in P. & T.	PI-54/1933-34	I-331
Changing Railway's — into a Reserve for Renewals and Minor Improvements.	RII-49/1933-34	I-331
Budgeting for contribution to — and interest charges.	PII-49/1935-36	I-364

	PARAGRAPH	PAGE
DEPRECIATION RESERVE FUND—contd.		
Heavy Repairs Reserve for Bengal Pilot Service	PI-65/1936-37	I-375
Vote of Legislature is necessary for repayment of debt to Railway —.	PII-16/1936-37	I-390
Debiting — with replacement cost of like asset.	PII-19/1936-37	I-390
Allocation of expenditure written back from capital on account of abandoned projects.	RII-9 and PII-43/1937-38. P-7/1938-39	I-418-419 I-439
Inadequate provision in — of Vizagapatam Port.	RI-10 and PI-48/1937-38.	I-395
Advances from Railway — to Railway companies for redemption of their debentures.	PII-31/1937-38	I-425
Financing of Hardinge Bridge Protection Works and repairs to Earthquake damages out of loans from Railway —.	P-90/1939-40	I-448
Investments from — should not be made in Branch Line Companies.	P-119/1940-41	I-482
Exhibition in accounts of adjustments between the Consolidated Fund of India and the Public Account regarding expenditure from various Reserves created out of Railway revenues.	P-109/ Tenth Report/ 1953-54.	II-223-224
DESTRUCTION—		
— of files regarding purchase transactions.	R-41/Ninth Report/ 1953-54.	II-199-200
— of documents which form the subject matter of correspondence.	R-26/ Tenth Report/ 1953-54.	II-214
DEVELOPMENT SCHEMES—		
Watching proper utilisation of grants made to State Governments.	R-21/ First Report/ 1951-52.	II-68-69
DISCIPLINARY ACTION—		
— in the case of officers after retirement	R-43/1923-24	I-55
Losses sustained by Government through fraud, negligence, etc.	R-36-38/1925-26 R-29/1926-27	I-145-146 I-165
Perfunctory signing of certificates and statements	R-39/1925-26	I-147
— in cases of losses due to the neglect of the officers of Provincial Governments acting as Agents of the Central Government.	R-29(3) & 30/1926-27	I-166
Departmental enquiry in cases of frauds and embezzlements.	PII-33/1930-31 PI-21(M.A.C.)/1933-34 P-61/1938-39 P-37/1939-40	I-302 I-326 I-442 I-447
Considerations for launching prosecution in fraud cases.	PI-16(M.A.C.)/1933-34	I-326
Departmental action against Government servants acquitted by a Court of Law.	RI-5(M.A.C.)/1935-36	I-353

DISCIPLINARY ACTION—contd.

	PARAGRAPH	PAGE
Stressing need for adequate — in cases of irregularities.	P-5/1945-46	I-652
Amendment of Classification, Control and Appeal Rules to secure prompt — against persons responsible for irregularities.	R-1 and P-40/1946-47 R-2 and 4/1947-48 (Pre-partition) R-48/First Report/1951-52.	I-658 I-664 II-88-90
Adequate — should be taken against the Railway staff who are found wantonly indifferent or careless in the handling or despatch of goods or bad transhipment.	R-18/1947-48 (Post-partition).	II-14
Prompt — against officials responsible for losses etc.	R-20,25,26,(vi) and 27/First Report/1951-52.	II-61-68
Promotion of officers to higher posts during the pendency of the disciplinary cases should be avoided.	R-30/Fifth Report/1952-53	II-156
Reciprocal arrangement with the Government of Pakistan for awarding punishment to the delinquent officials.	R-26/Seventh Report/ 1952-53	II-168-169
Departmental proceedings may precede the police investigation.	R-13/Thirteenth Report/ 1954-55.	II-232-235

DISPLACED PERSONS—

Allocation of the Cost of compensation for sub-merged land, reclamation and resettlement of — to Hirakud Dam Project.	R-82/Sixth Report/1952-53.	II-159-160
---	----------------------------	------------

DISPOSALS—

Setting up a Salvage Organisation in War Department.	R-13 (M. A. C.)/1941-42	I-506
Working of Central Organisation	R-10 (M. A. C.)/1943-44	I-567
Measures to prevent hasty discards of Surplus Stores.	R-85/Nineteenth Report/ 1955-56.	II-296-297

DOCUMENTS—

Destruction of — which form the subject matter of correspondence.	R-26/Tenth Report/1953-54.	II-214
---	----------------------------	--------

DRAFT PARAGRAPHS—

Procedure for communication of — for the Audit Reports on Missions abroad to the Ministries.	R-22(i)/First Report/ 1951-52.	II-69
Verification of facts included in the Audit Reports.	R-37/First Report/1951-52.	II-77-79

E**ELECTION COMMISSION—**

Independence of —	R-51/First Report/1951-52.	II-91
-------------------	----------------------------	-------

EMBASSIES—

Financial powers of the High Commissioner	R-22(ii)/First Report/ 1951-52.	II-69-72
Internal audit of accounts of the — and Missions abroad.	R-83/Seventh Report/ 1952-53.	II-183

	PARAGRAPH	PAGE
EMBEZZLEMENT—		
Sec 'Control', 'Disciplinary action'.		
EMERGENCY WORKS—		
Estimating and sanctioning War — in M. E. S.	R-3(M. A. C.)/1939-40	I-449
Comprehensive procedure should be laid down to cover cases where normal rules cannot be followed.	R-30/Tenth Report/1953-54.	II-214-215
Execution of —	R-30/Tenth Report/1953-54.	II-214-215
EMPLOYMENT—		
Maintenance of a National Register of trained persons.	R-56/Fifteenth Report/1954-55.	II-266
EQUIPMENT—		
Decision to purchase — for projects should be taken at high technical level.	R-36/Eighteenth Report/1955-56.	II-289-291
ESTABLISHMENT—		
Preventing excesses due to variations in percentages for — and tools and plant.	R-52/1923-24	I-60
Lump cut to counteract tendency of over-estimating.	R-13/1924-25 R-8/1925-26 R-12(4)/1926-27 R-8/1927-28	I-76 I-121 I-158 I-172
Preparation of estimates for —	R-13/1924-25 R-8/1925-26	I-76 I-121
ESTABLISHMENT CHARGES—DISTRIBUTION OF—		
Levying Departmental charges on works expenditure at fixed rates.	PI-49/1936-37	I-375
Reduction in percentage of — in M. E. S.	RI-4(M. A. C.) and PI-7(M. A. C.)/1937-38 P-6(M. A. C.)/1938-39 R-4(M. A. C.)/1939-40	I-405 II-444 I-450
Fixing for a number of years the percentage for recovery of — from outside bodies.	PI-55/1937-38	I-404
Percentage of — to works expenditure incurred by M. E. S.	R-4(M. A. C.)/1940-41	I-469
ESTIMATE(S)—(SEE ALSO 'CONTROL—EXECUTIVE OVER ESTIMATE')—		
Basing supplementary grants and appropriations on actual requirements and not on revised —	R-14 and 17/1921-22	I-2-3
Provision to be made in budget for anticipated liabilities. 1	R-32/1922-23 R-12(3)/1926-27	I-22 I-153
Estimating capital expenditure on Railways.	R-8/1923-24 R-14/1924-25 R-11/1927-28 R-21/1928-29	I-32 I-76 I-173 I-219

	PARAGRAPH	PAGE
ESTIMATE(S)—(SEE ALSO 'CONTROL—EXECUTIVE—OVER ESTIMATE')—Contd.		
Provision for non-voted expenditure as important as for voted expenditure.	R-18/1923-24	I-35
Powers of re-appropriation not to be utilised to conceal defective budgeting.	R-26/1923-24	I-37
Lump provision in budget should be avoided.	R-45/1923-24	I-58
No provision to be made in budget for appointments kept in abeyance.	R-46/1923-24	I-58
Estimating percentages for establishment and tools and plant.	R-52/1923-24	I-60
— for refunds. Proposal for making refunds statutory. Having one grant for all refunds except those relating to Railways and P. & T. Practice of exhibiting refunds in Demands for Grants and Appropriation Accounts discontinued from 1st April, 1937.	R-54/1923-24 RI-17/1934-35	I-63 I-336
Estimating of expenditure in P.&T. Department	R-55/1923-24	I-64
Form of budget—gross or net	R-8-11/1924-25	I-67-69
Evils of over-estimation. Suggestions for lump cut and reduction of detailed heads where possible.	R-13-14/1924-25 R-7-8/1925-26 R-11-12/1926-27 R-8/1927-28 RII-7/1934-35	I-76 I-120-121 I-153 I-172 I 343
Preparation of — for establishment.	R-13/1924-25 R-8/1925-26	I-76 I-121
Presenting to Assembly a statement of non-voted supplementary grants sanctioned by F. D.	R-22/1924-25	I-95
F. D. to counteract any tendency to over - estimate under voted grants.	R-6/1925-26	I-120
Need for correct estimation of capital expenditure emphasised.	R-8/1925-26	I-121
Estimating tour expenses of Viceroy and Executive Councillors.	R-10 (items 1 & 2)/ 1925-26.	I-122
Provision for expenditure on 'New Services' .	R-27/1925-26	I-139
Cost of stationery and printing payable by Provincial Governments to the Central Government.	R-52/1925-26	I-149
Form of P. & T. —	R-62/1925-26	I-149
System of over-allotment in Railway Grants .	R-9 and 12(4)/1926-27 R-11/1927-28 R-23/1928-29 R-II-14/1931-32	I-151&153 I-173 I-220 I-309
Improving method of estimating in Railways .	R-11/1926-27 R-21/1928-29	I-153 I-219
Principles to be followed in estimating	R-12/1926-27 R-18 & P-150/First Report/1951-52.	I-153 II-55-57

	PARAGRAPH	PAGE
ESTIMATE(S)—(SEE ALSO 'CONTROL—EXECUTIVE—OVER ESTIMATE')—contd.		
Appointment of a whole time Budget Officer in F.D.	R-9/1927-28	I-172
Budgeting procedure in areas having Pay and Accounts Offices.	R-56/1927-28	I-204
Earlier and closer estimate of advances required from the Provincial Loans Fund.	RI-20/1930-31	I-290
Exhibition of details of transfers to and from Defence Reserve Fund in budget.	RI-4(M.A.C)/1934-35	I-337
Accounts should follow budget even though provision in the budget might be incorrect — certain exceptions.	RI-5(2nd sub-para)/1935-36 RII-8, PII-35 and 41/ 1937-38. I-417-418 P-6/1938-39 I-437 P-19/1941-42 I-510	I-350
Larger units of appropriation for accurate estimating.	RI-5(3rd sub-para)/1935-36. I-350 RI-4 and PI-20/1936-37 I 366 R-4 and P-40/1938-39 I-426 R-9/1939-40 I-446	I-350
Devising a procedure to meet special difficulties involved in budgeting works expenditure.	RI-6/1935-36 I-351 P-35/1944-45 I-629	I-351 I-629
Need for Revised — and fresh sanction, when a work is in progress for a number of years and substantial reduction in cost is anticipated.	RII-8/1936-37 I-383 PII-11/1937-38 I-420	I-383 I-420
Inclusion of the cost of Defence Department Secretariat in Civil —.	P-81/1938-39	I-443
Programme for major works should be thought out with great care when budget — are prepared.	R-5 and P-60/1939-40 I-445 R-6/1942-43 I-517	I-445 I-517
Furnishing details of sub-head 'Contingencies' in —.	R-8 (2nd sub-para)/ 1939-40. I-446 R-8 (2nd sub-para)/ 1940-41. I-463	I-446 I-463
Correlation in budgeting between one Railway and another and between branches of the same Railway.	R-15 (3rd sub-para)/ 1940-41. I-466 R-20/1943-44 I-561 R-15(2) and P-60/1947-48 (Post-partition) II-11-12	I-466 I-561 II-11-12
While framing budget —, Railway Administrations should take account of price tendencies.	R-15 (4th sub-para)/ 1940-41. I-467	I-467
Fixing a limit beyond which commutation of pension need not be allowed.	P-31/1940-41	I-481
Sanction should not be obtained in the middle of the year for expenditure not really urgent.	R-5/1942-43 I-517 R-6/1943-44 I-548	I-517 I-548
Estimating savings accurately and their surrender.	R-5/1943-44 I-548 R-2 and R-14 (sub-para 2)/ II-117 Second Report/1951-52.	I-548 II-117
Railway Administrations to avail of the assistance of Financial Adviser and Chief Accounts Officer in preparing Budget and in Controlling expenditure.	R-15 and P-19/1944-45	I-590-591

	PARAGRAPH	PAGE
ESTIMATE(S)—(SEE ALSO 'CONTROL—EXECUTIVE — OVER ESTIMATE')—concl'd.		
Changes in the form of Explanatory Memorandum to the Budget.	P-61A/1945-46	I-654
Lapse of funds due to lack of co-ordination between supplying agencies and receiving departments.	R-5 and R-15(i)/1947-48 (Post-partition)	II-35
Over-estimating of Defence Works expenditure	P-16/1947-48 (Post-partition).	II-36
Excess expenditure over ———	R-14 (4)/1947-48 (Post-partition)	II-11
Accurate budgeting under the 'Suspense Heads' emphasised.	R-16/Second Report/1951-52	II-124
Expenditure on large projects without detailed ———	R-17(ii)/Second Report/1951-52.	II-125-216
Inclusion of financial results of the working of State enterprises in the Explanatory Memorandum on the Budget.	R-81/Seventh Report/1952-53.	II-182
Improvement in the overall budgetary control over expenditure on the Railways.	R-13/Tenth Report/1953-54.	II-210-212
Adjustment of expenditure under "Suspense" instead of the relevant grant.	R-14/Tenth Report/1953-54.	II-212
Debits for supplies and services ——— accurate estimates thereof.	R-7/ Seventeenth Report/1955-56.	II-287-288
EXCHANGE COMPENSATION ALLOWANCE—		
Payment of Foreign Allowance in the currency of the country and abolition of ———.	R-60/Fifteenth Report/1954-55.	II-266
EXCHEQUER CONTROL—		
Separation of Accounts from Audit and ——— over public expenditure.	Para-5 (Introduction) R-2 & 3/Third Report/1952-53.	II-130-138
EXCISE AND CUSTOMS DEPARTMENT—		
Procedure for collection of dues by the P. & T. Department on behalf of other Departments.	R-32/Twenty-second Report/1956-57.	II-311
EXPENDITURE (SEE ALSO 'CONTROL—EXECUTIVE—OVER EXPENDITURE')—		
—— on purposes not approved by the Assembly or S.F.C. be mentioned in Appropriation Report.	Orders below R-21/1921-22.	I-6
Classification of ——— on Committees appointed by Legislature and Government.	R-30/1921-22	I-12
Classification of ——— between Voted and Non-Voted and Capital and Revenue.	R-10/1922-23 R-27/1923-24	I-15 I-46
Over-estimating of ——— be avoided . . .	R-22-23/1922-23 R-18 & P-150/First Report/1951-52	I-17 II-55-57
Settlement of incidence of charge before incurring ——— .	R-32/1922-23 R-44/1923-24	I-22 I-57

	PARAGRAPH	PAGE
EXPENDITURE (SEE ALSO 'CONTROL—EXECUTIVE — OVER EXPENDITURE') — contd.		
Estimating Capital—on Railways	R-8/1923-24 R-14/1924-25 R-11/1927-28 R-21/1928-29	I-32 I-76 I-173 I-219
— in excess over total grant voted and not as modified by Government requires Assembly's sanction.	R-10/1923-24	I-33
Provision of funds for non-voted — as important as for voted — .	R-18/1923-24	I-35
Watching progress of — and framing rules for the purpose.	R-19 and 23-25/1923-24 R-18 & P-150/First Report/ 1951-52	I-35-37 II-55-57
Approval of Finance Committee necessary for new and important items not contemplated in budget.	R-20/1923-24	I-44
Rush of — in concluding months of the year . .	R-25 and 53/1923-24 R-58/1924-25 RI-2(M.A.C.)/1934-35 PI-28(M.A.C.)/1935-36	I-37 & 61 I-116 I-337 I-353
Borrowing of money from a Municipality to meet — debitable to Government.	R-48/1923-24	I-59
Treating appropriation to Railway Reserve Fund as — is unreal and confusing. Its votability.	R-10(item 18)/1925-26	I-123
Secret Service —. Audit and form of certificate	R-41/1925-26 P-14 and 95/1944-45	I-148 I-608 & 633
Disbursements should not be made by clerks who maintain accounts.	R-51/1925-26	I-148
— under the head from which reappropriation is made should not exceed the reduced appropriation.	R-12(5)/1926-27	I-154
Finance Committee to consider cases of 'New Service' in the light of case law evolved by the P.A.C.	R-22/1926-27 R-39/1927-28	I-158 I-196
Misclassification of — to avoid detection of irregularities condemned.	R-33/1926-27	I-169
When cases of authorisation of — in anticipation of approval of S.F.C. etc. need not be mentioned in Appropriation Report.	R-87/1926-27	I-171
Responsibility of Railway Board and Government Examiners in allocation of — between Capital and Revenue.	R-64/1927-28	I-205
Utilisation of unanticipated credits.	RI-29 and RII-9(iii)/1930-31 RI-11/1931-32 R-8-10/1941-42 R-8/1943-44 R-5/1944-45 R-15/1945-46	I-293 & 295 I-304 I-488-489 I-549 I-588 I-650
Exhibition of excesses after excluding the unanticipated credits in Railway Appropriation Accounts.	RII-10/1934-35	I-347

	PARAGRAPH	PAGE
EXPENDITURE (SEE ALSO 'CONTROL—EXECUTIVE — OVER EXPENDITURE')—<i>concl'd.</i>		
Providing a Development Fund for Railway Capital —.	RII-4/1936-37 RII-4/1937-38	I-378 I-410
Providing a fund for Capital works — . . .	RI-6/1936-37 RI-6(2nd sub-para) and PI-51/1937-38.	I-367 I-393-394
Charging — on unremunerative items to revenue.	PI-23/1936-37	I-369
Deviation from original programme should be limited to cases of extreme urgency.	RI-5(M.A.C.) and PI-20 (M.A.C.)/1937-38	I-408
Preparation of statement of unsanctioned — in Railway Appropriation Accounts.	R-14/1938-39	I-435
Sanction should not be obtained in the middle of the year for — not really urgent.	R-5/1942-43 R-6/1943-44	I-517 I-548
Refusal of Finance Ministry to accord <i>ex-post-facto</i> sanction to expenditure.	P-5/1945-46	I-632
Allocation of Defence works — to 'Maintenance, or 'Capital'.	P-6/1947-48 (Post partition).	II-31-32
Excess — over estimate	R-14(4)/1947-48 (Post partition).	II-11
— on large projects without detailed estimates .	R-17(ii)/Second Report/ 1951-52.	II-123-126
Procedure for dealing with <i>ex-post-facto</i> sanctions .	R-4/Thirteenth Report/ 1954-55.	II-229-230
EXPENDITURE—INFRACTUOUS—		
— to be included in Audit Report but not in statement of losses.	P-9(M.A.C.)/1943-44	I-586
EXPERIMENTAL ORDERS—		
Procedure for placing — on Director General Ordnance Factories and periodical review thereof.	R-34/Nineteenth Report/ 1955-56.	II-292-294
EXPLANATORY MEMORANDUM TO BUDGET—		
A note regarding the financial position of capital projects should be furnished in the Explanatory Memorandum to annual Central Budget.	P-148/Fifteenth Report/ 1954-55.	II-270
F		
FEES—		
Collection of — for minor services by means of stamps.	R-39/1923-24	I-53
Payment of — to High Court Judges	R-46 & P-92/First Report/ 1951-52.	II-87-88
FILES—		
Destruction of — regarding purchase transactions.	R-41/Ninth Report/1953- 54.	II-199-200
Period of retention of — relating to compensation claims on Railways.	P-190 and P-191/Thirteenth Report/1954-55.	II-239-240

	PARAGRAPH	PAGE
FILMS DIVISION—		
Introduction of Cost Accounting System in the <u> </u>	R-89/Sixteenth Report/ 1955-56.	II-281
FINANCE ACCOUNTS—		
Supply of copies of Central — to members of P.A.C.	PI-17/1937-38	I-402
Form and structure of the Report of P.A.C. and consideration of —.	P-3/1947-48 (Post-parti- tion).	II-48-5
Form and structure of the Report of the P.A.C. and scrutiny of the accounts of Revenues, Borrowings, Public Debt, etc.	Appendix LI/First Re- port/1951-52.	II-114-116
FINANCE AND REVENUE ACCOUNTS—		
Form of —. Should gross or net figures be exhibited?	R-8-11/1924-25	I-67-69
Form of — (P. & T.)	R-62/1925-26	I-149
FINANCE COMMITTEE—		
See 'Committee'.		
FINANCE DEPARTMENT (MINISTRY)—		
— to fix a lower maximum to spending depart- ments.	R-18/1921-22 R-12/1925-26	I-3 I-125
— to exercise a watchful care over estimates as a whole.	R-22-23/1922-23	I-17
Utilisation of the Reserve at the disposal of —	R-30-33/1923-24 R-12/1924-25 R-7/1926-27 R-18/1927-28	I-47-50 I-74 I-151 I-173
Sanction of — necessary for unusual condi- tions and material variations in contracts once entered into.	R-49/1923-24 R-18/1924-25 R-13/1925-26 R-27(1)/1926-27	I-60 I-91 I-126 I-162
Re-appropriations from non-voted heads to meet the cost of 'New Services' not to be made without —'s approval.	R-20/1924-25	I-93
— to take care to counteract any tendency to over-estimate.	R-6/1925-26 R-7/1926-27 R-18 and P-150/First Report/1951-52.	I-120 I-151 II-55-57
Strengthening superior staff of — for correlat- ing Appropriation Accounts with original es- timates and to improve methods of estimating.	R-11/1926-27	I-153
Financial Adviser Military Finance sole mouth piece of — in matters of Military Finance.	R-20(7) and 21(ii)/1926- 27.	I-157
Appointment of a whole time Budget Officer	R-9/1927-28	I-172
Closer control by Finance Member over Railway Capital expenditure.	R-11/1927-28	I-173

	PARAGRAPH	PAGE
FINANCE DEPARTMENT (MINISTRY)—contd.		
Rigid control by Finance Member over substitution of one Railway project for another.	R-37/1927-28	I-195
Position of Financial Commissioner Railways <i>vis-a-vis</i> F.D.	PII-53/1935-36	I-364
— to keep in check other Ministries in the matter of budgeting and control over expenditure.	R-4/1947-48 (Post-partition) R-14, R-15(iii) & R-17/ First Report/1951-52	II-1-3 II-52-54
Control over expenditure by the—incurred through the agency of State Governments.	R-14, R15 (iii) R-17/ First Report/ 1951-52	II-52-54
Procedure for speedy consultation with— in urgent cases.	R-31/Sixteenth Report/1955-56	II-274
FINANCIAL—		
— powers of the departments of — G. I.	R-25/1925-26 R-20(7)/1926-27	I-137 I-157
Communication of—sanction to Audit.	R-25/1925-26 R-20(7) and 21 (ii)/ 1926-27 P-122/1929-30	I-137 I-157 I-280
Disregard of—interests of Government condemned.	R-33/1926-27	I-169
— position of P. & T. Department.	R 34/1929-30 RI-16/1934-35 RI-10 and PI-76-77/ 1936-37	I-271 I-336 I-368
G. I. to examine prospect of projects financed from loans to be granted by them.	R-35/1929-30 RI-12/1930-31	I-272 I-281
— position of Railways	RII-9/1933-34 RII-9/1934-35	I-331 I-343
— position of Vizagapatnam port.	PI-41/1936-37 RI-10 and PI-48/1937-38 P-54/1938-39	I-370 I-395 I-442
Curtailing concessions on multiple address press telegrams.	RI-10 and PI-76/1936-37 RI-11 & PI-76/1937-38	I-368 I-397
— Results of All India Radio	P-82/1944-45	I-632
FINANCIAL ADVISER—		
— Military Finance sole mouth Piece of F.D. in matters of Military Finance.	R-20(7) and 21(ii)/1926-27	I-157
Chief Accounting Officer (Railways) as —. Terms of contracts not to be varied without consulting him.	RII-22 & 26/1930-31	I-299
Placing Railway Accounts staff under General Managers.	RII-7 and PII-14 and 23/ 1936-37 RII-5 and PII-10/1937-38 R-13/1938-39 P-24/1946-47	I-378-380 I-413 I-429 I-662
Separation of the Financial and Accounts functions on the Railways.	R-22 & P-51/1947-48 (Post partition). R-32/Tenth Report/1953-54	II-15-17 II-215-217

	PARAGRAPH	PAGE
FINANCIAL ADVISER—<i>contd.</i>		
Financial control exercised by the Ministry of Finance over Defence expenditure.	P-3/1947-48 (Post-partition).	II-17-30
Appointment of — and Joint — for each Multipurpose River Valley Project.	R-85-86/Sixth Report/1952-53	II-161
Financial powers of the High Commissioner in U.K. and the position of the — attached to the Mission.	R-16/Seventh Report/1952-53	II-164
Processing of financial proposals in the Missions abroad.	R-40/Sixteenth Report/1955-56	II-275
F RM(S)—		
Sanction of G.I. necessary for free use of trunk telephone line by a — having business transactions with P. & T. Department.	R-28/1926-27 R-20/1927-28	I-165 I-174
Registration of Business names to check evasion of income-tax and super-tax.	P-65/1942-43	I-540
FOOD-GRAINS—		
Recoveries for supplies of —	R-3 and P-29/1947-48 (Pre-partition).	I-66 5
FOREIGN ALLOWANCE—		
Payment of — in the currency of the country and abolition of Exchange Compensation Allowance.	R-60/Fifteenth Report/1954-55	II-266
FOREIGN PUBLICITY—		
<i>Pro forma</i> account of production and distribution of material for —.	P-39/1946-47	I-663
FRAUD—		
Losses sustained by Government through —, negligence, etc.	R-36-38/1925-26 R-29/1926-27	I-145-146 I-165
Departmental enquiry in cases of — and embezzlements.	PII-33/1930-31 PI-21 (M.A.C.)/1933-34 P-61/1938-39 P-37/1939-40	I-302 I-326 I-442 I-447
Reporting cases of theft, — or defalcation etc., to G.I.	RI-14 (1st sub-para)/1931-32	I-305
Considerations for launching prosecution in — cases.	PI-16 (M.A.C.)/1933-34	I-326
FUNDS—		
Police clothing and Equipment — . . .	RI-14/1930-31	I-282
Progressive accounts of expenditure from — created for special expenditure to be included in Appropriation Accounts.	RI-12/1933-34	I-325
Specific vote necessary for creating — from revenue surpluses.	RI-11/1934-35	I-336
Providing a — for capital works expenditure .	RI-6/1936-37 RI-6(2nd sub-para) and I-393-394 PI-51/1937-38	I-367
Sugar Excise —	R-10/1940-41	I-465

FUND(S)— <i>contd.</i>	PARAGRAPH	PAGE
Contribution to P. & T. Renewals Reserve —	P-82/1940-41	I-482
	R-14/1941-42	I-493
	P-94/1943-44	I-580
	P-26 (3rd sub-para)/1944-45.	I-616
	P-75/1945-46	I-656
	P-40/1947-48 (Post partition).	II-41
	R-65/First Report/1951-52.	II-97
Utilisation of large balances in General Reserve — Lighthouses and Lightships.	P-63/1944-45	I-629.
— for the Benefit of Cotton Growers. . . .	P-86/1944-45	I-632
Abolition of — for development of Broadcasting.	P-73/1945-46	I-655.
Revival of Equalisation — in the Defence	P-5/1947-48 (Post partition).	II-30.
Parliamentary control over Cess —	R-15/Fifteenth Report/1954-55.	II-253-255

G

GEOLOGICAL SURVEY—

Profits of Utilisation Branch	P-39/1942-43	I-535.
---	--------------	--------

GOVERNMENT HOSPITALITY ORGANISATION—

Working of the —	R-38/Seventh Report/1952-53.	II-171-172
Working of the — and fixing of reasonable ceiling rates for entertainments.	R-40/ Twenty-third Report/ 1956-57.	II-314-315.

GRANT—EXCESS—

Excess over lower maximum fixed by F. D. be dealt with departmentally.	R-18/1921-22 R-10/1923-24 R-12/1925-26	I-3 I-33 I-125
Regularisation of excesses over grant	R-19/1921-22 R-10/1923-24	I-3 I-33
Preventing excesses by limiting money issues not practicable.	R-20/1921-22	I-4
Should excesses over both gross and net grants be reported to Assembly for sanction ?	R-27/1921-22 R-27/1922-23	I-7 I-18
Principles for preventing excesses over grants .	R-32/1922-23 R-44/1923-24 R-6/1924-25	I-22 I-57 I-67
Excesses under sub-heads disclosed after expiry of the year should be formally sanctioned.	Paragraph 12 of G. I. Resolution, dated 1st June, 1926 below R-26/1923-24. R-21/1924-25	I-38 I-94
Preventing excesses caused by impossibility of estimating percentage for establishment and tools and plant.	R-52/1923-24	I-60
Excesses under non-voted heads regularised by F. D. be brought to Assembly's notice.	R-22/1924-25	I-95.

	PARAGRAPH	PAGE
GRANT—EXCESS—contd.		
Utilisation of un-anticipated credits . . .	RI-29 and RII-9(iii)1930-31. RI-11/1931-32 R-8-10/1941-42 R-8/1943-44 R-5/1944-45 R-15/1945-46	I-293-295 I-304 I-488-489 I-549 I-588 I-650
Splitting up of the demand for working expenses in Railways.	P-9/1943-44 R-16 and P-4 (1st sub-para)/1944-45.	I-575 I-591
Excess over grants and charged appropriations should be placed before Parliament expeditiously for regularisation.	R-10/ Fifteenth Report/ 1954-55.	II-250
Regularisation of excess due to misclassification in Accounts.	R-7/ Sixteenth Report/ 1955-56.	II-272-273
Preparation of Advance Appropriation Accounts relating to excesses and presentation of Reports.	R-7 and R-8/ Twenty-first Report/1956-57.	II-305
Explanation for excesses to be furnished by the Ministries within four weeks.	R-9/ Twenty first Report/ 1956-57	II-305
GRANT—FORM—		
Separate grant for expenditure in England.	R-10/1921-22 R-26/1922-23 R-48/1924-25	I-1 I-18 I-112
Splitting up P. and T. and Railway Votes	R-22/1921-22	I-6
Treatment of recoveries in a grant . . .	R-27/1921-22 R-27/1922-23 R-8-11/1924-25	I-7 I-18 I-67-69
Principles for determining the form of a Demand.	R-24/1922-23	I-17
Form of Demands for expenditure in territorial areas and in England.	R-10/1921-22 R-24-26/1922-23 R-48/1924-25	I-1 I-17-18 I-112
Estimate for refunds. Proposal for making refunds statutory. Having one grant for all refunds except those relating to Railways and P. & T. Practice of exhibiting refunds in Demands for Grants and Appropriation Accounts discontinued from 1-4-1937.	R-54/1923-24 RI-17/1934-35	I-63 I-336
Conformity between accounts and Demands for Grants.	R-35/1924-25 R-12(2)/1926-27 RII-16/1930-31	I-109 I-153 I-297
System of net grants in Army . . .	R-26/1925-26	I-138
Form of P. & T. Grant	R-62/1925-26	I-149
Form of Railway Demands for Grants to conform to that of Appropriation Accounts.	R-69/1925-26 R-47/1927-28	I-150 I-200
Combining capital and revenue expenditure in one grant.	R-24/1926-27	I-161
Functions of P.A.C. and Finance Committee for Railways in respect of form of Railway Demands.	R-47/1927-28	I-200

	PARAGRAPH	PAGE
GRANT—FORM—<i>contd.</i>		
Separate grants for working expenses of Company managed and State-managed Railways.	R-22/1928-29	I-220
Combining the grants relating to capital expenditure on open line works and expenditure from Depreciation Fund.	RII-18/1930-31	I-297
Revision of form of Railway Demands for Grants.	RII-9/1931-32	I-308
Larger units of appropriation for accurate estimating.	RI-5 (3rd sub-para)/ 1935-36. RI-4 & PI-20/1936-37 R4 & P-40/1938-39 R9/1939-40	I-350 I-366 I-426 I-446
Furnishing details of sub-head 'Contingencies' in Estimates.	R-8 (2nd sub-para)/1939- 40. R-8 (2nd sub-para)/ 1940-41.	I-446 I-463
Exhibition of deductions for probable savings in a Demand for Grant.	P-35/1940-41	I-481
Simplification of headings in Defence Budget .	P-2(M.A.C.) Item 66/ 1944-45.	I-633
GRANT—GENERAL—		
Assembly should not be asked to reduce — already voted.	R-12-16/1921-22	I-2-3
— once voted should not and cannot be reduced.	Note below R-19/1921-22 RII-9(ii)/1930-31	I-4 I-295
Splitting up a vote into two or more votes to prevent abuses of powers of reappropriation.	R-21/1921-22	I-5
Should — be both gross and net? . . .	R-27/1921-22 R-27/1922-23 R-8-11/1924-25	I-7 I-18 I-67-69
Reappropriation from one — to another or from a non-voted head unconstitutional.	R-14/1922-23 R-16/1923-24 R-12 & 27/1925-26	I-16 I-34 I-125 & 139
Estimate for refunds. Proposal for making refunds statutory. Having one grant for all refunds except those relating to Railways and P. & T. Practice of exhibiting refunds in Demands for Grants and Appropriation Accounts discontinued from 1-4-1937.	R-54/1923-24 RI-17/1934-35	I-63 I-336
Reporting to Assembly additions and reductions made by F. D. under non-voted heads.	R-22/1924-25	I-95
— voted by the Legislature can be added to only by the Legislature.	R-12/1925-26	I-125
Reserve provision for emergent expenditure .	R-30/1928-29	I-231
A specific vote of Assembly be obtained for expenditure even though Assembly is apprised of such expenditure being incurred.	RI-15/1931-32	I-307
Provision for reserve for unforeseen expenditure.	PI-8/1933-34	I-330

	PARAGRAPH	PAGE
GRANT—GENERAL—contd.		
Retaining several grants for capital expenditure and a capital head for expenditure on the commutation of pensions.	RI-8/1935-36 PI-21/1936-37	I-353 I-369
Charging expenditure on unremunerative items to revenue.	PI-23/1936-37	I-369
Budgeting for Civil Works	PI-50/1936-37	I-375
Inclusion of the appropriation for Defence Department Secretariat in Civil Estimates.	P-81/1938-39	I-443
Distribution of provision for works between spending authorities.	R-19/1940-41	I-468
Watching proper utilisation of — made to State Governments.	P-86/1944-45 R-21/First Report/ 1951-52. R-4/Third Report/1952-53	I-632 II-68-69 II-138
Control over capital — and surrender of funds thereof.	R-13(b)/Fifteenth Report/ 1954-55.	II-251
Parliamentary control over Cess Funds . . .	R-15/Fifteenth Report/ 1954-55.	II-253-255
Sanctioning — towards the end of financial year should be avoided.	P-180/Fifteenth Report/ 1954-55.	II-270
— to various Scientific Societies	R-99/Sixteenth Report/ 1955-56.	II-285
GRANT—SAVINGS—		
Anticipated savings be brought to notice of Department concerned by Controlling Officers.	R-24/1923-24	I-36
Estimating savings accurately and their surrenders.	R-5/1943-44 R-2 and R-14 (sub-para 2) Second Report/ 1951-52.	I-548 II-117
Adjustment of debits for supplies and services rendered by one department to another.	R-21/1943-44 R-7/1944-45	I-562 I-589
Lapse of funds due to non-receipt or non-adjustment of debits for supplies and services rendered by other Departments during a financial year.	R-5 and 15(i)/1947-48 (Post-partition).	II-3-5
Debits for supplies and services —. Accurate estimate thereof.	R-7/Seventeenth Report/ 1953-56.	II-287
GRANT—SUPPLEMENTARY—		
Basing — and appropriations on actual requirements and not on revised estimates.	R-14-17/1921-22	I-2-3
No re-appropriation should be proposed in placing supplementary demands before the Assembly.	R-15/1921-22	I-2
Method of obtaining — from the Assembly and its advantages.	R-16-19/1921-22 RI-11/1933-34	I-3 I-325
Presenting to Assembly a statement of non voted — sanctioned by F. D.	R-22/1924-25	I-95

GRANT—SUPPLEMENTARY—<i>contd.</i>	PARAGRAPH	PAGE
Procedure and principles to be followed in presenting supplementary demands for grants.	R-9/1926-27 R-17/1927-28 RI-11/1933-34 Appendix VIII/1934-35 (Part I). Appendix V/1935-36 (Part I).	I-151 I-173 I-325 I-340 I-354
— be distributed between sub-heads and demand units.	R-40/1927-28	I-196
How unnecessary — can be avoided . . .	RI-19/1930-31	I-290
Latest actuals be studied before presenting a supplementary demand.	RI-5/1936-37	I-366
Sanction should not be obtained in the middle of the year for expenditure not really urgent.	R-5/1942-43 R-6/1943-44	I-517 I-548
 GRANT—TOKEN—		
When token vote should be obtained . . .	R-20/1923-24 R-19/1924-25 R-7/1926-27 R-10/1943-44 P-15/1945-46	I-44 I-92 I-151 I-551 I-652
Token vote for alternative Railway projects.	R-37/1927-28	I-195
— should be obtained for purchase of a Railway even if the expenditure can be financed from savings in the grant.	R-17/1940-41	I-468
A supplementary or a — be obtained for a New Service or activity not already approved by the Legislature at the earliest opportunity.	R-10/1943-44	I-551
Supplementary grant obtained for a specific purpose should not be diverted to other purposes without obtaining a token vote.	P-15/1945-46	I-652
 GRANT—VOTABILITY—		
— of disbursements under Loans and Advances.	R-3/1925-26	I-119
Declaring an item as non-votable which has hitherto been votable.	R-59/1925-26	I-149
Test for determining whether a specific vote of the Assembly is required.	R-32/1928-29	I-231
A specific vote of Assembly be obtained for expenditure though Assembly is apprised of such expenditure being incurred.	RI-15/1931-32	I-307
Specific vote necessary for creating funds from r revenue surpluses.	RI-11/1934-35	I-336
Splitting up of the demand for working expenses in Railways.	P-9/1943-44 R-16 and P-4 (1st sub-para) 1944-45	I-575 I-591

	PARAGRAPH	PAGE
GRANTS—IN—AID—		
Subsidiary accounts of institutions supported by — from Government.	R-38/1924-25 P-111/1928-29 (reproduc- ed as Note below R-38/ 1924-25).	I-111 I-112
Procedure for payment of — fixed at a certain percentage of actual expenditure.	RI-14 (2nd sub-para)/ 1931-32.	I-305
Powers of financial representative on New Delhi Municipality.	PI-6/1934-35.	I-339
Research schemes financed by the Imperial Council of Agricultural Research from — given by G. I.	RI-7 and PI-13/1936-37	I-367
Audit of — paid by the Government of India to the Central Universities.	R-36 and P-100/First Report/1951-52.	II-74-77
GROW MORE FOOD SCHEME—		
Responsibility of Central Government for agricultural development.	R-43/First Report/1951- 52.	II-84
GUARANTEE—		
— from Provincial Governments for unre- munerative railway lines.	P-4/1942-43	I-532
H		
HIGH COMMISSIONER—		
Powers of re-appropriation	R-26/1922-23	I-18
— 's financial powers	R-22 (ii)/First Report/ 1951-52. R-16/Seventh Report/ 1952-53.	II-69-72 II-164-165
Purchase of a car by — without prior sanction of Government.	R-26 (iv)/First Report/ 1951-52.	II-73
Functions of the — of India in U.K. <i>vis-a-vis</i> the Central Ministries.	R-17/Ninth Report/ 1953-54.	II-195-196
HIGH COURT JUDGES—		
Payment of fees to —	R-46 & P-92/First Report/ 1951-52.	II-87
HINDUSTAN AIR CRAFT LIMITED—		
Departmentalisation of accounts of the — .	R-41/Fourteenth Report/ 1954-55.	II-246
HIRE(ING)—		
Non-recovery of — charges for stores issued on — .	R-8/Second Report/ 1951-52.	II-120-121
— of a private building for Railway use .	R-17 (v)/Second Report/ 1951-52.	II-129
HONORARY—		
Appointment of — workers for valuation of assets	R-17/Twentieth Report/ 1955-56.	II-302

	PARAGRAPH	PAGE
I		
IMPERIAL COUNCIL OF AGRICULTURAL RESEARCH—		
Research schemes financed by the — . . .	RI-7 & PI-13/1936-37	I-367
IMPREST—		
The — given to Military Officers should be restricted and subjected to periodical verification by the Military Accounts Department.	P-20/1947-48 (Post-partition).	II-36-37
Fixation of the amount of — of Military Officers.	P-20/1947-48 (Post-partition).	II-36-37
Periodical verification of cash balances with the — Holders etc.	R-57 & 58/Ninth Report/1953-54.	II-203-205
Fixation of the amount of — and use of emergency cash requisition.	P-85/Ninth Report/1953-54.	II-206
INCOME AND EXPENDITURE ACCOUNT—		
Scheme for the Registration of Accountants should be placed on self-supporting basis.	P-72/1939-40	I-447
INCOME-TAX—		
Payment of — direct into the treasury . . .	R-39/1923-24	I-53
Check of — receipts . . .	R-31/1925-26	I-140
Audit of — receipts . . .	PI-33/1936-37 RI-8 and PI-37/1937-38	I-370 I-394-395
Registration of Business Names to check evasion of — and super-tax.	P-65/1942-43	I-540
— concessions in anticipation of legislation.	R-28/Fifteenth Report/1954-55.	II-260
Levy of Income-tax on perquisites viz. rent-free accommodation and value of the cost of water and electricity charges supplied free of charge to the Ministers.	R-67-71/Twenty-third Report/1956-57.	II-316-319
INDENTS—		
Parliamentary control over advance — for Railway stores.	R-30-31/1922-23	I-19
Purchase of stores in driblets not desirable. Periodical — preferred.	R-31(i)/1926-27	I-169
— for goods should not be marked urgent unnecessarily.	R-15 (M.A.C.)/1942-43	I-530
INDIAN STORES DEPARTMENT—		
Percentage levy on stores supplied through — London.	R-50/1924-25	I-115
Making — self supporting	R-20-21/1925-26 R-31/1926-27 R-43/1927-28	I-134-135 I-169 I-19

	PARAGRAPH	PAGE
INDIAN STORES DEPARTMENT—<i>contd.</i>		
Non-commercial portion of — connected with the development of Indian Industries to be exhibited separately.	R-22/1925-26	I-135
Figures of Administration Report of — and of Appropriation Report should agree.	R-54/1927-28	I-204
<i>Pro forma</i> accounts of —	RI-18/1931-32	I-307
Exhibition of recoveries of departmental charges of —.	PI-28/1932-33	I-319
Making the London Stores Department a part of — impracticable.	P-77/1938-39	I-443
<i>Quasi Commercial</i> accounts of — inclusive of <i>pro forma</i> credits from non-commercial departments.	PI-91/1937-38	I-404
INDIAN TELEPHONE INDUSTRIES—		
Inspection of stores purchased overseas by — through Automatic Telephone and Electric Company Limited.	R-66 (i)/Tenth Report/ 1953-54.	II-221
INDIVIDUAL RUNNING LEDGER ACCOUNTS—		
Maintenance of — of officers and personnel on the war system of accounting.	R-12 (M.A.C.)/1942-43	I-528
INDUSTRY—		
Fixation of price for supplies made by —	P-13-15 (M.A.C.)/1941-42	I-515-516
INSPECTION(S)—		
Value of local — emphasised	R-34/1922-23 R-29/1926-27	I-24 I-165
Irregularities brought to light by local audit and — of the accounts of N.I.S.R. Department.	R-26-27/1924-25 R-15/1925-26	I-105-106 I-131
Scrutiny of losses in Medical Stores Depots by administrative authorities and local audit and — of their accounts.	P-57/1946-47	I-663
— of Defence stores purchased abroad	R-19/Ninth Report/1953- 54.	II-197
— of stores purchased overseas by Indian Telephone Industries through Automatic Telephone and Electric Company Limited.	R-66 (i)/Tenth Report/ 1953-54.	II-221
INTEREST—		
Adjustment of — payable by Provincial Loans Fund to G.I.	R-11/1924-25	I-69
Provincial Governments should pay — on overdrafts.	R-37/1928-29	I-236
Budgeting for contribution to the Depreciation Reserve Fund and — charges.	P-II-49/1935-36	I-364

	PARAGRAPH	PAGE
INTEREST—contd.		
Inclusion of — and other overheads in calculating Profit and Loss of State Trading Schemes.	R-80/Seventh Report/ 1952-53.	II-181-182
INTERMEDIARIES—		
Loss in import of fertilizers due to purchase through — and not on Government to Government basis.	R-17/Seventh Report/ 1952-53.	II-165
Purchase of stores through — having little or no standing should be avoided.	R-43/Ninth Report/ 1953-54.	II-200
INVENTORY—		
Maintenance of — of Government property, stores, dead stock, etc.	R-35/1922-23	I-24
IRREGULARITIES—		
<i>See</i> 'Appropriation Accounts and Audit Report', 'Audit', 'Control' and 'Disciplinary Action'.		
L		
LABOUR—		
Recruitment of — through the agency of Employment Exchanges.	R-53/Fifteenth Report/ 1954-55.	II-265-266
LAPSES—		
<i>See</i> "Estimate", "Reserve".		
LEGAL OPINION—		
Highest legal advice should be obtained in case of two conflicting legal opinions.	R-99/Nineteenth Report/ 1955-56.	II-297
LEGISLATION—		
Income tax concessions in anticipation of —.	R-28/Fifteenth Report/ 1954-55.	II-260
LIGHTHOUSES AND LIGHTSHIPS—		
Utilisation of balances in the General Reserve Fund —.	P-63/1944-45	I-629
LOANS—		
Arrangements for recoveries of — from States.	R-24 (ii)/Fifteenth Report/ 1954-55.	II-259-260
LOANS AND ADVANCES—		
Are disbursements under — votable ? . . .	R-3/1925-26	I-119
G.I. to examine prospects of projects financed from — to be granted by them.	R-35/1929-30 RI-12/1930-31	I-272 I-281
Closer estimates by Provincial Governments of — required from the Provincial Loans Fund.	RI-20/1930-31	I-296
Unauthorised advance payments made by Indian Missions abroad.	R-44/Sixteenth Report/ 1955-56.	II-275-280

	PARAGRAPH	PAGE
LOANS AND ADVANCES—<i>contd.</i>		
Write-off of ——— to be made with the approval of Parliament.	R-94/Twenty-third Report/1956-57.	II-321-322
LOCAL AUDIT AND INSPECTION—		
<i>See</i> 'Audit', 'Inspection'.		
LOSS(ES)—		
Treatment of ——— of revenue in accounts	R-38/1923-24 R-35/1925-26	I-52 I-141
—— sustained by Government through fraud or negligence.	R-36-38/1925-26 R-29-30/1926-27	I-145-146 I-165-166
Whether ——— in central transactions due to neglect of servants of Provincial Governments as Agents should not be a provincial charge.	R-29(3) and 30/1926-27	I-166
Reporting of cases of theft, fraud, defalcation, etc. to G.I.	RI-14 (1st sub-para)/ 1931-32.	I-305
Fixation of monetary limit for exhibition of individual extra-statutory remissions of revenue in statements submitted to Principal Auditors.	Appendix X/1932-33 (Part I).	I-320
Writing off the balance under "Purchases and Sales of Silver".	PI-71/1936-37 PI-32/1937-38	I-376 I-403
Urgency or secrecy no excuse for neglect of ordinary precautions against ———.	P-82/1939-40	I-448
Railway Administrations should not accept any statement of a legal nature without consulting legal advisers of Railways.	P-122/1940-41	I-483
Prohibiting local purchases of stores	R-10 (M.A.C.)/1942-43	I-528
Indents for goods should not be marked urgent unnecessarily.	R-15 (M.A.C.)/1942-43	I-530
—— to Railways in allowing grain shops concessions.	P-8/1942-43	I-532
Inclusion in Civil Audit Report a section dealing with financial irregularities, ——— and nugatory expenditure.	R-13/1943-44	I-561
Strict compliance of orders relating to procedure to prevent ——— in Government stores.	R-4 (M.A.C.)/1943-44	I-563
Infructuous expenditure to be included in Audit Report but not in statement of ———.	P-9 (M.A.C.)/1943-44	I-586
To fix responsibility for ——— suitable procedure for handling money in Railways be devised.	P-22/1946-47	I-662
Scrutiny of ——— in Medical Stores Depots by administrative authorities and local audit and inspection of their accounts.	P-57/1946-47	I-663
Recovery from officers whose negligence contributed to ——— of public money.	P-19/1947-48 (Pre-partition).	I-666

	PARAGRAPH	PAGE
LOSS(ES)—contd.		
Adjustment of — on Railway Collieries	PII-14/1937-38	I-422
Prompt action against officials responsible for——.	R-20, 25, 26 (vi) and 27/ First Report/1951-52.	II-61-68
— due to change in specification after placing of orders.	R-33/First Report/1951-52	II-74
— in the publication of the All India Radio Journals.	R-49/First Report/1951-52 R-90/Sixteenth Report/ 1955-56.	II-90 II-282-284
— due to non-observance of rules and pro- cedure and relaxation of contract specifications.	R-27/Seventh Report/ 1952-53.	II-170
Measures to reduce — on the All India Radio Journals.	R-44/Seventh Report/ 1952-53.	II-172-173
Fixation of monetary limit for sanctioning write off of — by officers at various levels.	R-19/Eighth Report/1953- 1954.	II-193-194
Reporting of cases of — or fire in Defence Stores Depots and Installations to the Police.	R-16/Ninth Report/1953- 54.	II-195

LUMP CUT—*See* 'Estimate'.**LUMP PROVISION—***See* 'Estimate'.**M****MAINTENANCE—**

Machinery for executing repairs to P. & T. build- ings.	R-23/1927-28	I-175
— of uneconomical Railway wagons	PII-6/1936-37	I-385

MANUFACTURE—

Departmental — of bricks undertaken by Rail- ways.	R-45/1927-28	I-199
Writing up the book value of stores on the basis of new issue rates and above costs objectionable.	P-47/1942-43	I-535
Procurement and — of commonuser items in India.	R-20/Ninth Report/ 1953-54.	II-197-199
Powers of Director General, Ordnance Factories for — in Ordnance Factories for stock pur- poses.	R-71/Nineteenth Report/ 1955-56.	II-294-295

MEASUREMENT BOOK—

Irregular upkeep of — deprecated	R-33/1926-27	I-169
--	--------------	-------

MEDICAL STORES DEPOTS—

Scrutiny of losses in — by administrative au- thorities and local audit and inspection of their accounts.	P-57/1946-47	I-663
---	--------------	-------

	PARAGRAPH	PAGE
MILITARY—		
See 'Defence' and 'Defence Services'.		
MILITARY ACCOUNTS COMMITTEE—		
See 'Committee'.		
MILITARY DAIRY FARMS—		
Review of rates of depreciation on livestock and buildings in — with reference to practice of Commercial Dairies.	P-3 (M.A.C.)/1944-45	I-634
MILITARY ENGINEER SERVICES—		
Reduction in percentage of establishment charges in —	RI-4 (M. A. C.) / and PI-7 (M. A. C.)/1937-38. P-6 (M.A.C.)/ 1938-39 R-4 (M.A.C.)/1939-40	I-405 I-444 I-450
Deviation from original programme should be limited to cases of extreme urgency.	RI-5 (M.A.C.) and PI-20 (M.A.C.)/1937-38.	I-408
Estimating and sanctioning War emergency works in —	R-3 (M.A.C.)/1939-40	I-449
Guarding against high rates where non-competitive single tenders and negotiated contracts are accepted.	R-5 (M.A.C.)/1940-41	I-469
Centralising information regarding rates paid for works executed by —	P-9 (M.A.C.)/1941-42	I-515
Schedule of rates in— and transfer of Chief Technical Examiner from Quarter Master General to Engineer-in-Chief.	P-13 (M.A.C.)/1942-43	I-541
Review of the working of —	R-4 and 5 (M.A.C.) and P-5 and 8 (M.A.C.)/ 1941-42.	I-497-498
MILITARY ENGINEER SERVICES—CHIEF TECHNICAL EXAMINER—		
The peace time procedure under which—functioned under the Quarter Master General should be reverted to.	P-8 (M.A.C.)/1944-45	I-655
MINISTERS—		
Rules regarding chartering of planes by —	R-45/First Report/1951-52	II-84-87
Levy of Income tax on perquisites viz. rent-free accommodation and value of cost of water and electricity charges supplied free of charge to the —	R-67-71/Twenty-third Report/1956-57.	II-316-319
MINISTRY (IES)—		
Responsibility of the Indenting — and the Purchase Organisations and duties and powers of the Director General, India Stores Department, London.	R-10/Second Report/1951-52.	II-121-124
Finance Ministry should settle differences between—	R-49/Fifteenth Report/1954-55.	II-263-265

	PARAGRAPH	PAGE
MINISTRY (IES)—<i>contd.</i>		
Entrusting work relating to the P. A. C. to a senior officer in each—.	Paragraph 5 (Introduction)/ Twenty-third Report/1956-57.	II-314
Communication of irregularities committed by an officer belonging to one —to another — where the officer is proposed to be re-employed.	R-54/Twenty-third Report/1956-57.	II-316
MINT—		
Adjustment of profit on the circulation of Small Coins.	P-16/1939-40	I-446
<i>Pro forma</i> accounts of — and periodical verification of its stores.	P-35/1942-43	I-534
MISSIONS—		
Processing of financial proposals in the— abroad.	R-40/Sixteenth Report/1955-56.	II-275
Unauthorised advance payments made by Indian — abroad.	R-44 /Sixteenth Report/1955-56.	II-275-280
Sale or transfer of cars by the Heads of — .	R-45/Twenty-third Report/1956-57.	II-315
Marking of cutleries and crockeries of Indian— with Indian crest.	R-47/Twenty-third Report/1956-57.	II-315
MONETARY LIMIT—		
Preventing excess expenditure by limiting money issues.	R-20/1921-22	I-4
Fixation of — for exhibition of individual extra-statutory remissions of revenue in statements submitted to Principal Auditors.	Appendix X/ 1932-33 (Part I).	I-320
MONEY—		
Withdrawal of — in advance of requirements.	R-31/1924-25	I-108
To fix responsibility for losses suitable procedure for handling — in Railways be devised.	P-22/1946-47	I-662
Recovery from officers whose negligence had contributed to loss of public —.	P-19/1947-48 (Prepartition).	I-666
MUNICIPALITY—		
Borrowing money from a — to meet expenditure debitable to Government is irregular.	R-48/1923-24	I-59
Powers of financial representative on New Delhi —.	PI-6/1934-35	I-339
MUSEUM—		
Inclusion of subsidiary accounts of Central — in Appropriation Account.	P-111/1928-29 (Reproduced as Note below R-38/1924-25).	I-112

	N	PARAGRAPH	PAGE
NATIONAL HIGHWAYS—			
Maintenance of —.		R-51/Seventh Report/19-	II-174-179 52-53.
NAVAL DOCKYARDS—			
Introduction of cost accounting system in — and Government Commercial undertakings.		R-63/Ninth Report/1953-	II-206 54.
NAVY—			
See 'Defence Services'.			
NEW SERVICE—CASE LAW—			
Safeguarding of a source of revenue on substitution of one instrument of service for another— <i>not a new service</i> . Grant-in-aid to a new Provincial hospital of one lakh—a <i>new service</i> .	R-23/1926-27		I-159
Erection of a boiler and an electric generating plant at Ghazipur Opium factory— <i>not a new service</i> .	R-32/1927-28		I-194
Expenditure on conversion of R.I.M.S. Dufferin into a training ship— <i>not a new service</i> .	R-33/1927-28		I-194
Purchase of Anand Creamery by Agricultural Department from Army Department— <i>new service</i> .	R-34/1927-28		I-194
Installation of an electrolytic silver refinery at Bombay Mint — <i>new service</i> .	R-35/1927-28		I-194
Re-armament of Quetta Peshin Police— <i>not a new service</i> .	R-36/1927-28		I-195
Construction of a new Railway line— <i>new service</i> .	R-37/1927-28		I-1955
Drainage channel on Kadu Lake— <i>new service</i> .	R-30/1928-29		I-231
Re-modelling of Tatanagar workshops— <i>not a new service</i> .	R-31/1928-29		I-231
Purchase of a loud speaker apparatus— <i>not a new service</i> .	R-32/1928-29		I-231
Purchase of buildings for the use of Income Tax Department— <i>new instrument of service</i> .	R-33/1928-29		I-232
Expenditure on traffic surveys on G. I. P. Railway — <i>not a new service</i> .	R-28/1929-30		I-260
Additions and alterations to locomotive running shed at Bhubawal— <i>new service</i> .	RII-15/1931-32		I-311
Installation of wireless sets on railways— <i>new service</i> .	RII-15/1931-32		I-311
Construction of a ring bund at Demukdia— <i>not a new service</i> .	RII-11/1932-33		I-322
Regerdering the track of Delhi Jumna Bridge on North Western Railway— <i>not a new service</i> .	RII-11/1932-33		I-322

	PARAGRAPH	PAGE
NEW SERVICE—GENERAL—		
Expenditure on ——— which can be met by re-appropriation should be brought to Assembly's notice by means of a token demand.	R-20/1923-24 R-19/1924-25 R-7/1926-27	I-44 I-92 I-151
Reporting expenditure on ——— to Finance Committee not enough.	R-19/1924-25	I-92
Re-appropriations of savings to meet the cost of ——— under non-voted heads.	R-20/1924-25	I-93
Provision for expenditure on ——— be made in the original estimates of the year or in the budget of the year following.	R-27/1925-26	I-139
Interpretation of the term ——— need not be precisely defined but a body of case law be evolved to govern concrete cases.	R-22/1926-27	I-158
Ar. G. to furnish to P. A. C. a Memorandum of doubtful cases of ——— Discontinued.	R-31/1927-28 RII-11/1932-33	I-194 I-322
Individual traffic surveys (Railways) exceeding Rs. 10,000 be treated as a ———	R-28/1929-30	I-260
Cases relating to ——— should be formally regularised by the Assembly. Past cases hitherto not regularised be tacitly condoned.	RI-33/1930-31	I-293
Procedure for regularising expenditure on a ——— <i>ex-post-facto</i> .	RII-29/1930-31	I-301
Utilisation of reserve provision in Railway estimates for meeting expenditure on ———	RII-16/1931-32	I-315
A supplementary grant or a token grant be obtained for a ——— or activity not already approved by the Legislature at the earliest possible opportunity.	R-10/1943-44	I-351
Is purchase of a Railway by Government a ——— ?	R-17/1940-41	I-468
Re-appropriation of funds to meet expenditure on a ———.	R-13(g)/Sixteenth Report/1955-56	II-273-274
NEWS AGENCIES—		
Payments by All India Radio to the ——— should be made on the wordage.	R-46/Seventh Report/1952-53.	II-173-174
NEWS PAPERS—		
Royalty from the ——— for the publication of daily radio programmes.	R-44/Seventh Report/1952-53.	II-172-173
NO CLAIM CERTIFICATE—		
Reference of cases to arbitration in which ——— has been signed by the contractors.	R-84/Thirteenth Report/1954-55.	II-237-239
NON-GOVERNMENT ORGANISATION—		
Purchase on behalf of a ——— .	R-97/Sixteenth Report/1955-56.	II-284

	PARAGRAPH	PAGE
NORTHERN INDIA SALT REVENUE DEPARTMENT—		
See "Appropriation Accounts and Audit Report Salt Department".		
O		
ORDNANCE FACTORIES—		
No work should be undertaken in — for outside parties until the rates had been accepted and deposits made.	P-6/1946-47	I-661
Accounting of overhead expenses in—	P-30/1947-48 (Post-partition).	II-38
Procurement and manufacture of common user items in —	R-20/Ninth Report/1953-54.	II-197-199
Supplies by — to Defence and Civil Organisations at Competitive rates.	R-30/Fourteenth Report/1954-55.	II-244
Procedure of placing orders on the Director General, Ordnance Factories and periodical review thereof.	R-34/Nineteenth Report/1955-56.	II-252-254
Powers of the Director General, Ordnance Factories for manufacture in — for stock purposes.	R-71/Nineteenth Report/1955-56.	II-294-295
Full utilisation of productive capacity of —	R-74/Nineteenth Report/1955-56.	II-295
Adoption of efficient and economic methods of production, in—	R-75/Nineteenth Report/1955-56.	II-295-296
OVERDRAFTS—		
Provincial Governments should pay interest on —	R-37/1928-29	I-236
OVERPAYMENTS—		
Recoveries of —	P-25/1942-43	I-534
— to a public servant should be recovered promptly.	P-8(M.A.C.)/1943-44	I-586
P		
PARLIAMENT—		
Write-off of loans to be made with the approval of —	R-94/Twenty-third Report/1956-57.	II-321-322
PASSES—		
Free — to railway officials	RII-10/1935-36 PII-8/1936-37	I-357 I-388
PAY AND ACCOUNTS OFFICE (R)—		
Utility of —	R-23-24/1924-25 R-24/1925-26	I-96-97 I-136
Budgeting procedure in areas having —	R-56/1927-28	I-204
— helpful to departments in matters of financial control.	R-19/1928-29	I-219
— be consulted in matters of re-appropriation, supplementary grants, surrenders, etc.	R-19/1928-29	I-219

	PARAGRAPH	PAGE
PAY AND ALLOWANCES—		
Revision of ——— should not have retrospective effect.	R-25/1921-22	I-7
PAYMENTS—		
—— to Provincial Governments for Agency functions.	R-10(item 3)/1925-26	I-123
Clerks who maintain accounts should not be allowed to make ———.	R-51/1925-26	I-148
<i>Ex-gratia</i> ——— to contractors .	R-27(4)/1926-27 P-21 (2nd sub-para) M.A. C/1943-44 P-17 (M.A.C.)/1944- 45	I-162 I-587 I-636
Crediting to suspense by debit to service head concerned of ——— not actually made is irregular.	P-14/1941-42	I-510
Irregular concessions or additional ——— to contractors.	R-27(3)/1926-27 P-21 (1st sub-para) /1944-45	I-162 I-608
<i>Ex-gratia</i> ——— to contractors for <i>bona fide</i> mistakes in contracts.	P-21 (2nd sub-para) M.A.C. 1943-44. P-17 (M.A.C.)/1944 45	I-587 I-636
—— by All-India Radio to the news agencies should be made on the wordage.	R-46/Seventh Report /1952-53	II-173
Advance ——— to the U. K. Government for supply of stores.	P-115/Ninth Report/ 1953-54	II-206-207
PENSION—		
Disciplinary action in case of officers after retirement.	R-43/1923-24	I-55
Calculation on an actuarial basis of the annual charge for ——— of P. & T. Department.	R-16/1924-25	I-89
Fixing a limit beyond which commutation of ——— need not be allowed.	P-31/1940-41	I-481
Transfer of Sterling Pensionary liability to the U. K. Government.	R-18-23/Fifteenth Report/ 1954-55.	II-255-259
PERCENTAGE—		
—— for establishment and tools and plant charges	R-52/1923-24	I-60
—— levy on stores supplied through I. S. D. London.	R-50/1924-25	I-115
PHOTOSTAT—		
Keeping of ——— copies of documents to be filed with a Court.	R-30/Fifth Report/ 1952-53.	II-136-137

	PARAGRAPH	PAGE
POLICE—		
Reporting of cases of loss or fire in Defence Depots and Installations to the—	R-16/Ninth 1953-54	Report/ II-195
POLICE CLOTHING AND EQUIPMENT FUND—		
Advantage of 'fund' 'system over' 'direct charge' system and test audit of— accounts.	RI-14/1930-31	I-282
PORTS AND PILOTAGE—		
Separation of accounts under —	R-55/First 1952	Report/1951- II-91-96
PORT TRUSTS—		
Submission of Audit Reports on the accounts of — to the Parliament.	R-56/First 52	Report/ 1951- II-96
POSTAL LIFE INSURANCE ORGANISATION—		
Maintenance of Commercial accounts of — .	R-69/First 1952	Report/ 1951- II-103
Working of the —	R-53/Tenth 1953-54	Report/ II-220
POSTS AND TELEGRAPHS—		
Splitting up — votes	R-22/1921-22	I-6
Estimating and control of expenditure in — Department.	R-55/1923-24	I-64
Credit for services rendered by — Department	R-58/1923-24 R-17/1924-25 R-17/1925-26	I-64 I-90 I-134
Writing down of unserviceable stocks	R-59/1923-24	I-64
Security from — officials Existence and solvency of sureties.	R-60/1923-24 R-66/1924-25	I-65 I-116
Commercial system of accounts in —	R-15/1924-25 R-17/1925-26	I-77 I-134
Calculation on an actuarial basis of the annual charge for pensions of — Department.	R-16/1924-25	I-89
Customs duty on foreign parcels realised by — Department.	R-34/1925-26	I-140
Form of — budget, accounts, Appropriation Accounts and Finance and Revenue Accounts.	R-62/1925-26	I-149
Check over current purchases of stores in —	R-65/1925-26	I-149
Combining — capital and revenue expenditure in one grant.	R-24/1926-27	I-161
Sanction of G. I. necessary for free use of trunk telephoneline by a firm having business transactions with — Department.	R-28/1926-27 R-20/1927-28	I-165 I-174
Fixing rate of contribution to Depreciation Fund and its utilisation.	R-35/1926-27 R-24/1927-28	I-170 I-175

	PARAGRAPH	PAGE
POSTS AND TELEGRAPHS—contd.		
Machinery for executing repairs to — buildings	R-23/1927-28	I-175
Reduction of detailed heads where possible	R-85/1926-27	I-171
Setting up a Committee to enquire into commercial results of working of — Department.	R-24/1927-28	I-175
Financial position of — Department	R-34/1929-30 RI-16/1934-35 RI-10 and PI-76-77/ 1936-37	I-271 I-336 I-368
Constitution of a Renewals and Replacements Reserve Fund for Depreciation Reserve Fund in —.	PI-54/1933-34	I-331
Curtailing concessions on multiple address press telegrams.	RI-10 & PI-76/1936-37 RI-11 & PI-76/1937-38	I-368 I-397
Contribution to Renewals Reserve Fund — and apportionment of cost of petty works between Working Expenses and the Fund.	P-82/1940-41 R-14/1941-42 P-94/1943-44 P-26/ (3rd sub-para) /1944-45 P-75/1945-46 P-40/1947-48 (Post-partition)	I-482 I-493 I-580 I-616 I-656 II-41
Excessive store balances in the — Department	R-65/First Report/1951-52 R-25/Fifth Report/1952-53	II-97-103 II-154
Recovery from contractors employed for the handling of treasury work in the Post offices.	R-27/Fifth Report/1952-53	II-155
Policy for construction of buildings by the — Department.	R-36/Fifth Report/1952-53	II-157
Propriety of utilising the revenue realised under the 'Own Your Telephone Scheme' for current expenditure.	R-43/Tenth Report/1953-54	II-219-220
Procedure for collection of dues by the — Department on behalf of other Department.	R-32/Twenty-second Report/1956-57	II-311
Procedure for handling cash and postage stamps etc. in the Head and Branch Post offices.	R-52 and R-54/Twenty second Report/1956-57	II-313
POSTS AND TELEGRAPHS—WORKSHOPS—		
Expenditure on expansion of Jubbulpore —	P-26 (1st sub-para)/1944-45	I-610
Cost accounting system in —	R-33/Fifth Report/1952-53 R-22/Thirteenth Report/ 1954-55	II-157 II-296
POWERS—		
Preventing abuses of — of re-appropriation	R-21/1921-22	I-5
High Commissioner's — of re-appropriation	R-26/1922-23	I-18

	PARAGRAPH	PAGE
POWERS—contd.		
— of re-appropriation not to be utilised to conceal defective budgeting.	R-26/1923-24	I-37
— of officers in charge of a major work in a remote locality etc. should be clearly defined.	R-26/1924-25	I-105
Financial — of the Departments of G.I.	R-25/1925-26 R-20 (7)/1926-27	I-137 I-157
— of Government to waive revenue leviable under a statute.	R-20/1927-28	I-174
High Commissioner's financial —	R-22 (ii)/First Report/ 1951-52	II-69-72
Execution of emergent works and maintenance of contemporary records of facts.	R-12/Fifth Report/1952-53	II-149
Proposal to delegate — to officers at various level to dispose of audit objections.	R-42/Fourteenth Report/ 1954-55	II-246
— and Functions of the Council of Scientific and Industrial Research should be enacted by an Act of Parliament.	R-98/Sixteenth Report/ 1955-56	II-284
— of the Director General, Ordnance Factories for manufacture in Ordnance Factories for stock purposes.	R-71/Nineteenth Report/ 1955-56	II-294
Suitable delegation of — to avoid delay in execution of work.	R-133/Twenty-third Report/ 1956-57	II-322
PRESS TRAFFIC—		
Curtailling concessions on multiple address press telegrams.	RI-10 and PI-76/1936-37 RI-11 and PI-76/1937-38	I-368 I-397
PRICES—		
Commencing work on verbal understanding that lump sum — would be settled by negotiation after completion of the work.	P-11 (M.A.C.)/1941-42	I-514
Procurement of War supplies	R-11 (M.A.C.)/1941-42 P-24 (M.A.C.)/1942-43	I-501 I-542
Provisional — in contracts should be subject to a ceiling.	P-58/1945-46	I-653
Fixation of — for supplies by Industry	P-13-15 (M.A.C.)/1941-42	I-515-516
Verification by the Comptroller and Auditor General of the reasonableness of the — charged by Automatic Telephone and Electric Company.	R-66 (ii)/Tenth Report/ 1953-54	II-222
PRICING—PUBLICATIONS—		
Pricing of Survey Maps	P-36/1943-44	I-576

PRINTING—	PARAGRAPH	PAGE
Allocation of charges by the Department of Stationery and —.	R-69/1924-25	I-116
Accounting as receipts the cost of stationery and — payable by Provincial Government to the Central Government.	R-52/1925-26	I-149
PROFITS—		
Appropriation to the Government of part of the — of the prospecting activities of the Utilisation Branch of the Geological Survey of India.	P-39/1924-43	I-535
Goodwill should not be taken as capital employed in calculating —.	R-9 (1st sub-para) M.A.C. and P-24 (M.A.C.)/1943-44	I-566
Taking into account of royalty in calculating — of Forest Department.	R-88/Twenty-third Report/1956-57	II-320
PROFIT AND LOSS ACCOUNT—		
See 'Account', 'Appropriation Accounts and Audit Report'.		
PROJECT(S)—		
Substitution of one — for another already approved by the Legislature should not be made.	R-37/1927-28	I-195
Approval of Legislature be obtained to alternative — by a token vote for each.	R-37/1927-28 R-25/1928-29	I-195 I-228
A.G. to be consulted about audit and accounting arrangements before new schemes are undertaken.	R-11 & P-62/1945-46 R-34/Fifth Report/1952-53	I-647 II-157
Comptroller and Auditor General be consulted about audit and accounting arrangements before any big — is undertaken by the Government.	R-7 and P-78/1947-48 (Post-partition)	II-68
Expenditure on large — without detailed estimates.	R-17 (ii)/Second Report/1951-52	II-125
Examination of the accounts of Hirakud Dam — by the Central P.A.C.	R-2,3 & 4/Sixth Report/1952-53	II-159
Allocation of the cost of compensation for submerged land, reclamation and resettlement of displaced persons to Hirakud Dam —.	R-82/Sixth Report/1952-53	II-159-160
Financial, accounting and audit organisations for each —.	R-85-86/Sixth Report/1952-53	II-161
Functions of the Central Water and Power Commission and Chairman of the Central Water and Power Commission.	R-90/Sixth Report/1952-53	II-161-163
Appointment of an Administrator in the Hirakud Dam —.	R-91/Sixth Report/1952-53	II-163
Mention of financial control exercised on the Capital — executed out of Central assistance in the Budget Memorandum.	P-148/Fifteenth Report/1954-55	II-270

PROJECT—BHAKRA NANGAL—

	PARAGRAPH	PAGE
Scope and extent of control of the Central Government and the three participating States, over the expenditure incurred on the execution of the — and the jurisdiction of the Central P.A.C. to examine its accounts.	R-5 and P-184-186/Fifteenth Report/1954-55	II-248-250

PROMOTION—

— of officers to higher posts during the pendency of the disciplinary cases should be avoided.	R-30/Fifth Report/1952-53	II-156
--	---------------------------	--------

PROVINCIAL GOVERNMENT(S)—

Payments to — for Agency functions . . .	R-10 (item 3)/1925-26	I-123
Review of balances of the —. Services rendered by the Central Government to — should be treated on a commercial basis. — should pay interest on over-drafts.	R-37/1928-29	I-236
Earlier and closer estimate of advances required from Provincial Loans Fund by —.	RI-20/1930-31	I-290
Guarantees from — for unremunerative railway lines.	P-4/1942-43	I-532
Levying departmental charges on works expenditure at fixed rates.	PI-49/1936-37	I-375
Watching proper utilisation of grants made to —.	P-86/1944-45	I-632

PROVISION—

Lump — in budget be avoided . . .	R-45/1923-24	I-58
No — to be made in budget for appointments kept in abeyance.	R-46/1923-24	I-58
— for amortisation of Railway Debt . . .	R-9/1940-41 P-24/1944-45	I-464 I-610
— for amortisation of debt raised from Rs. 3 crores to Rs. 5 crores.	P-24/1944-45	I-610

PUBLIC ACCOUNTS COMMITTEE—

See 'Committee'.

PURCHASE(S)—

— of railway stores	PII-49/1937-38	I-425
Outstanding commitments in respect of — of stores be mentioned in Annual Report of Ministry of Works, Mines and Power.	P-82/1945-46	I-657
Evolving procedure for recoupment of shortages in imported machinery.	R-16/1947-48 (Postpartition).	II-13
Responsibility of the indenting Ministry and the — Organisations and duties and powers of the Director General, India Stores Department, London.	R-10/Second Report/1951-52	II-121-124

PURCHASE(S)— <i>contd.</i>	PARAGRAPH	PAGE
Destruction of files regarding — transactions	R-41/Ninth Report/1953-54	II-199
— of stores from abroad	R-43/Ninth Report/1953-54	II-200
Inspection of stores purchased overseas by Indian Telephone Industries through Automatic Telephone & Electric Co. Ltd.	R-66 (i)/Tenth Report/1953-54 R-8 (Introduction)/Twelfth Report/1953-54	II-221 II-228
Officers sent abroad for procuring supplies etc. should associate with the Head of the Supply Mission before starting direct negotiations.	R-50/Fifteenth Report/1954-55	II-265
— on behalf of a Non-Government Organisation.	R-97/Sixteenth Report/1955-56	II-284
Decision to — equipment for projects should be taken at high technical level.	R-36/Eighteenth Report/1955-56	II-289-291

Q**QUARTERLY STATEMENT—***See* 'Report'.**R****RADIO—**

Credit for services rendered by P. & T. Department, separate profit and loss statement for — system.	R-58/1923-24 R-17/1924-25	I-64 I-90
Financial results of working of All India —	P-82/1944-45	I-632
Inclusion of accounts of All India — in commercial Appendix.	P-70/1945-46	I-654
Losses in the publication of the All India — Journals.	R-49/First Report/1951-52 R-90/Sixteenth Report/1955-56	II-90 II-282-284
Commercialisation of the accounts of the All India. —	R-50/First Report/1951-52	II-90
Payments by All India — to the news agencies should be made on the wordage.	R-46/Seventh Report/1952-53	II-173

RADIO JOURNALS—

Losses in the publication of the All India —	R-49/First Report/1951-52 R-90/Sixteenth Report/1955-56	II-90 II-282-284
Measures to reduce losses on the All India —	R-44/Seventh Report/1952-53	II-172-173

RAILWAY FINANCE COMMITTEE—*See* 'Committee-Finance'.**RAILWAY(S)—**

Classification not to be changed during the course of a year.	R-8-9/1921-22 R-12(1)/1926-27 R-19/1941-42	I-1 I-153 I-495
---	--	-----------------------

	PARAGRAPH	PAGE
RAILWAY(S) — <i>contd.</i>		
Splitting up — votes	R-22/1921-22 R-47/1927-28 P-9/1943-44 R-16 & P-4 (1st sub-para) /1944-45	I-6 I-200 I-575 I-591
Charging stores to Capital in —	R-40/1921-22	I-13
Advance indents for — stores	R-30-31/1922-23	I-19
Estimating capital expenditure on — . . .	R-8/1923-24 R-14/1924-25 R-11/1927-28 R-21/1928-29	I-32 I-76 I-173 I-219
Audit of — managed by Companies. Making audit independent of administration.	R-63/1923-24 R-71/1925-26 R-28/1927-28	I-65 I-150 I-182
Revaluation of — stores	R-64/1923-24 PII-41/1936-37	I-66 I-391
Treating appropriation to — Reserve Fund as expenditure is unreal and confusing. Its vota- bility.	R-10 (item 18)/1925-26	I-123
— Demands for Grants should be in the same form as Appropriation Accounts.	R-69/1925-26 R-47/1927-28	I-150 P-200
Curtailement of private works in — workshops .	R-72/1925-26	I-150
System of over-allotment and its application to — Grants.	R-9 and 12 (4)/1926-27 R-11/1927-28 R-23/1928-29 RII-14/1931-32	I-151 & 153 I-173 I-220 I-309
Investigation into the system of preparing the budget estimates in —	R-11/1926-27 R-21/1928-29	I-153 I-219
Control over expenditure on works in — .	R-80/1926-27	I-170
Co-operation between — Accounts Staff and the Government Examiner — (Mr. P. R. Rau's Report).	R-28/1927-28 R-24/1928-29	I-182 I-221
Substitution of one project for another already approved by the Legislature should not be made.	R-37/1927-28	I-195
Departmental manufacture of bricks undertaken by —.	R-45/1927-28	I-199
Functions of P.A.C. and — Financial Commis- sioner in respect of form of — Demands for Grants.	R-47/1927-28	I-200
Responsibility of — Board and Government Examiners in allocating expenditure between capital and revenue.	R-64/1927-28	I-205
Construction of lines on the guarantee of a local Government or other local bodies.	R-66/1927-28	I-205
Figures in Administration Report and Appropria- tion Accounts should agree.	R-68/1927-28	I-205
Adjusting rates on Company managed lines to rates on State managed lines.	R-69/1927-28	I-206

RAILWAY(S)— <i>contd.</i>	PARAGRAPH	PAGE
Introduction of system of commercial accounts on collieries worked by —.	R-70/1927-28 R-13/1928-29 P-49/1929-30 Appendix VI/1934-35 (Part II) P-69/1947-48 (post partition)	I-206 I-207 I-280 I-348 II-43
Presentation of results of the working of —	R-13-14/1928-29	I-207-208
Necessity of a Review by Financial Commissioner —.	R-11 & 14 & P-92-96/ 1929-30 R-25/1929-30	I-239 and 241-244 I-258
Policy of — construction should always be coordinated with the financial position of Government.	R-21/1928-29	I-219
Re-appropriations between State managed and Company managed —.	R-22/1928-29	I-220
Separate grant for working expenses of Company managed and State managed —.	R-22/1928-29	I-220
Control of expenditure and prevention of irregularities on Indian — (Mr. P. R. Rau's Report).	R-24/1928-29	I-221
Reserve provision for emergent expenditure .	R-30/1928-29	I-231
Duty of P.A.C. in respect of — accounts .	R-11-14/1929-30	I-239-241
Lessons from East Indian — Stores accounting case.	R-18/1929-30	I-256
Curtailment of information in regard to — receipts and expenditure as a measure of retrenchment.	R-36/1929-30	I-273
Distribution of allotments after the close of the year.	RII-9(i)/1930-31	I-294
Utilisation of unanticipated credits	RII-9(iii)/1930-31 RI-11/1931-32 R-15/1945-46	I-295 I-304 I-650
Collaboration between test audit and accounts staffs in presenting an accurate picture of financial administration to the P.A.C. and Legislature.	RII-12/1930-31	I-295
Test audit of — transactions	RII-13(i)/1930-31	I-296
Sub-divisions of Demand and the arrangements of working accounts should correspond.	RII-16/1930-31	I-297
Combining the grants relating to capital expenditure on open lines and expenditure from Depreciation Fund.	RII-18/1930-31	I-297
Simplification of the form of Appropriation Accounts.	RII-20/1930-31	I-298
Co-operation between executive and accounts officers. Use of Chief Accounts Officer as Financial Adviser.	RII-22/1930-31	I-299

RAILWAY(S)— <i>contd.</i>	PARAGRAPH	PAGE
Terms of agreement not to be relaxed without the advice of Chief Accounting Officer as Financial Adviser.	RII-26/1930-31	I-299
Over-capitalisation on ——. Determining the basis for charging works expenditure to Capital, Depreciation Fund and Revenue.	RII-28/1930-31 RII-9/1932-33 RII-9/1934-35	I-300 I-320 I-343
Revision of the form of ——. Demand for Grants	RII-9/1931-32	I-308
Utilisation of reserve provision for meeting expenditure on a 'New Service' does not absolve the Railway Board from obtaining a specific vote from the Assembly.	RII-16/1931-32	I-315
Revision of the form of Balance sheets of ——. P. & L. Accounts and Balance sheets of individual	RII-17/1931-32	I-315
Contribution to —— Depreciation Fund	RII-9/1932-33 RII-9/1934-35 P-91/1939-40	I-320 I-343 I-448
Allocation of expenditure on rolling stock on Company managed ——. Write off of capital represented by assets not in use or by no tangible assets.	RII-10/1932-33 PII-9/1932-33	I-321 I-324
Discontinuance of printing of Appropriation Accounts of individual ——. Financial position of ——	PII-20/1932-33 RII-9/1933-34 RII-9/1934-35	I-324 I-331 I-343
Concessions given by —— to Government Departments.	PII-11/1934-35	I-347
Accounts should follow budget even though provision in the budget might be incorrect, except in ——. Reduction in capital at charge of —— consequent on adoption of statutory rate of exchange.	RI-5 (2nd sub-para)/1935 36 RII-8, PII-35 and 41/ 1937-38 P-6/1938-39 P-19/1941-42	I-350 I-417-418 I-437 I-510
Reduction in the number of saloons maintained for —— officers.	RII-9/1935-36 PII-7/1936-37 PII-5/1937-38	I-357 I-387 I-419
Issue of free passes to —— officials.	RII-10/1935-36 PII-8/1936-37	I-357 I-388
Regrouping or amalgamation of ——. Budgeting for contribution to the Depreciation Reserve Fund and interest charges.	RII-11/1935-36 PII-49/1935-36	I-357 I-364
Position of Financial Commissioner —— <i>vis a vis</i> F.D.	PII-53/1935-36	I-364
Scope of review of —— Appropriation Accounts.	PII-60/1935-36	I-365

RAILWAY(S)— <i>contd.</i>	PARAGRAPH	PAGE
Providing a Development Fund for — Capital expenditure.	RII-4/1936-37 RII-4/1937-38	I-378 I-410
Placing — Accounts staff under General Managers.	RII-7 & PII-14 & 23/ 1936-37 RII-5 and PII-10/1937-38 R-13/1938-39 P-24/1946-47	I-378-380 I-413 I-429 I-662
Reducing the size of — codes	RII-5 and PII-4/1936-37	I-378
Debiting Depreciation Reserve Fund with replacement cost of like asset.	PII-19/1936-37	I-390
Explanations for variations in the ratio of working expenses to earnings be included in the Chief Commissioner's Review.	PII-30/1936-37	I-390
Adjustment of loss on — Collieries	PII-14/1937-38	I-422
Advances from — Depreciation Fund to — Companies for redemption of their debentures.	PII-31/1937-38	I-425
Improving return on capital invested in — residential buildings.	PII-36/1937-38	I-425
Purchase of — stores	PII-49/1937-38	I-425
Statement of unsanctioned expenditure in — Appropriation Accounts.	R-14/1938-39	I-435
Financing of Hardinge Bridge Protection Works and repairs to Earthquake damages out of loans from — Depreciation Fund.	P-90/1939-40	I-448
Provision for amortisation of — Debt	R-9/1940-41 P-24/1944-45	I-464 I-610
Correlation in budgeting between one — and another and between branches of the same —	R-15 (3rd sub-para)/ 1940-41 R-20/1943-44 R-15(2) & P-60/1947-48/ (Post-partition).	I-466 I-561 II-11
While framing budget estimates — Administrations should take account of price tendencies.	R-15 (4th sub-para)/1940-41	I-467
— Administrations should maintain their assets at a high level of efficiency.	R-16/1940-41	I-467
Assembly to be given an opportunity to express its views on purchase of a —.	R-17/1940-41	I-468
Distribution of provision for works between spending authorities.	R-19/1940-41	I-468
Investments from — Depreciation Reserve Fund should not be made in Branch Line Companies.	P-119/1940-41	I-482
— Administrations should not accept any statement of a legal nature without consulting legal advisers of —.	P-122/1940-41	I-483
Charging value of coal supplied by collieries to — owning them and to Foreign —.	R-21/1941-42 P-2 (item 1)/1942-43 P-4 (5th sub-para)/1944-45	I-495 I-530 I-604

	PARAGRAPH	PAGE
RAILWAY(S)—<i>contd.</i>		
Writing up the value of stock with the anticipated rise in prices.	P-32/1941-42	I-511
No work of any kind should be commenced without prior execution of Contract documents — exceptional course requires approval of financial authorities.	R-19/1942-43 R-7 (M.A.C.)/1942-43 P-8/1943-44	I-524 I-527 I-573
Guarantees from Provincial Governments for unremunerative — lines.	P-4/1942-43	I-532
— grain shops concessions.	P-8/1942-43	I-532
Inclusion of P. & L. accounts of — grain shops in — Appropriation Accounts.	P-9/1942-43	I-533
Accounting of premium received from Baroda Government on purchase of Tapti Valley —	P-11/1942-43	I-533
Adjustment of debits for supplies and services rendered by one department to another.	R-21/1943-44 R-7/1944-45	I-562 I-589
Avoiding increase in the stores balances of —	P-6/1943-44	I-568
Form of public accounts not to be changed without Ar. G.'s consent.	P-7/1943-44	I-572
Splitting up of the Demand for Working Expenses in —.	P-9/1943-44 R-16 & P-4 (1st Sub-para)/1944-45	I-575 I-591
Allocation of works expenditure between — and Defence Services.	P-22/1943-44	I-576
— Administrations should avail of the assistance of Financial Adviser and Chief Accounts Officer in preparing budget estimates and in controlling expenditure.	R-15 and P-19/1944-45	I-590-591
Eradicating corruption on —	R-18/1944-45	I-603
Amplification of existing Annexure 'D' to — Appropriation Accounts.	P-12/1944-45	I-605
Abolition of Annexure 'F' to — Appropriation Accounts.	P-13/1944-45	I-607
Acceptance of and compliance with Audit views pending a decision by higher authorities.	P-21/1946-47	I-661
To fix responsibility for losses suitable procedure for handling money in — be devised.	P-22/1946-47	I-662
— Administration should draw up standard forms of agreements with the approval of the Railway Board after taking financial advice.	R-6(i) and R-17/1947-48 (Post-partition)	II-5
Adequate action should be taken against the — staff who are found wantonly indifferent or careless in the handling or despatch of goods or bad transhipment.	R-18/1947-48 (Post-partition)	II-14
Training of clerks in the — Accounts Offices.	R-21 & P-50/1947-48 (Post-partition)	II-14-15

RAILWAY(S)— <i>concl'd.</i>	PARAGRAPH	PAGE
Separation of the Financial and Accounts functions on the —.	R-22 & P-51/1947-48 (Post-partition) R-32/Tenth Report/1953-54	II-15-17 II-215-217
Training of Audit and Accounts Officers in —.	P-52/1947-48 (Post-partition)	II-42
Method of calculation of the Operating Cost .	P-55 & P-59/1947-48 (Post-partition)	II-42
Delay in presentation of — Appropriation Accounts and Audit Report to Parliament.	R-5 and P-5/First Report/1951-52	II-52
Savings should be surrendered and not utilised on items not provided for in the Budget.	R-2 & 14 (Sub-para 2)/ Second Report/1951-52	II-117
Expenditure on large projects of — without detailed estimates.	R-17(ii)/Second Report/ 1951-52	II-125
Intimation of revised rates of coal by the Coal Commissioner to the — Administrations.	R-17(iii)/Second Report/ 1951-52	II-126
Remission of outstanding demurrage and wharfage charges.	R-17(iv)-Second Report/ 1951-52	II-127-129
Hiring of a private building for — use . . .	R-17(v)/Second Report/ 1951-52	II-129
Vetting of Ministries notes/Memoranda by Audit before submission to the Public Accounts Committee.	R-7/Fifth Report/1952-53	II-148
Recovery of heavy station outstandings . . .	R-16/Fifth Report/1952-53	II-150
Nationalisation of TELCO for manufacture of boilers and locomotives.	R-17/Fifth Report/1952-53	II-150-153
Strengthening and re-organising — Accounts Offices.	R-13/Tenth Report/ 1953-54	II-210-212
Improvement in the overall budgetary and control over expenditure on the —.	R-13/Tenth Report/ 1953-54	II-210-212
Inclusion of paragraph in the — Board's Review on the Appropriation Accounts regarding remission of demurrage and wharfage charges.	R-22/Tenth Report/ 1953-54	II-213-214
Destruction of documents which form the subject matter of correspondence.	R-26/Tenth Report/ 1953-54	II-214
Comprehensive procedure should be laid down to cover cases where normal rules cannot be followed.	R-30/Tenth Report/ 1953-54	I-214
Exhibition in accounts of adjustments between the Consolidated Fund of India and the Public Account regarding expenditure from various Reserves created out of revenues.	P-109/Tenth Report/ 1953-54	II-223-224
Period of retention of files relating to compensation claims on —.	P-190 & P-191/Thirteenth Report/1954-55	II-239-240

RAILWAY BOARD—

	PARAGRAPH	Report/	PAGE
Co-ordination between the different Directorates in the —'s Office.	R-17/Tenth 1953-54	Report/	II-212

RE-APPROPRIATION(S)—

— from one head to another should not be based on revised estimates.	R-12-14/1921-22		I-2
No — should be proposed in placing supplementary demands before the Assembly.	R-12-15/1921-22		I-2
Powers of — within a grant: F.D. may fix a lower maximum for the spending departments when unexpected savings occur.	R-18 & 21/1921-22		I-3 & 5
Preventing abuses of powers of —	R-21/1921-22		I-5
— to a grant from another grant or from a non-voted head unconstitutional.	(Orders below R-19/1921-22)		I-4
	R-14/1922-23		I-16
	R-16/1923-24		I-34
	R-12 & 27/1925-26	I-125 & 139	
Undue application of powers of — be brought to notice by Ar. G.	R-21/1922-23		I-16
High Commissioner's powers of —	R-26/1922-23		I-18
Powers of — not to be utilised to conceal defective budgeting.	R-26/1923-24		I-37
— from the Reserve at the disposal of F. D. is unconstitutional.	R-30/1923-24		I-47
Framing of rules for — of savings to meet the cost of new measures under non-voted heads.	R-20/1924-25		I-93
Transfer of funds allotted for voted items to meet expenditure on non-voted items not permissible.	R-12 & 27/1925-26	I-125 & 139	
Principles to be followed in making — of anticipated savings.	R-12(5)/1926-27 R-23/1928-29		I-154 I-220
Powers of — of Railway Agents curtailed.	R-11/1927-28		I-173
— should be sanctioned as soon as the necessity for additional expenditure is foreseen and should not be postponed till towards the close of the year.	R-41/1927-28 RII-9(i)/1930-31		I-197 I-294
Relaxation of time limit for sanctioning of — etc. in the case of non-voted refunds.	R-55/1927-28		I-204
Propriety of — between State managed and Company managed Railways.	R-22/1928-29		I-220
— under the sub-head "Secret Service"	R-14/Fifteenth 1954-55	Report/	II-252
— of funds to meet expenditure on a new service.	R-13(g)/Sixteenth Report/1955-56	Re-	II-273
— which leads to evasion of Parliamentary control should be avoided.	R-19/Twenty-first 1956-57	Report/	II-308

	PARAGRAPH	PAGE
RECEIPTS—		
How far — come within the purview of the P. A. C.	R-38/1923-24 R-29/1925-26	I-52 I-139
Audit of —	R-40-41/1923-24 R-29/1924-25 R-29-34/1925-26 R-20(6) & 21(i)/1926-27 R-19/1927-28 P-6/1947-48 (Post-partition)	I-54-55 I-107 I-139-140 I-156-157 I-174 II-48
Utilisation of un-anticipated credits	RI-29 and RII-9(iii)/1930-31 RI-11/1931-32 R8-10/1941-42 R8/1943-44 R5/1944-45 R15/1945-46	I-293 & 295 I-304 I-488-489 I-549 I-588 I-650
Exhibition of — of Centrally administered areas in Appropriation Accounts.	PI-32/1933-34	I-331
Audit of Income tax —	PI-33/1936-37 RI-8 and PI-37/1937-38	I-370 I-394-395
Audit of Customs —	R-40-41/1923-24 R-29/1924-25 R-20(6) & 21(i)/1926-27 R-19/1927-28 RI-36/1930-31 RI-13/1933-34 PI-29/1936-37 RI-8 & PI-23/1937-38	I-54-55 I-107 I-156-157 I-174 I-294 I-325 I-369 I-394
RECONCILIATION		
— of Administrative Officers' figures with those of A. G.	R-24/1923-24 R-12(6)/1926-27 R-7/1945-46 R-19 & P-149/First Report/1951-52	I-36 I-154 I-639 II-57-60
— of figures in Administration Reports with those in Appropriation Accounts.	R-54 & 68/1927-28	I-204-205
RECORDS—		
Non-maintenance of valuation — and appointment of honorary values.	R-17/Twentieth Report/1955-56	II-302
Maintenance of — of all the bids in auction	R-23/Twentieth Report/1955-56	II-303
Keeping of contemporaneous — of all important decisions or discussions in Government offices.	R-29/Twenty-third Report/1956-57	II-314
RECOVERIES—		
Treatment of — in grants and accounts	R-27/1921-22 R-27/1922-23 R-8-11/1924-25	I-7 I-18 I-67-69
Utilisation of unanticipated credits	RI-29 and RII-9(iii)/1930-31 RI-11/1931-32 R-8-10/1941-42 R-8/1943-44 R-5/1944-45 R-15/1945-46	I-293 & 295 I-304 I-488-489 I-549 I-588 I-650

	PARAGRAPH	PAGE
RECOVERIES—contd.		
Overpayments to a public servant should be recovered promptly.	P-8(M. A. C)/1943-44	I-586.
— for supplies of food-grains	R-3 & P-29/1947-48 (Pre-partition)	I-665.
— from officers responsible for loss of public money.	P-19/1947-48 (Pre-partition)	I-666
Principles for the — of charges on account of work done for State Governments, Private Bodies, etc.	R-31/First Report/1951-52	II-73
Non — of hire charges for stores issued on hire.	R-8/Second Report/1951-52	II-120.
— of heavy station outstandings	R-16/Fifth Report/1952-53	II-150.
Waiver of rent — from the Council of Scientific and Industrial Research.	R-37/Fifteenth Report/1954-55	II-261.
RECOVERIES OF OVERPAYMENTS—		
<i>See 'Overpayments'.</i>		
RECRUITMENT—		
— through the agency of Employment Exchanges	R-55/Fifteenth Report, 1954-55	II-265.
REFUND (S)—		
Estimate for —. Proposal for making — statutory.	R-54/1923-24	I-63.
Having one grant for all — except those relating to Railways and P. & T. Practice of exhibiting — in Demands for Grants & Appropriation Accounts discontinued from 1st April, 1937.	RI-17/1934-35	I-336.
Watch over liabilities on account of customs —	R-10 (item 13)/1925-26	I-123
Relaxation of time limit for sanctioning re-appropriations etc. in the case of non-voted —.	R-55/1927-28	I-204.
REGISTER—		
Maintenance of a National — of trained persons.	R-56/ Fifteenth Report/ 1954-55	II-266
REGISTRATION OF ACCOUNTANTS—		
Scheme for the — should be placed on self supporting basis.	P-72/1939-40	I-447
REGULATION(S)—		
<i>See 'Codes, Manuals, etc.'</i>		
RENEWAL—		
<i>See 'Replacements'.</i>		
REHABILITATION FINANCE ADMINISTRATION—		
Provision for Bad and Doubtful Debts in the accounts of —.	R-102/ Fifteenth Report/ 1954-55.	II-270.

	PARAGRAPH	PAGE
RENEWAL RESERVE FUND (P. & T.)—		
Contribution to — and apportionment of the cost of petty works between Working Expenses and the Fund.	P-82/1940-41 R-14/1941-42 P-94/1943-44 P-26/(3rd sub-para)/ 1944-45. P-75/1945-46 P-40/1947-48 (Post partition). R-65/First Report/1951-1952.	I-482 I-493 I-580 I-616 I-656 II-41-42 II-97
REPAIRS—		
Machinery for executing — to P. & T. buildings.	R-23/1927-28	I-175
REPLACEMENTS—		
Debiting Depreciation Reserve Fund with — cost of like asset.	PII-15/1936-37	I-390
Charging to Working Expenses renewal of assets costing Rs. 2,000 or less.	PII-21/1937-38	I-425
REPORT(S)—		
Remodelling of the Audit and Appropriation —.	R-34/1923-24	I-51
Procedure for considering — of P. A. C. by Assembly.	R-30/1927-28 R-11/1928-29	I-183 I-207
Procedure for disposal of — of P. A. C. by Government. Discontinuance of omnibus resolutions. Quarterly statement for members of P. A. C.	(Order below R-30/1927-28). R-11/1928-29 R-21/1929-30	I-185 I-207 I-257
Prompt action on P. A. C's recommendations emphasised.	R-21/1929-30 RII-15/1933-34 R-9/1944-45	I-257 I-335 I-590
Form and structure of the — of the P. A. C. and scrutiny of the accounts of Revenues, Borrowings, Public Debt, etc.	Appendix LI/First Report/1951-52.	II-114-116
RESEARCH—		
Grants to various Scientific Societies	R-99/Sixteenth Report/ 1955-56.	II-285
RESERVE—		
Allotment of funds from the — at the disposal of F. D.	R-30-33/1923-24 R-12/1924-25 R-10 (item 3) and 11/ 1925-26. R-7/1926-27 R-18/1927-28	I-47-50 I-74 I-123 I-151 I-173
How — at the disposal of P. W. D. be utilised and details of sums allotted be given in Appropriation Accounts.	R-51/1923-24 RI-28/1930-31	I-60 I-293
Lapses during previous year have the first claim upon the — at the disposal of P. W. D.	R-53/1923-24	I-61

	PARAGRAPH	PAGE
RESERVE—Contd.		
Treating Appropriation to Railway — Fund as expenditure is unreal and confusing. Its votability.	R-10 (item 18)/ 1925-26.	I-123
Utility of the — at the disposal of F. D.	R-18/1927-28	I-173
Utilisation of — provision in railway estimates for meeting expenditure on 'New Service'.	RII-16/1931-32	I-315
Provision for — for unforeseen expenditure.	PI-8/1933-34	I-330
— for the Security Printing Press	PI-28/1937-38	I-403
Adjustment of profit on the circulation of Small Coins.	P-16/1939-40	I-446
Building up a — Fund (Railways) for meeting heavy maintenance expenditure after War.	R-16/1940-41	I-467
RESIDENCES—		
Rules governing allotment of — be redrafted.	R-37/1924-25	I-110
Improving return on capital invested in Railway —.	PII-36/1937-38	I-425
RETIREMENT—		
Disciplinary action in case of officers after —	R-43/1923-24	I-55
RETRENCHMENT—		
— in Commercial Audit Department	R-10/1929-30	I-238
Curtailment of information in regard to Railway receipts and expenditure as a measure of —.	R-36/1929-30	I-273
—, re-organisation and reform in Audit Department.	RI-36/1930-31	I-294
REVENUE—		
Treatment of losses of — in accounts	R-38/1923-24 R-35/1925-26	I-52 I-141
Powers of Government to waive — leviable under a statute.	R-20/1927-28	I-174
Fixation of monetary limit for exhibition of individual extra-statutory remission of — in statements submitted to Principal Auditors.	Appendix X/1932-33 (Part I).	I-320
Accounting of premium received from Baroda Government on purchase of Tapti Valley Railway.	P-11/1942-43	I-533
REVIEW—		
In future — the Railway Board should split up the savings into suitable categories.	R-8/Seventeenth Report/ 1955-56.	II-288
REVIEW OF SANCTIONS—		
Review at regular intervals of original orders on which standing charges are based.	RI-5(M.A.C.) & PI-20 (M.A.C.)/1936-37.	I-377

	PARAGRAPH	PAGE
REVISION—		
— of pay, etc. should not be sanctioned with retrospective effect.	R-25/1921-22	I-7
— of Sea Customs Act, 1878	R-30/1924-25 R-16/1925-26	I-107 I-133
Simplification of Army Regulations and preparation of basic rules for various Classes of personnel	RI-3(M.A.C.)/1931-32 P-23(M.A.C.)/1939-40	I-368 I-459
Reducing the size of Railway Codes	RII-5 & PII-4/1936-37	I-378
Provision for future — of agreement	R-68/Tenth Report/1953-54	II-222
ROYALTY		
— from the newspapers for the publication of daily radio programmes.	R-44/Seventh Report/1952-53.	II-172
— should be taken into account in calculating profits of Forest Department.	R-83/Twenty-third Report/1956-57	II-320
RUSH OF EXPENDITURE—		
— at the close of the year undesirable	R-25 & 53/1923-24 R-58/1924-25 RI-2(M.A.C.)/1934-35 PI-28(M.A.C.)/1935-36	I-37 & 61 I-116 I-337 I-353
— in March should not result in any relaxation of audit control.	PI-28(M.A.C.)/1935-36	I-353
Making cuts from the amounts surrendered for re-grants in the following year.	RI-3(M.A.C.)/1936-37	I-376
S		
SALOONS—		
Reduction in the number of — maintained for Railway Officers.	RII-9/1935-36 PII-7/1936-37 PII-5/1937-38	I-357 I-387 I-419
SALT DEPARTMENT—		
Irregularities in Sambhar Improvement Scheme. Financial position and prospects be examined.	R-26-27/1924-25 R-15/1925-26 R-17-18/1926-27	I-105-106 I-131 I-154-155
Audit of stores accounts of —	R-45/1925-26	I-148
When important schemes of development are taken up, attention should be paid to their anticipated effect upon the cost of production.	R-18/1926-27	I-155
Introduction of commercial system of accounts in Government salt producing undertakings.	R-51/1927-28 P-105/1929-30	I-202 I-238
SALVAGE—		
Setting up a — Organisation in War Department.	R-13(M.A.C.)/1941-42	I-506
SAMBHAR IMPROVEMENT SCHEME—		
See 'Salt Department'.		

SANCTION(S)—	PARAGRAPH	PAGE
Procedure for communicating financial — to Audit and Accounts Office.	R-25/1925-26	I-137
	R-20(7) & 21 (ii)/1926-27	I-157
	P-122/1929-30	I-280
Financial Adviser, Military Finance sole mouth piece of F. D. in matters of Military Finance.	R-20(7) & 21 (ii)/1926-27	I-157
— of Government of India necessary for free use of trunk telephone line by a firm having business transactions with P. & T. Department.	R-28/1926-27	I-165
	R-20/1927-28	I-174
Purchase of a car by High Commissioner without prior — of Government.	R-26(iv)/First Report/1951-52.	II-73
Procedure for dealing with <i>ex-post-facto</i> —.	R-4/Thirteenth Report/1954-55.	II-229
Procedure for speedy consultation with Finance in urgent cases.	R-31/Sixteenth Report/1955-56.	II-274
SEA CUSTOMS ACT—		
<i>See</i> 'Act'.		
SECRECY—		
Urgency or — no excuse for neglect of ordinary precautions against loss.	P-82/1939-40	I-448
SECRET SERVICE—		
— expenditure. Audit and form of certificate.	R-41/1925-26	I-148
	P-14 & 95/1944-45	I-608&633
	R-47/First Report/1951-52	II-88
Expenditure on — should be described as — Expenditure and not as — Contingencies.	P-88/1940-41	I-482
Re-appropriation under the sub-head —.	R-14/ Fifteenth Report/1954-55	II-252
SECURITY—		
— from P.& T. officials. Existence and solvency of sureties.	R-60/1923-24	I-65
	R-66/1924-25	I-116
Furnishing of — by Cashiers in the form of both cash and property.	R-22/Seventh Report/1952-53	II-165-168
SEPARATION—		
<i>See</i> 'Accounts-General' , 'Audit', 'Control-Parliamenatry'.		
SERVICES—		
Army Department should charge and be charged for — to and from other Departments.	R-47/1922-23	I-31
Collection of fees for minor — by means of stamps.	R-39/1923-24	I-53
Credit for — rendered by the Radio System of the P. & T. Department.	R-58/1923-24 R-17/1924-25	I-64 I-90

	PARAGRAPH	PAGE
SERVICES—contd.		
— rendered by Central Government to Provincial Governments should be treated on a commercial basis.	R-37/1928-29	I-236
Recovery of the cost of work done by Government Test House Calcutta on behalf of Defence Services.	P-83/1943-44	I-579
Principles for the recovery of charges on account of work done for State Governments, Private Bodies, etc.	R-31/First Report/ 1951-52.	II-73
SHARES—		
Sindri Fertilizers and Chemicals Limited . . .	R-80 and P ₃₄₃ /Fifteenth Report/1954-55.	II-267-269
SILVER-PURCHASE AND SALES OF—		
Writing off the balance under — . . .	PI-71/1936-37 PI-32/1937-38	I-376 I-403
SINDRI FERTILIZERS—		
— and Chemicals Limited . . .	R-80 & P ₃₄₃ /Fifteenth Report/1954-55.	II-267-269
SPECIFICATIONS—		
Loss due to change in — after placing of orders.	R-33/First Report/1951-52	II-74
STAMPS—		
Collection of fees for minor services by means of —	R-39/1923-24	I-53
Procedure for handling cash and postage — etc. in the Head and Branch Post Offices.	R-52 & R-54 /Twenty- second Report /1956-57	II-313
STANDING FINANCE COMMITTEE—		
See 'Committee—Finance'.		
STATEMENTS—		
Perfunctory signing of — etc. . . .	R-39/1925-26	I-147
STATE GOVERNMENTS(S)—		
Watching proper utilisation of grants made to —	P-86 / 1944-45 R-21/First Report/1951- 52. R-4/Third Report/1952- 53.	I-632 II-68-69 II-138
Arrangements for recoveries of loans from States.	R-24(ii)/Fifteenth Report/1954-55.	II-259
Control over provision made for payments to — for agency functions.	R-16/Twenty-first Report/1956-57.	II-306-308
Answerability of the Central Government to the Central P.A.C. for detailed operations of the contracts entered into by — within the frame work of a contract prepared by the Government of India.	R-82/Twenty-third Report/1956-57.	II-320

	PARAGRAPH	PAGE
STATE TRADING—		
Railway grain shops concessions.	P-8/1942-43	I-532
P. & L. accounts of Railway grain shops should be included in Railway Appropriation Accounts.	P-9/1942-43	I-533
Manufacturing schemes to be properly pre-planned and run on commercial basis and should yield return commensurate with the capital invested.	R-7 & P-78/1947-48 (Post-partition).	II-6—8
Inclusion of interest and other overheads in calculating Profit and loss of — schemes.	R-80/Seventh Report/1952-53.	II-181
Inclusion of financial results of the working of — in the Explanatory Memorandum on the Budget.	R-81/Seventh Report/1952-53.	II-182
STATIONERY OFFICE—		
Regarding cash sales in India — Calcutta —.	P-33/1947-48 (Pre-partition).	I-667
STATIONERY AND PRINTING—		
Allocation of charges by the Department of —, and its audit.	R-69/1924-25	I-116
Cost of — payable by Provincial Governments to Central Government should be shown as a receipt in Central Budget.	R-52/1925-26	I-149
STATUTORY CORPORATIONS AND GOVERNMENT COMPANIES—		
Audit of —.	R-8, P-6, P-76, P-103 and P-104/1947-48 (Post-partition).	II-8-9
	R-24/First Report/1951-52.	II-72
Working and Audit of Private Limited Companies.	R-5/Third Report/1952-53	II-138-143
Conversion of a Government departmental undertaking into a Private limited Company requires vote of Parliament.	R-80 and P-343/Fifteenth Report/1954-55.	II-267-269
STEEL EQUALISATION FUND—		
Inclusion of transactions of — in the Consolidated Fund of India.	P-232/Twenty-third Report/1956-57.	II-323-324
STOCK—		
See 'Stores'.		
STOCK BALANCES—		
Periodical review of — and the system of procurement, stocking and accounting of stores.	R-11 & R-12/Fourteenth Report/1954-55.	II-241-243
STORES—		
Charging — to capital in Railways.	R-40/1921-22	I-13
Advance indents for Railway —.	R-30-31/1922-23	I-19
Maintenance of inventory of Government property, —, Dead Stock, etc.	R-35/1922-23	I-24

	PARAGRAPH	PAGE
STORES—contd.		
Army Department should charge and be charged for services to and from other Departments.	R-47/1922-23	I-31
—accounts of Important stocks should be included in Appropriation Report.	R-34/1923-24	I-51
Writing down of unserviceable stocks of P. & T. Department.	R-59/1923-24	I-64
Revaluation of Railway —	R-64/1923-24 P-II-41/1936-37	I-66 I-391
Levy of percentage charges on — supplied through I.S.D. London.	R-50/1924-25	I-115
Rush of purchases of — at the close of the year undesirable.	R-58/1924-25	I-116
Purchase of — through the I.S.D.	R-20-21/1925-26 R-31/1926-27 R-43/1927-28	I-134-135 I-169 I-197
Institution of a Standing Committee for co-ordinating purchases of — for various Departments.	R-21/1925-26	I-195
Audit of —	R-29-34 & 45/1925-26	I-199-140 and 148
Check over current purchases of — (P. & T.) .	R-65/1925-26	I-149
Purchase of — in dribblets not desirable . . .	R-31(1)/1926-27	I-169
Purchase of — much in advance of requirements may prove unprofitable.	R-31(2)/1926-27	I-169
Suitable accommodation for valuable and combustible — desirable.	R-31(3)/1926-27	I-169
Maintenance of an up-to-date and standard nomenclature is essential factor in — accounts.	R-18/1929-30	I-256
— accounting should not fall into arrears . . .	R-18/1929-30	I-256
Abolition of priced — ledgers in Army . . .	R-32/1929-30	I-264
Control over — and stocks	R-33/1929-30	I-270
Reducing — balances by revising the basis of calculation of working balances.	RI-21-22/1930-31	I-291
Supply of Army —	PI-29(M.A.C.)/1933-34	I-330
Stock verification in Defence Services . . .	PI-12-14(M.A.C.)/1934-35	I-338-339
Reviews of Royal Air Force stocks	PI-5(M.A.C.)/1937-38	I-410
Purchase of Railway —	PII-49/1937-38	I-425
Maintenance of — accounts in Navy	R-8(M.A.C.) and P-12 (M.A.C.)1940-41	I-470
Accounting for — despatched overseas . . .	R-9(M.A.C.)/1940-41	I-474
Verification of stocks should be with reference to the ledger balances.	P-27/(M.A.C.)/1940-41	I-487

	PARAGRAPH	PAGE
STORES—contd.		
Supervision and accounting of ———	R-7-9(M.A.C.)/1941-42	I-498-499
Irregularities in the purchase of Naval ———	P-1(M.A.C.)/1941-42	I-511
Review of stock position of all Central Departments after the War and reduction of stock balances.	R-18/1942-43	I-523
Prohibiting local purchases of ———	R-10(M.A.C.)/1942-43	I-528
<i>Pro forma</i> accounts of Mint and periodical verification of its ———	P-35/1942-43	I-534
Working of Central Disposals Organisation	R-10(M.A.C.)/1943-44	I-567
Avoiding increase in ——— balances of Railways	P-6/1943-44	I-568
Report on the methods of accounting, stock-taking storage, etc. of Military ——— Depots.	P-3(M.A.C.)/1943-44	I-583
Improvement of ——— Organisation and verification of ———	P-26 (2nd sub-para)/1944-45.	I-613
——— balances in the P. & T. Department	P-74/1945-46 R-25/Fifth Report/1952-53.	I-656 II-154-155
Outstanding commitments in respect of purchase of ——— be mentioned in Annual Report of the Ministry of Works, Mines and Power.	P-82/1945-46	I-657
Cent per cent verification of P. & T. stocks	P-28/1946-47	I-663
Verification of Ground Balances of Military ———	P-11/1947-48 (Post-partition).	(Post- II-33-35
Disposal of surplus or unserviceable Defence ———	P-13/1947-48 (Post-partition).	(Post- II-36
Inter-depot transfer of ———	R-4/Second Report/1951-52.	II-120
Non-recovery of hire charges for ——— issued on hire.	R-8/Second Report/1951-52.	II-120-121
Adoption of the ——— system existing on the Railways.	R-25/Fifth Report/1952-53	II-154
Inspection of Defence ——— purchased abroad	R-19/Ninth Report/1953-54.	II-197
Procurement and manufacture of common-user items in India.	R-20/Ninth Report/1953-54.	II-197-199
Purchase of ——— from aboard	R-43/Ninth Report/1953-54. R-8(Introduction)/Twelfth Report/1953-54.	II-200 II-228
Advance payments to the U.K. Government for supply of ———	P-115/Ninth Report/1953-54.	II-206
Officers sent abroad for procuring supplies etc. should associate with the Head of the Supply Mission before starting direct negotiations.	R-50/Fifteenth Report/1954-55.	II-265
Advance collection of ——— for works.	R-20/Nineteenth Report/1955-56.	II-292
Measures to prevent hasty discards of surplus ———	R-83/Nineteenth Report/1955-56.	II-296

STORES ACCOUNTS—

	PARAGRAPH	PAGE
Maintenance of proper — in Navy	R-8(M.A.C.)and P-12 (M.A.C.)/1940-41	I-470
Stock-taking in the Arsenal and Ordnance Depots.	R-8(M.A.C.)/1942-43	I-527
Prevention of deliberate tampering of — .	R-9(M.A.C.)/1942-43	I-528
Training of the subordinate staff in the methods of workshops and — systems.	R-33/Fifth Report/ 1952-53	II-157

STORES DEPARTMENT—

Making the London — a part of I.S.D. impracticable.	P-77/1938-39	I-443
---	--------------	-------

STORES—VALUATION—

Writing up the value of stock with the anticipated rise in prices.	P-32/1941-42	I-511
Writing up the book value of stores on the basis of new issue rates and above costs objectionable.	P-47/1942-43	I-535

SUBSIDY—

— given by the Central Government for Civil Aviation.	P-51/1945-46	I-653
---	--------------	-------

SUIT—

Payments relating to settlement of — out of Court.	R-46/Ninth Report/ 1953-54.	II-200-202
--	--------------------------------	------------

SUPERVISORY OFFICERS—

Responsibility of the — .	R-20,25,26(vi)andR-27/ First Report/1951-52.	II-61-68
---------------------------	---	----------

SUPPLY DEPARTMENT—

Procurement of War Supplies	R-11(M.A.C.)/1941-42 P-24(M.A.C.)/1942-43	I-501 I-542
Cost accounts examination of — contracts .	R-12(M.A.C.)/1941-42	I-506

SUPPLEMENTARY GRANTS—

See 'Grant-Supplementary'.

SUSPENSE—

Items should not be charged to — for want of information regarding incidence.	R-32/1922-23	I-22
Crediting to — by debit to service head concerned of payments not actually made, irregular.	P-14/1941-42	I-510
Allocation of expenditure on evacuees and refugees from War Zones.	R-9/1942-43	I-519
Inclusion in Appropriation Accounts of a statement showing — balances at the end of the year and how long they have been there.	R-9/1943-44	I-551

	PARAGRAPH	PAGE
SUSPENSE—contd.		
Delay in adjustment of debits for supplies and services rendered by one Department to another.	R-21/1943-44 R-7/1944-45	I-562 I-589
Accounts of the money spent on denial measures and similar measures in Bengal held in —.	R-11 and P-102/1942-43 R-11/1943-44	I-520 I-552
Accurate budgeting under the — heads emphasised.	R-16/Second Report/ 1951-52	II-124
Illegal placing of large amounts under —	R-67 & 68/Seventh Report/ 1952-53	II-180
Adjustment of expenditure under — instead of the relevant grant.	R-14/Tenth Report/ 1953-54	II-212
T		
TELCO—		
Nationalisation of — for manufacture of boilers and locomotives.	R-17/Fifth Report/ 1952-53.	II-150-153
TELECOMMUNICATION SYSTEM—		
Acquisition of certain assets of — from the War Department.	P-27/1944-45	I-626
TELEPHONE DEVELOPMENT FUND—		
Propriety of utilising the revenue realised under the 'Own your Telephone Scheme' for current expenditure.	R-43/Tenth Report/ 1953-54.	II-219
TELEPHONE INSTRUCTIONS—		
— to be confirmed in writing	R-24 and R-25/Thirteenth Report/ 1954-55.	II-236
TELEPHONE SYSTEMS—		
Acquisition of — in the three Presidency towns from private companies.	P-27/1944-45	I-626
TEMPORARY ACCOMMODATION—		
Allocation of Defence Works Expenditure to 'Maintenance' or 'Capital'.	R-3/Second Report/ 1951-52.	II-118-119
TEST AUDIT—		
See 'Audit'.		
TOKEN GRANT—		
See 'Grant-Token'.		
TOUR—		
— expenses of members of Executive Council	R-29/1921-22 R-10 (Item 2)/1925-26	I-111 I-122
Rules regarding chartering of planes by Ministers	R-45/First Report/ 1951-52.	II-84
TRADE—		
Advantage should be taken of existing and expanding — facilities in India in arranging supply of Army Stores.	PI-29(M.A.C.)/1933-34	I-330

TRADING ACCOUNTS—	PARAGRAPH	PAGE
See 'Accounts-Commercial' 'Appropriation Accounts and Audit Report'.		
TRAINING—		
— of the subordinate staff in the methods of workshops and store accounting systems.	R-33/Fifth 1952-53.	Report/ II-157
TRAVELLING ALLOWANCE—		
No — should be paid on circumstantial evidence.	P-13(M.A.C.)/1943-44	I-386
TREASURY(IES)—		
Payment of income tax direct into Government —.	R-39/1923-24	I-53
Embezzlement in Burma —. Whether the loss should not be a provincial charge and whether the Government of India should not be consulted about disciplinary action.	R-29-30/1926-27	I-165-166
Necessity of putting proper officers in charge of — and proper supervision emphasised.	PI-37/1932-33	I-319
U		
U. K. GOVERNMENT—		
Advance payments to the — for supply of stores.	P-115/Ninth 1953-54.	Report/ II-206-207
UNREMUNERATIVE RAILWAY LINES—		
Guarantees from Provincial Governments for —.	P-4/1942-43	I-532
V		
VALUATION—		
— for acquisition of motor vehicles by Delhi Road Transport Authority.	R-3, 7, 8 & 9/Twentieth Report/1955-56.	II-300-302
VEHICLES—		
Payment of compensation for acquisition of motor — by Delhi Road Transport Authority.	R-3, 7, 8 & 9/Twentieth Report/1955-56	II-300-302
VISVA BHARATI UNIVERSITY—		
Audit of accounts of the —	R-43/Fifteenth 1954-55.	Report/ II-261-262
VIZAGAPATAM PORT—		
Financial position of —	PI-41/1936-37 RI-10 & PI-48/1937-38 P-54/1938-39	I-370 I-395 I-442
VOTE (OR VOTABILITY)—		
See 'Grant—Votability'.		

	PARAGRAPH	PAGE
W		
WAGONS—		
Maintenance of uneconomical Railway — .	P11-6/1936-37	I-385
WAIVE(R)—		
Powers of Government to — revenue leviable under a statute.	R-20/1927-28	I-174
— of recovery of rent from the Council of Scientific and Industrial Research.	R-37/Fifteenth Report/1954-55.	II-261
WAR—		
Allocation of Defence Services expenditure and charges on account of — measures, in terms of the financial settlement with His Majesty's Government.	R-2(M.A.C.)/1939-40 R-2(M.A.C.)/1941-42 R-2-3(M.A.C.)/1942-43	I-449 I-496 I-524-525
Estimating and sanctioning — emergency works in M.E.S.	R-3(M.A.C.)/1939-40	I-449
— time purchases of stores	R-5(M.A.C.)/1939-40	I-450
Fall in percentage of establishment charges to works expenditure incurred by M. E. S. in connection with — is indicative of a lowering of the standard of supervision over the execution of works. Maintaining as efficient a degree of supervision as — time conditions permit emphasised.	R-4(M.A.C.)/1940-41	I-469
Guarding against high rates where non-competitive single tenders and negotiated contracts are accepted due to heavy — demands.	R-5(M.A.C.)/1940-41	I-469
Dilution of staff and relaxation of audit are inevitable consequences of the —.	R-7/1941-42 R-12 & P-110-111/ 1942-43. R-11 & P-62/1945-46	I-488 I-521-523 I-647
Procurement of — supplies	R-11(M.A.C.)/1941-42 P-24(M.A.C.)/1942-43	I-501 I-542
Accounting of Capital Outlay on Schemes connected with —.	R-7/1942-43	I-518
Allocation of expenditure on evacuees and refugees from — Zones.	R-9/1942-43	I-519
Accounting and auditing of grants made to Provinces for expenditure on — Publicity.	R-10 & P-89/1942-43	I-519
Maintenance of individual running ledger accounts of officers and personnel on the — system of accounting.	R-12 (M.A.C.)/1942-43	I-528
WARRANTY CLAUSE—		
— should invariably be provided in contracts	R-49/Fifteenth Report/1954-55.	II-263-265
WHARFAGE CHARGES—		
Remission of outstanding demurrage and —.	R-17(iv)/Second Report/1951-52.	II-127-129
Inclusion of paragraph in the Railway Board's Review on the Appropriation Accounts regarding remission of demurrage and —.	R-22/Tenth Report/1953-54.	II-213-214

WITHDRAWAL—

	PARAGRAPH	PAGE
of money in advance of requirements	R-31/1924-25	I-108

WORK(S)—

How estimate for — should be included in P. & T. budget.	R-55/1923-24	I-64
--	--------------	------

Lump cut in estimates for —	R-13-14/1924-25	I- 76
	R-7-8/1925-26	I-120-121
	R-12(4)/1926-27	I-153
	RI-6/(1st sub-para) and PI-20 & 50/1937-38	I-392-393
	R7/1938-39	I-429
	R-5&P-60/1939-40	I-445

Powers of officers in charge of a major — in a remote locality, etc. should be clearly defined.	R-26/1924-25	I-105
---	--------------	-------

Control over expenditure on Railway — .	R-80/1926-27	I-170
---	--------------	-------

Execution of — through Departmental Agency	RI-13/1930-31	I-281
--	---------------	-------

Budgeting and control over — expenditure	RI-27/1930-31	I-292
	R-7/1940-41	I-460
	R-11-13/1941-42	I-492

Determining the basis for charging Railway — expenditure to Capital, Depreciation Fund and Revenue.	RII-28/1930-31	I-300
---	----------------	-------

Devising a procedure to meet special difficulties involved in budgeting for — expenditure.	RI-6/1935-36	I-351
	P-35/1944-45	I-629

Need for revised estimates and fresh sanction, when a — is in progress for a number of years and substantial reduction in cost is anticipated.	RII-8/1936-37	I-383
	PII-11/1937-38	I-420

Sanctioning — on the basis of abstract estimates.	PII-42/1936-37	I-391
---	----------------	-------

Providing a fund for capital — expenditure	RI-6/1936-37	I-367
	RI-6(2nd sub-para) & PI-51/1937-38	I-393-394

Budgeting for Civil —	PI-50/1936-37	I-375
---------------------------------	---------------	-------

Lump cuts be applied rigorously to counteract the persistent tendency towards over-budgeting for — expenditure.	RI-6(1st sub-para), PI-20 and PI-50/1937-38	I-392-393
	R-7/1938-39	I-429
	R5 and P-60/1939-40	I-445

Programme for major — should be thought out with great care when budget estimates are prepared.	R-5 and P-60/1939-40	I-445
	R-6/1942-43	I-517

Estimating and sanctioning War Emergency — in M. E. S.	R-3(M. A. C.)/1939-40	I-449
--	-----------------------	-------

Percentage of establishment charges to — expenditure incurred by M. E. S.	R-4(M. A. C.)/1940-41	I-469
---	-----------------------	-------

	PARAGRAPH	PAGE
WORKS(S)—contd.		
Safeguarding against light-hearted abandonment of —	R-7(M. A. C.)/1940-41 R-4 and 5 (M. A. C.) and P-5 and 8 (M. A. C.)/ 1941-42.	I-470 I-497-498
Review of the working of M. E. S.	R-4 and 5 (M. A. C.) & P-5 and 8 (M. A. C.)/ 1941-42.	I-497-498
Ar. G.'s consent and advice a pre-requisite for relaxation of normal — procedure.	R-5(M. A. C.)/1942-43	I-525
No — of any kind should be commenced without prior execution of contract documents — exceptional course requires approval of financial authorities.	R-19/1942-43 R-7(M. A. C.)/1942-43 P-8/1943-44	I-544 I-527 -I-573
Schedule of rates in M. E. S. and transfer of Chief Technical Examiner from Quarter Master General to Engineer-in-Chief.	P-13(M. A. C.)/1942-43	I-541
When only one approved contractor tenders for a —, fresh tenders should be invited unless the work is very urgent.	P-21(4th sub-para)/1944- 45.	I-609
No — should be undertaken in Ordnance Factories for outside parties until the rates had been accepted and deposits made.	P-6/1946-47	I-661
Executive Officers should not incur expenditure on — in excess of the sanctioned estimate without prior sanction of competent authority.	R-14(4)/1947-48 (Post-partition)	II-11
Over-estimating of Defence — expenditure.	P-16/1947-48 (Post-partition).	II-36
Provision for major works should be made in consultation with Central Public Works Department.	P-37/1947-48 (Post-partition).	II-40
Execution of emergent — and maintenance of contemporary records of facts.	R-12/Fifth Report/1952- 53.	II-149
Audit to be appraised of financial and other aspects of all new major —.	R-34/Fifth Report/1952- 53.	II-157
Execution of — without budget provision.	R-10/Thirteenth Report/ 1954-55. R-8/Seventeenth Report/ 1955-56.	II-230-232 II-288
Commencement of — without administrative approval.	R-15/Fourteenth Report/ 1954-55.	II-243
Advance collection of stores for — . . .	R-20/Nineteenth Report/ 1955-56.	II-292
WORKING EXPENSES—		
Explanations for variations in the ratio of — to earnings be included in the Chief Commissioner's Review.	PII-30/1936-37	I-390
Charging to — renewal of assets costing Rs. 2,000 or less.	PII-21/1937-38	I-425

	PARAGRAPH	PAGE
WORK ORDERS (POSTS AND TELEGRAPHS)---		
Irregular closure of inoperative ----- in the Work-shops, Alipore.	R-20/Thirteenth 1954-55.	Report/ II-235-236
WRITE-OFF---		
Fixation of monetary limit for sanctioning ----- of losses by Officers at various levels.	R-19/Eighth 1953-54.	Report/ II-193-194
----- of loans to be made with the approval of Parliament.	P-141/Fifteenth 1954-55. R-94/Twenty-third part/1956-57.	Report/ II-270 Re- II-321-322