

REPORT
OF THE
PUBLIC ACCOUNTS COMMITTEE
ON THE
ACCOUNTS OF 1924-25.

Vol. I—Report



SIMLA
GOVERNMENT OF INDIA PRESS
1926

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REFERENCE.

The following motion was made by the Honourable Sir Basil Blackett in the Legislative Assembly on the 25th January 1926 and adopted by the House :—

“The Assembly do proceed to elect eight members to be members of the Committee on Public Accounts.”

In pursuance of this the following members were elected by the House :—

Pandit NILKANTHA DAS.

Sardar GULAB SINGH.

MR. K. C. NEOGY.

MR. AHMAD ALI KHAN.

Maulvi SYED MURTUZA SAHIB BAHADUR.

DR. K. G. LOHOKARE.

Rev. DR. E. M. MACPHAIL.

Sardar V. N. MUTALIK.

The following members were nominated by the Governor General under rule 51 (2) of the Indian Legislative rules :—

MR. N. M. JOSHI.

DR. S. K. DATTA.

Colonel J. D. CRAWFORD.

Subsequently Mr. Ahmad Ali Khan, by accepting an office under the Crown, vacated his seat in the Assembly and consequently ceased to be a member of the Committee. In view, however, of the fact that the present Assembly will be dissolved soon it was decided not to fill the vacancy.

Under rule 51 (3) of the Legislative rules the Finance Member is the Chairman of the Committee.

Report of the Public Accounts Committee on the accounts of 1924-25.

I.—Excess Votes.

1. The following table compares the amount of grants voted by the Assembly with the total expenditure out of those grants.

	Grants sanctioned by the Assembly.		Final grant.	Actual expenditure.
	Original grant.	Supplementary grant.		
	Rs.	Rs.	Rs.	Rs.
Expenditure charged to Revenue.	93,80,90,900	1,91,55,000	95,72,35,900	91,11,10,430
Expenditure charged to Capital.	33,14,53,000	15,000	33,14,68,000	15,98,32,951
Total expenditure ..	1,26,95,33,900	1,91,70,000	1,28,87,03,900	1,07,09,43,381
Disbursements of Loans and Advances.	20,06,15,000	..	20,06,15,000	17,17,04,242
Grand Total ..	1,47,01,48,900	1,91,70,000	1,48,93,18,900	1,24,26,47,623

Excluding loans and advances, the actual total voted expenditure was thus Rs. 19,85,90,519 below the original grants and Rs. 21,77,60,519 below the final grants sanctioned by the Assembly.

2. If the total voted and non-voted expenditure is taken, the position is as follows:—

	Original Grant.	Final Grant.	Actual expenditure.
	Rs.	Rs.	Rs.
Revenue Expenditure ..	2,09,26,94,900	2,13,88,74,984	2,05,00,79,316
Capital Expenditure ..	33,20,95,000	33,22,92,000	16,06,69,003
Loans and Advances ..	20,06,15,000	20,06,15,000	17,17,04,242
Total .. : ..	2,62,54,04,900	2,67,17,81,984	2,38,24,52,561

It will be seen that against the grants aggregating 2,67,18 lakhs, the total expenditure was only 2,38,25 lakhs—a saving of 28,93 lakhs or approximately 10 per cent.

ximately 10.8 *per cent.* This saving may be roughly distributed as follows:—

	<i>In crores.</i>
Railway expenditure charged to revenue ..	4
Railway expenditure charged to capital ..	16½
Military expenditure	2½
Loans and advances	3
Other items	2½
TOTAL ..	29

3. So far as the non-voted expenditure is concerned, the grants aggregated 1,18,25 lakhs and the expenditure 1,13,98 lakhs—a saving of 4,27 lakhs or of only 3.6 *per cent.* By far the largest portion of this saving occurred in the Military Department, the amount being 2,81 lakhs. This was due partly to decreased expenditure on the purchase of stores and partly to an adjustment in India's favour of some payments to the War Office arising out of claims in connection with war expenditure. The other larger savings were chiefly under Railways (89 lakhs) and Refunds of revenue from Customs and Taxes on Income (51 lakhs). There were also smaller savings under other heads, but these were almost wholly counterbalanced by an excess of 61 lakhs under 'interest on ordinary debt' due partly to larger payments towards the close of the year and to short recoveries from Railways and Provincial Governments.

4. The grants for voted expenditure amounted to 1,48,93 lakhs, while the actual expenditure amounted to 1,24,27 lakhs only. The saving of 24,66 lakhs, which is nearly 16.5 *per cent.* of the aggregate grants, is made up mainly of the following items:—

<i>Revenue expenditure.</i>		<i>Lakhs.</i>
Railways		3,08
Civil Works		21
Miscellaneous		31
<i>Capital Expenditure.</i>		
Railways		16,56
Telegraphs		56
Loans and Advances		2,89

The savings in Railway revenue expenditure largely represent economies in working expenses, for example, in the consumption of coal, a decrease in payments of compensation claims, and adjustments in connection with the Privy Council's decision regarding customs duty on stores for companies' lines. To a certain extent, they are the result of the decision to debit the loss on re-valuation of stores to Railway reserves instead of to working expenses. Elsewhere the underspending is due to various causes. The sum of 21 lakhs under 'Civil Works' is spread over a number of items but includes unallotted reserves with the Government

of India and local authorities amounting to about 9 lakhs. The sum of 31 lakhs under 'Miscellaneous' is largely accounted for by the non-utilisation of the provision of 25 lakhs made in the budget for payments to persons who suffered from enemy action. The very large savings under Railway capital expenditure accrued to a small extent owing to the adjustments in connection with the Privy Council's decision referred to above but mainly in circumstances similar to those explained in para. 8 of our Report of the accounts of 1923-24. As stated therein, steps have been taken to cut down the capital grant rigorously from 1925-26 onwards. The underspending of 56 lakhs in Telegraph capital outlay is the result of over-estimating on the part of the departmental officers. The excess provision of 2,89 lakhs under 'Loans and Advances' is the result of Provincial Governments having borrowed 3,78 lakhs less than anticipated, counterbalanced by larger loans to Indian States amounting to 1,27 lakhs. It is understood that steps have been taken to impress upon Provincial Governments the desirability of supplying the Government of India with more reliable estimates of the advances required by them, and very large variations are not likely to recur in future except in very special circumstances.

5. Excess expenditure has been incurred over the voted grants for which an excess vote of the Assembly is required in the following cases:—

Excess over grants.

Item No.	No. of Grant.	Grant.	Amount granted by Assembly.	Actual expenditure.	Excess.
1	11	Indian Posts and Telegraphs Department.	8,27,53,000	8,41,81,692	14,28,692
2	21	Survey of India ..	23,48,000	24,61,327	1,13,327
3	26	Archæology ..	12,29,000	12,86,702	57,702
4	29	Education	3,81,000	3,82,546	1,546
5	33	Civil Veterinary Services	6,45,000	6,58,395	13,395
6	37	Census	1,000	3,330	2,330
7	39	Joint Stock Companies	1,32,000	1,33,483	1,483
8	45	Superannuation Allowances and Pensions.	33,00,000	35,63,167	2,63,167
9	49	Refunds	94,83,000	96,64,548	1,81,548
10	51	Baluchistan	26,25,000	27,65,733	1,40,733
11	60-A	Irrigation not charged to Revenue.	15,000	95,898	80,898

In spite of the opinion expressed repeatedly by the Public Accounts Committee, and in particular their statement in para. 14 of the report on the accounts of 1923-24, that with a well-regulated system of control over expenditure there ought not to be any excess at all—an opinion endorsed by the Government of India in para. 7 of the Finance Department Resolution dated 1st June 1926 where it is stated that "an excess vote is in essence a thing which ought not to occur for it represents a failure on the part of the executive Government to observe the limits set by the Legis-

lature in voting grants for expenditure"—nevertheless the number of excess votes required in respect of the year 1924-25 exceeds the number in 1923-24, though the gross amount of excess expenditure is less.

(Question 285.) *Item 1.*—This head contains provision not only for the working expenses but also for all capital expenditure financed from revenue, and the Stores Suspense Account of the department is accommodated under the latter head. Consequently the value of stores issued to the grant "61—Capital Outlay on Telegraphs" constitutes a credit to Grant 11. The actual issue of stores to capital fell far below the estimate with the result that the credits to Grant 11 were not realised to the extent anticipated. The necessity for a supplementary grant was not foreseen in time to cover the excess which is due to a failure to act up to the capital programme on Telegraphs. There was a corresponding saving under the capital head.

(Question 414.) *Item 2.*—The excess was due to (1) non-realisation of probable savings, (2) an erroneous adjustment of Rs. 42,502 which is being rectified in the accounts for 1925-26, (3) larger expenditure on Survey parties working for Provincial Governments, and (4) inadequate realisations from sales of maps. Information about the first two causes which mainly account for the excess was received too late to obtain a supplementary grant. We hope for better vigilance now that Pay and Accounts offices have been instituted.

(Question 461.) *Item 3.*—The excess resulted from accounts adjustments for the upkeep of monuments and gardens which had to be made after the close of the year when it was not possible to obtain a supplementary grant, in contravention of a previous recommendation of this Committee.

(Question 509.) *Item 4.*—The slight excess was due to non-realisation of anticipated recoveries from the Rajkumar and Aitchison Colleges. As this fact was not brought to notice in time, no supplementary allotment was asked for. A similar excess was incurred in 1922-23 and steps since taken will prevent a recurrence.

(Question 501.) *Item 5.*—The excess which was to some extent covered by an allotment from the Finance Department reserve, was due partly to the adjustment on account of Customs duty on stores and partly to increased contingent charges. The bulk of the expenditure on Customs duty on stores was passed on by the Accountant General, Bengal to the Accountant General Central Revenues for adjustment in the latter's March 1925 (Supplementary) accounts when there was no time for obtaining additional funds. The action of the responsible officer in replacing missing journals and largely overspending the provision for Contingencies in March 1925 showed a complete disregard for the rules of appropriation and was one of the main causes for the excess. The adjustment on account of stores should have been foreseen by the controlling authorities.

(Question 354.) *Item 6.*—The excess was mainly due to extra expenditure in connection with the preparation of Life Tables of the Indian Census of 1921 which could not be foreseen at the time of framing the budget. This is an excess only in theory as it was covered by an allotment from the Finance Department reserve.

Item 7.—The excess has been explained as due to a large arrear payment for 4 years of leave and pensionary contribution to the Madras Govt. and to an arrear adjustment made after the close of the year. In this case also the amount was covered by an allotment from the Finance Department reserve. (Question 1147)

Item 8.—The excess was due in general to the adjustment of pensionary charges from commercial departments and in particular to the recovery on this account from the Posts and Telegraphs Department not having been finally settled within the year. Less recovery from commercial departments was made and the fact was not brought to notice till it was too late to ask for additional funds. (Question 810.)

Item 9.—The excess was due to an omission to ask for a grant to cover refunds of freight tax which is attributable to a defect in budgeting procedure. The item was adjusted in the Railway books and in framing the estimates on the civil side this matter was overlooked. This tax no longer exists. Steps have now been taken to see that in future similar refunds are provided for in the proper estimates. (Question 827.)

Item 10.—The excess was mainly due to the writing-off of irrecoverable temporary loans. As the Government of India decided after the close of the year that such adjustment should be effected in the accounts of the year in which the sanction to remission of the recoveries is accorded, necessary adjustments were made in the accounts of 1924-25. The excess therefore remained uncovered, as it was too late to arrange for funds. (Question 741.)

Item 11.—The excess was mainly accounted for by the fact that certain adjustments were made under "Miscellaneous Advances" for non-receipt of contributions on account of the construction of the Guide bund at Dera Ismail Khan. This could not be foreseen and the amount was not covered by a supplementary allotment. (Question 861.)

6. It will be seen that the causes for the excesses may be summed up under the following general heads :—

- (1) Introduction of new accounting arrangements for the first time in 1924-25, e.g., the system of treating pensions on account of commercial departments as deductions from the grant for superannuation.
- (2) Excess covered by allocations from the Finance Department reserve but not by supplementary grants obtained from the Assembly, e.g., Grant 39-Joint Stock Companies where Rs. 12,000 was allocated from that reserve for establishment charges payable to the Government of Madras. Similarly under Grant 37-Census the excess was covered by the allocation from the Finance Department reserve asked for before the end of the year. The reason why supplementary votes were not obtained at the time was due to the view that was then held that an allotment from the reserve avoided the necessity for a supplementary grant.

(3) Difficulties encountered in watching the progress of expenditure owing to large amounts being brought to account after the close of the year, *e.g.*, in the Posts and Telegraphs Department and the Survey of India.

(4) Failure to observe the rule that belated adjustments should be brought to account in the year in which they were discovered and not ante-dated, *e.g.*, the claim of the United Provinces Government on account of the maintenance of the Archaeological Department gardens was adjusted in the Accounts of 1924-25 instead of in those of the year 1925-26 as the question of the debit was raised only in July 1925.

(5) Over-sanguine estimate by the authorities concerned in spending money on works of their capacity to spend during the year reacting on the revenue account in the case of capital grants, *e.g.*, the excess of Rs. 14,28,692 under Grant 11-Indian Posts and Telegraphs Department, (page 2, Posts and Telegraph Appropriation Report) 'is a repercussion of the failure to act up to the capital programme on Telegraphs'. Credits to Grant 11 were not realised because actual issues of stores to capital fell far below the estimated amount.

7. The question of remedying these defects should be taken up by the Government of India with a view to preventing the recurrence of excess grants. Many of the general causes at work in causing excesses are dealt with by us further in later paragraphs of this report. With these remarks we recommend the Assembly to agree to the excess grants which will be asked for in respect of 1924-25.

II.—General.

Working expenses of commercial departments and similar charges to be exhibited gross or net. (Evidence pages 1-3 and Question 18.)

8. The Committee gave careful consideration to the question whether working expenses of commercial departments and similar charges should be exhibited gross or net in the accounts and estimates. A memorandum on this subject was handed in by the Finance Department to the Public Accounts Committee of 1924 and appears as Appendix X to their report of the 6th September 1924. Owing to lack of time neither the Committee of that year nor the Committee of 1925 were able to take up the subject. We examined the Finance Secretary at length upon the memorandum referred to and upon the general question and had the advantage also of hearing the views of the Auditor General on the cognate question in relation to the Finance and Revenue accounts. The conclusions we have come to are generally in accordance with the views expressed by these authorities.

9. The primary concern of the Public Accounts Committee is with the form in which the Demands for Grants and the corresponding Appropriation Accounts are prepared. It is clear that the guiding

principle in regard to the form of the Demands for Grants in this connection is that the Government should not be in possession of funds for expenditure on a voted service which have not been voted and appropriated by the representatives of the people for that service. To this principle one qualification is in our opinion admissible, namely, that where money has been voted by a Provincial legislature for expenditure through the agency of the Central Government on a voted provincial service, the sum in question need not be voted over again by the Central Legislature in cases in which at the moment when the money is expended by the Central Government the expenditure can be definitely identified and brought to account as provincial expenditure. This qualification does not cover cases such as expenditure incurred by the Central Government on central purchases of stationery some portion of which is afterwards recovered when the stationery is re-issued from the central store for the use of Provincial Governments and paid for by them only as and when they require stationery. All expenditure, therefore, which is to be incurred by the Central Government on a voted service, with the one exception of expenditure which has already been voted by a Provincial legislature in the circumstances explained above, should be subjected to the vote of the Assembly. There are, however, numerous cases, especially in connection with the departments whose accounts have been or are being commercialised, where it is necessary to show the same expenditure twice over in more than one Demand for Grant presented to the Assembly. In such cases it is as a rule desirable in order to avoid inflation of the figures that a sum voted under one grant should appear as a reduction from expenditure in the second grant. In these cases the expenditure should be shown in the Demands for Grants both gross and net, but only the net expenditure should be submitted to the vote of the Assembly. A similar course should be followed in the case of grants where the expenditure includes outlay of sums voted by the Provincial legislatures in the circumstances indicated above.

Form of demands for grants.
(Question 1.)

10. The Committee are not directly concerned with the form in which the Accounts which go to make up the Finance and Revenue Accounts are presented. It appears to them, however, that the view expressed by the Auditor General is the right one, namely, that with a view to clearness of presentation and to giving a correct picture of the activities of all the spending departments of the Government of India, the accounts of expenditure should work up to a gross figure of outgoings and that working expenses, charges for interest, etc., should not simply be shown as deductions from receipts. If thought desirable, a separate statement bringing out the net results of the working of a commercial department can always be drawn up.

Form of Accounts.
(Question 15.)

The question of the form in which the Budget should be presented also arises in the same connection. Here the important desideratum is that the form of presentation should be the one best calculated to give a clear and intelligible picture of the financial position of the Government. If the whole of the expenditure, including the working expenses of commercial departments and so on, is brought to account as expenditure, and the whole of the receipts including the working receipts of the commercial departments are brought to account as revenue, a true statement of all the activities of the Central Government is presented to the public, but both the revenue and expenditure sides of the account may appear inflated.

Form of the Budget.

On the other hand, if only the net receipts and net expenditure are shown, the public may be misled in regard to the proportion of the time and energies of the Central Government and of the revenues of the country which are spent on particular services, and important spheres of Government action may be obscured or forgotten. We do not offer a final opinion on this question, but we are inclined to think that the best solution will be for the figures in the Budget Speech itself and in the various statements issued at the time of the Budget to show both the gross and the net expenditure in appropriate forms. The figures of gross expenditure would include all the outgoings of the commercial departments, including the sums which they pay to the Central Government for the interest on the capital which they employ, and all the receipts of those departments would appear under the head of gross revenue.

11. The figure of approximately 130 crores at which recent budgets have been balanced represents neither the gross nor the net expenditure of the Central Government. The working expenses of the Posts and Telegraphs Department and of the Railways are excluded on both sides, but the interest on the debt incurred in order to provide these departments with capital is shown as expenditure of the Central Government and not as a deduction from the receipts of the commercial departments. In the statement of net expenditure and net revenue which we contemplate the only entry relating to Railways would be, on the revenue side, the contribution, and on the expenditure side the loss on strategic lines. In the case of the Posts and Telegraphs Department only the expenditure on buildings, etc., which is treated as capital expenditure for the purposes of the commercialised accounts, and the net loss if any on working, would appear on the expenditure side, and only the net gain if any on the revenue side. It would be desirable if a similar method of presentation could be adopted for the Opium Department. In the form of the Budget as now presented the interest paid by the Provincial Governments on capital advanced to the Provincial Loans Fund is treated as a deduction from the expenditure of the Central Government on interest on debt. We doubt if this is the most desirable form of presentation. This would be the natural form to adopt if the money advanced from the Provincial Loans Fund were raised in the open market on the security of the assets of the Fund, even if there were also a guarantee of the Central Government. But so long as the money is raised on the direct credit of the Central Government, the interest on the debt incurred is part of the expenditure of the Central Government even though it is set off by interest received from the Fund to which it is lent. We therefore suggest that it would be preferable that the whole of the interest payable by the Central Government on money borrowed for the purpose of lending to the Provincial Loans Fund should appear as expenditure of the Central Government, and the interest received from the Provincial Loans Fund should be treated as non-tax revenue.

Finance
Department
Reserve.
(Question 354.)

12. We have been given to understand that legal difficulties have stood in the way of the suggestions made by the Public Accounts Committee of 1925 in paragraphs 30 to 33 of their report on the subject of the use of the reserve placed at the disposal of the Finance Department, and on the question of creating a Civil Contingencies Fund on the English model. Somewhat similar obstacles have also arisen in regard to the suggestion made by the same Committee in para. 20 of their Report for the adoption of the system of a token vote. We

Token Vote.

concur generally in the principles underlying the recommendations of our predecessors. We understand that the main objection taken by the Legislative Department to their proposals is that it is *ultra vires* of the statutory rules under the Government of India Act, or at any rate contrary to the spirit of that Act, that the Assembly should be asked to vote the same sum twice. It seems to be held that if the Assembly has once voted money for a reserve in the hands of the Finance Department and the Finance Department has allocated a portion of that reserve to cover an excess over the amount available to meet voted expenditure under another grant, it is objectionable that a supplementary grant to cover the latter excess should be presented to the Assembly. Similarly, objection is taken to the device of a token vote on the ground that this involves the re-allocation by vote of the Assembly of money already voted under a particular grant. We are given to understand that a careful study of the existing demands for grants, particularly in connection with the commercialised departments, would reveal numerous cases in which money is already in effect voted twice over by the Assembly, and we are inclined to think that if the ordinary rules of appropriation and the needs of correct accounting are to be observed, a strict application of the theory that it is unconstitutional to vote money twice will be found to be impracticable. We do not see that it is open to any strong objection of principle. It is true that money voted for the purpose of the Reserve in the hands of the Finance Department will, if our view is adopted, never, or scarcely ever, be finally charged to the head under which it is voted. This anomaly would disappear if, instead of a sum being voted annually as a reserve, a Civil Contingencies Fund were created, as proposed by our predecessors, from which advances would be made as required and recouped in due course, out of moneys voted under the appropriate Demand Grant, so that the Fund would never bear any final charge. This is the course which we would recommend as the ideal one, but so long as the present system of voting a reserve annually is maintained, we think that the allocation of money from the reserve for expenditure under another voted head should not be allowed to infringe the doctrine that expenditure in excess of a voted grant can be regularised by vote of the Assembly and by that means alone. We would therefore suggest that if on re-examination the Legislative Department remain of the opinion that the voting of money twice over by the Assembly is *ultra vires* of the existing statutory rules, steps should be taken to alter those rules.

13. We have devoted careful consideration to the evidences of a tendency to over-estimate expenditure in the preparation of Demands for Grants which are afforded by numerous instances brought to notice in the Appropriation Accounts now under review. It appears to us that this tendency to over-estimate is particularly noticeable (a) in the provision made for establishments and (b) in the sums entered under heads relating to expenditure on works whether chargeable to capital or to revenue. It seems to have been the regular practice for the provision under such heads as pay of establishments to be calculated on the basis of existing cadres with little reference, if any, to the probability of savings due to casualties, leave, seconding to other duties, and so on. The result is that at the end of the year comparatively large underspendings are brought to light for which allowance might well have been made in the original estimates. The existence of such margins facilitates re-appropriations to purposes not contemplated at the time when the budget was framed, for which no specific authorisation has been obtained from the Assembly, and even if, as we are assured is the case and as the comparatively large realised surpluses on

Over-
estimating
Question 351,
573, 581 and
582.)

recent budgets tend to prove, the Finance Department has been increasingly strict in recent years in preventing such re-appropriations, we are nevertheless of opinion that steps should be taken to ensure that the provision under such heads as pay of establishment should be based not only on existing cadres, but also on the experience of previous years, and a suitable lump sum deduction made for probable underspendings under these particular heads. The Finance Department have already introduced with advantageous results in the past two years the system of making lump sum cuts in the demands for grants as a whole to allow for probable underspendings, and we expect that the effect will be to reduce the extent of underspending disclosed in the estimates of 1925-26 and 1926-27. We are inclined to the opinion, however, that this system should be applied more boldly than has yet been the case, and that further improvement could be obtained if careful statistics were kept of the proportion between actual expenditure and estimate based on the existing cadres under establishment heads.

Lump Sum
Cuts.

14. The system of lump sum cuts has also proved of utility in relation to estimates of expenditure on public works, etc. There seems to be an incurable and on the whole laudable habit, among officers charged with the duty of spending money on carrying out public works, of being over-sanguine as to their capacity to spend during a given period. One witness informed us that 13 years' experience in the case of the New Delhi building project showed that the average underspending year by year as compared with the estimates of the Engineers was 25 per cent. Once it has been decided to proceed with the erection of a building or the carrying out of a work, it is usually uneconomical to allow progress to be delayed by the allotment of insufficient funds, and it is undesirable that the amount which the department desires to spend on a given work during the year should be understated in the estimates presented to the Assembly. On the other hand, experience proves conclusively that though the whole amount provided for this or that work in the programme of the department may actually be required during the year, there is invariably failure to work up to the programme as a whole. In the grant for railway capital expenditure where of course budget figures are not affected but only the ways and means forecasts, the arrangement with the Assembly by which a sum of 30 crores together with any underspendings in previous years was to be provided year by year for 5 years led in the years 1923-24 and 1924-25 to the inclusion in the estimates of a figure vastly greater than was actually expended or was ever likely to be expended. The fact that this arrangement broke down in practice has been frankly recognised in the budgets for 1925-26 and 1926-27 and a new system adopted under which the engineers and Agents of the Railways concerned have been asked to make a careful estimate of the sums they expect to spend upon the sanctioned works, and after scrutiny by the Railway Board these sums or such lesser amounts as may eventually be decided upon are placed at the disposal of the spending authorities during the year, but the Financial Commissioner for Railways makes his own estimate for budget purposes of the total amount likely to be spent, and it is this figure which is entered in the Demands for Grants. The difference between this figure and the aggregate total of the amounts placed at the disposal of the spending authorities is shown as a deduction for probable underspending. We think that a similar system might with advantage be introduced in every case, whether the charge is to capital or to revenue, where expenditure on public works is in question.

(Question 927.)

(Question 1041.)

(Question 1406.)

15. A very interesting memorandum, which appears as Appendix XV to our report, was handed in on behalf of the Posts and Telegraphs department explaining in some detail the principles adopted and the methods followed in arriving at a commercialised account of the working of this department. We had further the opportunity of examining the authors of this memorandum at some length in elucidation of the subject.* The system is an elaborate one and the fruit of several years of expert consideration, and we are satisfied that it results in the presentation of the accounts in a significant and useful form working up to a figure of net annual profit or loss which, when the new form of account is fully in operation and some minor improvements have been introduced, will in our opinion be as accurate as is reasonably possible, allowance being made for certain limitations, *e.g.*, omission to assign any capital value to land assigned to the department free of cost, which are necessarily imposed on the application of commercial accounting principles to a Government department.

Commercialised Accounts of the Posts and Telegraphs Department.
(Question 17.)

16. The main point still outstanding is the completion of the calculation on an actuarial basis of the annual charge for pensions. The figure at present adopted is an arbitrary one of 50 lakhs representing approximately one and a half times the actual charge for pensions now payable. This figure is based on corresponding experience in Great Britain and it is intended to retain it unchanged, although the true cost is naturally increasing year by year, until the calculation is completed. The intricacy of the calculation and the necessity of compiling elaborate statistical data will, we understand, probably involve an interval of at least two years more before the present interim arrangement can be terminated. We are informed that the present figure of 50 lakhs is probably an under-charge rather than an over-charge.

(Question 88.)

17. An endeavour has been made to arrive at accurate estimates of the cost of services, not paid for at once in cash, rendered by the department to other Government departments, and we are assured that full credit has been given to the Posts and Telegraphs Department on the revenue side of the account for all such services. We are not, however, entirely satisfied that the accounts as yet give sufficient credit to the department for the work done on behalf of the Government and the public by the radio system which the department operates at a loss of from 7 to 8 lakhs a year, only a portion of which can legitimately be regarded as loss on the working of the telegraphs. We think this point should be examined by the Government, and unless the labour involved is likely to be serious, we consider that a separate profit and loss statement should be worked out for this part of the department's activities. Other minor points under investigation include the question of the credit due to the Department for railway telegraphs and the credit due to the telegraph and telephone portions of the account for services rendered to the postal department.

(Question 101.)

18. A considerable number of cases have been brought to light in the accounts for the year 1924-25 in which loss of the taxpayer's money has resulted from the faulty or insufficient considered drafting of contracts entered into on behalf of the Government. Examples will be found in paragraphs 60, 61, 158, 202(a), and 205(a) of the Accountant General, Central Revenues' report. Another case of rather a different character connected with a contract for the employment of a public servant will be found in paragraph 99 of the same report. The particular cases mentioned on pages

Drafting of Contracts.
(Questions 60 and 129.)

13 to 17 of the Audit report on the Army accounts and dealt with in paragraph 43 of the proceedings of the departmental committee on Army accounts (Appendix XVI) are interesting as showing the valuable results which may ensue from the examination of the accounts by the Audit Department and the Public Accounts Committee. The defects brought to light by these cases have been remedied by the Army Department which has issued an Indian Army Order, given in an appendix to the report of the Army Accounts Committee just mentioned, in which the mistakes due to faulty drafting of contracts for hired transport brought out in the Audit report have been specially brought to the notice of all concerned and directions have been given for the introduction of standard forms of contract and a standard procedure. The amount of Government money which may be risked owing to hasty or faulty procedure in giving out contracts and in making payments upon them is very large and we consider that it is a matter of great importance that adequate arrangements should be made for securing that legal and financial advice is available to and obtained by the officers responsible for giving out contracts before they are finally entered into. Standard forms of contract should be adopted wherever possible and the rates mentioned in the contracts subjected to adequate prior scrutiny. In this connection we desire to reaffirm the view expressed by the Committee of 1925 in paragraph 49 of their report and accepted by the Government of India in Finance Department Resolution of the 1st June 1926 paragraph 27, that the Finance Department should make rules to provide that any contracts containing any unusual conditions should not be entered into without previous consultation with that Department, and that material variations in contracts once entered into should not be made without its sanction. Several cases have been brought to light in which executive officers have incurred considerable expenditure by varying contracts without consultation with the financial authorities. We desire also to re-affirm the important principle that whenever practicable contracts should be placed only after tenders have been openly invited. It is no doubt necessary that discretion should be reserved to the executive authorities on grounds which should be recorded in writing to dispense with tenders in special cases where it is clearly in the tax-payer's interest to do so, but such cases should be comparatively infrequent, should be admitted only when there are very special reasons for making an exception to the general rule and should be subjected to close scrutiny both by the executive and by audit.

Appendix I.

Reappropriation of Savings to voted New Items to be brought to notice of Assembly by Token Vote.

(Question 1124.)

19. The Committee of 1925 in paragraph 20 of their report suggested that new and important items of voted expenditure not contemplated when the origin estimates were framed, of which the cost can be met out of savings elsewhere within the grant, should be brought to the notice of the Assembly by means of a token vote. The question of the adoption of the device of a token vote is dealt with in another paragraph of our report. What we desire to do here is to draw attention once again to the importance of the rule that expenditure of a kind which is technically of the nature of a "new service" ought always to be brought to the notice of the Assembly and subjected to its vote, even though it may be possible to pay for it by reappropriation from savings under other heads of the voted grant to which it is chargeable. Normally, indeed, provision for new expenditure on a new service ought, wherever possible, to be made in the original estimates of the year and not by means of a supplementary estimate at all, but if, as is doubtless inevitable, occasions arise where it is in the public interest to begin to incur expenditure during the course of a

financial year on a new service for which provision was not made in the original estimates, in the case of voted expenditure statutory rules require that a vote of the Assembly should be obtained for that specific purpose and it is not enough that the matter will have been brought before the Standing Finance Committee in any case. We trust that the Auditor General and his staff will carefully scrutinise the cases in which reappropriations have been allowed during the course of the year with a view to ensuring that this rule in regard to new services is duly observed. An instance in point where we are doubtful whether this rule may not have been infringed occurs on page 281 of the Audit and Appropriation Accounts (Civil) for 1924-25 where footnote (d) brings out the fact that a sum of Rs. 14,516 was reappropriated from savings under other heads of Account No. IX-Commerce Department under the head of General Administration, and devoted towards meeting charges for the maintenance of the s. s. "Dufferin". We agree with the Auditor General that the charge was not properly brought to account by the Accountant General under the Head—Contingencies—Commerce Department. (See Appendix XI.)

20. The cognate question of the use of savings under non-voted heads for new expenditure not provided for in the original estimates arises out of the comment contained in paragraph 39 of the Auditor General's letter on the Appropriation Report on the Army services and paragraph 30 of the report of the Committee on Army Accounts for 1924-25. In the case of non-voted expenditure the sanction of the Government of India in the Finance Department takes the place of the vote of the Assembly. Rules have been laid down by the Secretary of State and are strictly observed in regard to the reappropriation of money saved under one head of the Army estimates to expenditure under another, and the Finance Department's approval is invariably obtained for all but the most minor cases of *virement*. Corresponding rules do not appear to have been framed in regard to reappropriation from one head to another in the case of non-voted expenditure for services other than the Army, though we understand that the Finance Department's approval is required for all important cases. We think that the Government of India might with advantage examine the desirability of framing rules embodying the principles followed in the case of Army expenditure for application to other cases of non-voted expenditure. It is important that the Finance Department should be strictly scrupulous in its exercise of such powers of reappropriation, and we agree with the view expressed by the Committee on Army Accounts that a distinction should be observed between reappropriations made to cover excesses in normal expenditure and cases in which savings were reappropriated to cover the cost of new measures which were not provided for in the estimates, and that it will be convenient for such reappropriations to be mentioned by the Auditor General in the annual Appropriation report, notwithstanding the fact that such reappropriations involve no irregularity provided the Finance Department's sanction has been duly obtained.

Reappropriation of savings to non-voted new items to be brought to notice of Assembly by statement laid by Finance Department before the House (cf. para. 22.)

21. It will be convenient to refer at this point to the subject mentioned in paragraph 12 of the Finance Department's Resolution of the 1st June 1926 arising out of paragraph 21 of the report of the Public Accounts Committee of 1925, namely, the rule that all excesses over sub-heads should be formally reported to the department with whom the power of regularising such excesses rests, that is to say, in most cases the Finance Department, and should be formally sanctioned by that Department, if possible before the close of the year, and in any case before the Appropriation

Appendix I.

account is finally drawn up. The Finance Department Resolution to which we have referred was not issued until June 1926 and it is natural therefore that in the Accounts of 1924-25 which we have had under examination the absence of formal regularisation of excesses over sub-heads should have come repeatedly to our notice, since there appears to have been no rule in force hitherto requiring these to be formally regularised. We endorse the view expressed in the Resolution in question that such formal regularisation is desirable in all cases whether the expenditure is voted or non-voted.

22. In the case of voted expenditure when expenditure in excess of the sum voted by the Assembly has to be incurred or when it is desired to apply savings to a new service, a supplementary grant has to be obtained from the Assembly in order to regularise the expenditure. The Assembly is thereby made acquainted with the facts in each case. On the other hand, when the expenditure is non-voted, the Finance Department's sanction is sufficient to regularise excess expenditure or expenditure on a new service, and there is at present no formal arrangement by which the facts are brought to the notice of the Assembly. We examined the Financial Secretary on this subject and he has handed in a memorandum (Appendix IX) in which he has suggested that the Finance Department should lay a statement on the table of the Assembly at the time of the presentation of the annual Budget detailing the cases in which its sanction has been given for supplementary grants for non-voted expenditure in a form analogous to that used for supplementary grants for voted expenditure, thereby enabling the Assembly to be made acquainted with facts in regard to non-voted expenditure which are of interest to it. We recommend that this procedure should be introduced. Its adoption will we think go far to secure that the Finance Department will obtain punctual information from other departments for its own use and that the rules requiring formal regularisation of excesses over sub-heads of a grant as well as over the total provision under a grant will be duly followed in regard to non-voted expenditure. The procedure we propose should also be of some value in establishing firmly the methods which are gradually coming into force for enabling officers and departments responsible for expenditure under particular grants to watch carefully the progress of expenditure during the year—a matter to which we, as the preceding Public Accounts Committees have done, attach the greatest importance.

**Expenditure
control—Pay
and Account
Officers.¹**
(Question 489.)

(Question 812.)

23. Improved control over expenditure and improved methods for watching the progress of expenditure are clearly beginning to emerge from the institution of the new system of Pay and Accounts Officers. This system is still experimental, being one of the main features of the plan for separating accounts from audit. An interesting memorandum on expenditure control for the use of controlling officers served by the Pay and Accounts Officers, dated 9th December 1925, was handed in by Mr. Jukes and appears as Appendix VII to our report. In the course of our examination we have been impressed by the improvement in financial control, the results of which are likely to be more and more evident in future appropriation reports, which has resulted from the necessity which now rests on departments of Government to conform to the requirements of parliamentary control and run the gauntlet of cross-examination year by year by the Public Accounts Committee. There is, however, some danger that enthusiasm for regularity in accounting will prove to have

been pushed too far at the expense of efficient administration if care is not taken to see, particularly in relation to commercialised departments, that improved systems of accounting do not throw an undue strain on the executive of such departments to the detriment of their proper functions, and that the executive are provided with the right sort of financial assistance and advice. It has been stated in evidence that the attempt to introduce an over-elaborate system of cost accounting in the Army has actually had the result of diverting the Accounts staff from their proper duty, particularly in the case of local audit in the Army, and some of the cases which we have dealt with in regard to the Posts and Telegraphs Department suggest that the rules regarding control of expenditure may in some cases be beyond the present capacity of the staff which is called upon to apply those rules. The excess vote, with which we have already dealt, required in the case of Civil Veterinary Services was explained to us by the representative of the Department of Education, Health and Lands, though the explanation could better be described as an apology, as due to the well-known inability of the scientific mind to adapt itself to the meticulous observance of technical accounting procedure. (Question 601.)

24. The new Pay and Accounts Offices seem to us to offer a very hopeful prospect of providing a means of escape from the conflicting demands of efficiency in administration and regularity in observing the requirements of appropriation audit. In paragraph 5 of his memorandum Mr. Jukes writes: "Under the ordinary accounting system of India control of the desired kind is very difficult. In order to exercise it the controlling officer requires to be in close touch with the progress of his expenditure in the accounts. The accounts are, however, kept by an usually distant Accountant General whose returns reach the controlling officer many weeks after the incurring of the expenditure which they record. Another drawback of the ordinary system is that expert financial advice cannot as a rule be quickly obtained by the controlling officer. It is largely in order to remove these defects that the Pay and Accounts Offices have been instituted." In paragraph 6 Mr. Jukes says "In the case of a large Department which enjoys the full time services of a Pay and Accounts Officer the defects are automatically removed. The accounts are kept in many instances under the same roof which covers the office of the head of the Department, and in any case in close proximity to it. The controlling officer is thus in a position to know practically from day to day the progress of expenditure from his grant under the various minor and detailed heads and to secure at the shortest notice any information which is derivable from the accounts. Further, he has the help, in the person of the Pay and Accounts Officer, of a Financial Adviser who is an expert in all rules and orders bearing upon expenditure and accounts and can be consulted before any financial commitment is incurred. * * * * Where these conditions exist, the controlling officer is fully equipped with the means of exercising complete control over his expenditure." In many cases of defects or irregularities which we have examined in the Accounts for 1924-25 we have been assured again and again that, now that a Pay and Accounts Office has been established, a recurrence of such cases is improbable. Indeed, a not inconsiderable proportion of the cases with which the Accounts before us deal would not have come to light so early, with the result that the application of remedies would have been delayed, had it not been for the combined effects of the co-ordinated labours of the Pay and Accounts Offices dealing with the accounts and an independent audit free from accounting duties

and able to devote itself solely to audit proper. This is particularly noticeable in the case of the grant for Delhi New Capital outlay where the need for both financial advice on the spot and for a much more thorough-going audit than has hitherto been possible was specially felt. It is too soon yet to arrive at final conclusions in regard to the general experiment of separation of accounts from audit, but we feel it our duty to record the very favourable impression which the new system of Pay and Accounts has made upon us in this early stage of its application during which it has, unless we are greatly deceived, in the case of New Delhi repaid several times over the extra cost involved, thanks to the increased efficiency and economy which has resulted.

**Order of the
Demands for
Grants.**

25. With reference to the discussions which have taken place from time to time in the Assembly in regard to the order in which the Demands for Grants are submitted to the vote of the Assembly, a suggestion thrown out in the course of those discussions that the matter might perhaps be conveniently considered by the Public Accounts Committee was referred to by a member of the Committee, but it was held that it would be beyond the function of the Public Accounts Committee to make any specific recommendations on the subject, and the Committee decided to confine themselves to the suggestion that the most likely means for arriving at a suitable solution would be that the matter should be referred to a special committee of the Assembly for consideration.

**The
Northern
India Salt
Department.**

26. In paragraph 23 of his letter forwarding the Audit and Appropriation Accounts of the Central Government, referring to paragraphs 44 to 46 on pages 34 and 35 of that report, the Auditor General expresses himself as follows in regard to the Northern India Salt Department:—“The work of this Department is undertaken in such remote localities that the Department has hitherto escaped adequate local audit scrutiny. It is the application of this local scrutiny for the first time which has disclosed the revelations made in this Report. It is a common experience in audit that the first local enquiry reveals startling features. I am glad to say that it is an equally common experience that energetic action is taken to rectify defects thus disclosed and after a few years the local audit settles down into a humdrum routine which is rarely enlivened by the discovery of serious irregularities. I trust that in succeeding years it will be possible to say the same of the work of the Northern India Salt Department.” A considerable proportion of the paragraphs dealing with the Salt Department in the Audit and Appropriation Accounts relates to irregularities connected with the Sambhar Improvement Scheme. These irregularities had been brought to light as the result of the introduction of a system of local audit and inspection of the accounts of the Northern India Salt Department with effect from 1924-25 and are still undergoing examination in the Government of India. The facts have not yet been fully ascertained, many of the points made by audit authorities being challenged by the departmental officers. It has not been possible therefore for this Committee to deal finally with the question. It is clear on the one hand that from the point of view of regularity of accounts almost every conceivable offence has been committed. On the other hand, the representative of the Central Board of Revenue expressed the view that the officers concerned have been wholeheartedly devoted to the interests of the Government and have carried through an important scheme of improvement in difficult circumstances with real success at moderate expense. Until suitable arrangements for audit were made with effect from 1924-25 that is, after the scheme was

(Question 540.)

practically complete, only the most rudimentary arrangements seem to have been in existence for scrutinising the accounts and the officers on the spot appear to have been left very much to their own devices with insufficient arrangements for control from headquarters. Informally, they seem to have been given a very wide discretion in regard to the working out of the scheme as originally outlined, but so far as formal delegation of powers is concerned, the arrangements made were obviously altogether insufficient. In such circumstances the officers on the spot are placed in an altogether unfair position. It is essential that, as has been done (so we are informed) in the case of the Vizagapatam Harbour scheme, a set of rules should be framed giving adequate but carefully defined powers to the officer who is called upon to carry out a Major Work in a remote and difficult part where conditions of labour and transport are totally different from those in more suitably situated localities to which the ordinary rules apply.

(Questions 561 and 588.)

27. We do not think it desirable for us at this stage to comment further on the questions arising in connection with the Sambhar Improvement Scheme. The matter from the stand point of audit is a most important one and it is essential that all the facts should be ascertained and if possible agreed upon before the Committee is called upon to pass any judgment. Some members of the Committee were inclined to think that in view of the differences of opinion which have been disclosed between the audit authorities and the Salt Department and of the fact that the Government of India are involved in the question of the insufficiency of the control exercised from headquarters, the most suitable method of dealing with the case would be to appoint a special committee of investigation. The majority of us, however, are of opinion that the matter, which is of outstanding importance, should be left over for thorough investigation by the Public Accounts Committee of 1927 when all outstanding points have been cleared up and the views arrived at by the Government of India after examination of those facts are on record.

Sambhar Improvement Scheme.

Question 558.)

28. A series of frauds came to light in the Appraising Department of the Calcutta Custom House in 1923. The officers responsible have been suitably dealt with, but scrutiny of these and other cases has raised the question whether adequate arrangements are in existence for supervising the work of the appraising staff. The Central Board of Revenue have had this matter in hand for some time and proposals for securing a further check on acts of appraisement are under discussion the cost of which is estimated at approximately Rs. 1 lakh a year. The problem of finding a right solution is not an easy one since improvement depends on securing a better check before the goods actually leave the Custom House, and the measures adopted must be so designed as to avoid imposing additional delay on the clearance of goods. The responsibilities of appraisers are considerable; the customs revenue at stake is by far the most important item making up the total revenue of the Government of India, and the temptations to which appraisers are exposed are very real. We recommend this subject to the Government of India for serious consideration and speedy rectification.

Customs.

(Question 585.)

29. Another subject which is also engaging the anxious consideration of the Central Board of Revenue is the improvement of the system of internal check in the Custom Houses. We are of opinion, and we understand that the Central Board of Revenue entirely concur, that a consider-

Internal Check in Custom House.

Question 671.)

able improvement in the system of internal check is desirable and possible. We understand that the Board contemplate the possibility of the appointment of an officer at headquarters to control the departmental check. Whether centralisation is desirable or not is a question on which we should not like to pronounce. We draw attention, however, to the importance of the general subject.

**Revision of
the Sea
Customs
Act, 1878
(Question 708.)**

30. It was brought before us in evidence by the audit authorities that the Sea Customs Act of 1878 is obsolete and the need of drastic amendment in order to bring it up to date was prominently before us in evidence. We were indeed told that the Act would be unworkable in modern conditions if conventional methods had not grown up and obtained the sanction of long practice, though they were in many cases, if not *ultra vires*, at any rate not strictly in accordance with the letter of the law. It is obvious that this condition of affairs adds considerable difficulty to the work of the Audit Department a part of whose duties it is to see that revenue is being collected by the Customs Department in accordance with the statutory provisions of the Act. We understand that the question of amending the Sea Customs Act was one of the first subjects taken up by the Central Board of Revenue at the time of its appointment in November 1923, and we trust that it will be possible at an early date to lay proposals for revising the statute before the Legislature.

**Irregular
drawal of
money.**

31. A number of cases were disclosed in which money was drawn from the treasury in advance of the date at which it was required to be expended. This is an irregularity which may frequently lead to loss, if not to fraud, and is open to the additional objection that, if it occurs at the end of the financial year, it necessarily falsifies the figures of expenditure for the year in question. We support the opinion of the Auditor General that this form of irregularity should be sternly discountenanced, and if other means for checking it prove insufficient, the offenders should be subjected to some form of punishment of a deterrent character.

**Divergence
of view
between the
Government
of India and
the Auditor
General.
(Question 1155.)**

32. In paragraph 4 of his letter dated the 9th July 1926 covering the Audit and Appropriation Accounts of the Central Government (Civil) for the year 1924-25 the Auditor General draws attention to a case in which there has been a divergence of view between the Government of India and himself regarding the desirability of a despatch being addressed by the Government of India to the Secretary of State requesting an interpretation of a Section in the Government of India Act. The Auditor General held that an authoritative interpretation of certain words in the Section was required by him in order to enable him to exercise his statutory duties of Audit. The Government of India held that it was useless to ask in general terms for an interpretation of the words in question as the reply could only be that the Section must be interpreted with reference to the particular facts of a particular case and it was not a question of law but a question of fact which would arise for decision in any such case. The Government of India, however, expressed their willingness to address the Secretary of State in regard to any particular case in which it appeared that the provisions of the Section were being infringed, or might on a strict interpretation be held to be infringed, and in asking for the ruling of the Secretary of State on such a particular case to request also a general explanation of the reasons which guided the Secretary of State in coming to his conclusion. The Auditor General has hitherto expressed himself

unwilling to withdraw his request that the Government of India should address the Secretary of State with a view to obtaining a general interpretation of the Section, and among his reasons for declining to accept the Government of India's proposal has referred to the long delay which has occurred in dealing with the particular case mentioned in paragraph 5 of the letter of the 9th July 1926. We understand that the Auditor General has now agreed to accept the proposal of the Government of India that the general question should be taken up in connection with this particular case provided that it is taken up without further delay. This solution will, it is hoped, provide a satisfactory settlement of the question on which there has been a divergence of opinion, and we trust that no further delay will now be allowed to occur in addressing the Secretary of State.

33. This case, however, raises a general question of some importance which is also mentioned by the Auditor General in the letter referred to. The Auditor General has a statutory duty of auditing the accounts on behalf of the Secretary of State. He has, however, only two channels of approach to the Secretary of State, namely, (i) through his letters forwarding the annual Audit and Appropriation Reports, and (ii) through the Government of India. The Government of India must of course address the Secretary of State and obtain his decision on any particular question of expenditure on which they are not the final authority and the decision of the Secretary of State is required or stated to be required in order to satisfy Audit authorities. On the other hand, the Government of India must retain their discretion to decide in regard to any general point when and on what matters they will address a despatch to the Secretary of State. The question therefore which is raised by the Auditor General whether he should not be given the right of direct access to the Secretary of State clearly requires consideration. No doubt the nature of the subjects to be dealt with in such direct correspondence between the Auditor General and the Secretary of State will have to be carefully defined if an *imperium in imperio* is to be avoided. Nevertheless, there would appear to be some *prima facie* arguments in favour of the grant to the Auditor General of additional facilities for communication with the Secretary of State, and the matter is one which should, we think, be carefully and sympathetically examined by the Government of India.

Direct access of the Auditor General to the Secretary of State. (Question 1157.)

34. In dealing with the Army Accounts the Committee examined the representatives of the Army Department on the question of the Cost Accounting system in the Army and on the intentions of the Government in regard to the recommendations of the Committee on Cost Accounting in the Army which they were given to understand is shortly to be published. The final conclusions of the Government of India have, we learn, still to be confirmed by the Secretary of State, but it was made clear to us that in the opinion of the Government of India the cost accounting system in the Army has proved to be unduly laborious and not to give results commensurate with the expenditure and trouble involved. It is proposed to retain the system in the case of manufacturing establishments and ordnance factories, but to revert to a simpler form of accounts in regard to units. Experience had shown that the system of cost accounts did not give that improved control over expenditure in units which had been expected and that, without a degree of decentralisation which is impossible in the Army.

Army Cost Accounting System.

that result could not be achieved by any mere elaboration of accounting system. The Committee noted the statement of the intentions of the Government so far as they have been defined at this date and decided that they would leave it to the Committee of 1927 to examine the details and practical working of the system to be introduced in its place and to arrive at and express an opinion on the new methods and forms adopted. They noted that the proposed changes have the cordial support of the Auditor General. They desire, however, to emphasise the importance of an improvement of local audit in the Army which it is expected will result from the simplification of the accounting duties which have to be performed and the consequential setting free of the local auditors for more useful duties. The abolition of cost accounting in the units will make the work of the local auditors more than ever important and every effort should be made to see that real improvement is secured.

**Recording of
expenditure
under the
appropriate
head.**

(Question 1189.)

35. In a considerable number of cases mentioned in the Accounts under consideration it appeared that expenditure had been recorded under a different head from that under which budget provision had been made for it. To some extent the frequency of these cases seems to have been due to the use for the first time of the new form of appropriation accounts, but in many cases it appeared that there had been absence of co-ordination between the officers responsible for preparing the budget estimates and the officers responsible for preparing the accounts. In order that comparison between actual expenditure and the original provision in the estimates may be facilitated, it is important that care should be taken to secure that the accounts and the demands for grants are drawn up on the same basis.

**Under
travelling.**

(Question 325.)

36. The Committee observed, particularly in the case of the Posts and Telegraphs Department, that expenditure on travelling showed a tendency to fall considerably below the amounts provided in the estimates. It was suggested by a witness on behalf of the department that the explanation was to be found in the fact that the rates of travelling allowance had been reduced and officers were in consequence unwilling to travel as much as before. We think that the allegation that the rates of travelling allowance are insufficient should be enquired into, though we desire to re-affirm the well-known rule that travelling allowances should not be a source of profit. But it seems to us to point to some failure of control in a department if inspecting officers are left in any way free to decide the extent to which they will travel and the places they will visit with reference to the possibility of making some profit or avoiding some loss on particular journeys. It is the duty of the superior officers in a department to ensure that an adequate number of inspections is made and that the places visited on tour are those which ought to be visited in the best interests of the efficiency of the Department and not those which a particular officer has a fancy to visit.

**Fundamen-
tal Rule 45.**
(Question 367.)

37. The Committee had evidence to the effect that defects in Fundamental Rule 45 as it stands at present and the absence of a suitable and comprehensive re-draft are mainly responsible for the unsatisfactory position in regard to audit disclosed in some paragraphs in the Report on Grant No. 43-Civil Works with reference to house rents in Delhi and Simla. It is clearly desirable that the re-drafting of this Rule, however great the difficulties in producing a satisfactory re-draft might be, should not be further delayed, and that a new rule should be duly sanctioned and promulgated as soon as possible. In the same general connection the Committee desire to record their view that houses designed and built for officers of

higher status should not be let to officers of a lower status in view of the loss of rent involved.

38. Rule 51 of the Indian Legislative Rules provides for the constitution of a Committee on Public Accounts for the purpose of dealing with the Audit and Appropriation accounts of the Governor-General in Council. So far as concerns that portion of the accounts for which the Accountant General, Central Revenues, was responsible, namely, the Civil Accounts for 1924-25, the Accounts referred to in the Legislative Rule quoted were presented to the Public Accounts Committee of 1926 for the first time in a single self-contained report. This Report is framed on the lines of the British report which experience has shown to be a useful model and constitutes the Audit and Appropriation report referred to in Rule 15 of the Rules framed by the Secretary of State under Section 86-D. (1) of the Government of India Act. The Committee desire to express their warm appreciation of the value of the Report in its new form and their recognition of the great pains devoted by the Accountant General to its preparation.

Comments on the form and contents of the Audit and Appropriation Accounts.

The Report is not yet in its final form as some of the subsidiary accounts were not ready for inclusion. It is already very large and the Committee suggest that its size might be reduced in the three following ways :—

- (1) Only cases of real importance should be quoted. The attention of the Committee could be called to these cases more readily if in the general review where chief forms of irregularity are pointed out references were given to typical illustrative cases in the letterpress.
- (2) Only relevant and important details should be included as far as possible. It is desirable that the Accountant General should treat cases objectively giving the facts connected with them impartially and leaving it to the Auditor General to express general conclusions.
- (3) When cases are quoted in the letterpress, the details should not be given again in the notes to the accounts, as references to the relevant passages in the letterpress will suffice.

In saying this the Committee do not wish to fetter the discretion of the Accountant General as to the cases he should include in his Report.

The question was raised as to whether subsidiary accounts should be included setting out transactions of institutions mainly supported by grants-in-aid from Government. The Committee consider that it is undesirable provided that there is a satisfactory audit of such accounts, and that Government receive a copy of the audited accounts. (Questions 299 and 300).

The Committee again considered the question of the extent to which cases on which the Government of India has not finally passed orders should be included in the Report. The Committee approve of the statement of the position given by the Government of India in paragraph 16 of the Finance Department Resolution. It is not possible to lay down any general rule on the subject, for while it is unnecessary to include ordinary cases for the consideration of the Committee, it is felt that very important cases and cases in the disposal of which there has been long delay should be brought to the notice of the Committee.

Witnesses
commended.

39. The Committee desire further to express their gratitude to the witnesses who appeared before them on behalf of the Departments of the Government of India to explain and elucidate points arising from the Accounts. They were impressed with the readiness and anxiety of the witnesses generally to assist the Committee in their task and the trouble which in most cases they had taken to acquaint themselves with the details of the cases on which questions were likely to be asked. Now that the purposes and the methods of working of the Public Accounts Committee of the Central Legislature have begun to be understood and appreciated, many of the difficulties which were met with in the first years of the institution of the Public Accounts Committee in obtaining satisfactory explanations appear to be rapidly disappearing and the new system to be working smoothly.

40. We attach as Appendix VIII to this report a statement showing the recommendations or suggestions made by the Public Accounts Committees of 1923, 1924 and 1925, on which action is still outstanding.

41. At our request the Auditor General has submitted to us a memorandum setting out the relations between himself and the Auditor of Home Accounts (Appendix VI). We consider those relations anomalous in some respects and hope that the Government of India will take up the question of giving effect to the recommendations of the Auditor General when the occasion offers.

42. We accept the recommendations of the official committee, which sat to consider the Audit and Appropriation reports on Army expenditure, on those matters which are not specially mentioned in other paragraphs of this report.

III.—Particular Accounts.

43. *Paragraphs 4 and 5 of Home Auditor's report on the Secretary of State's accounts.*—We are informed that a settlement is expected very shortly of the war claims outstanding between India and the Imperial Government. We trust that there will be no delay in arriving at a satisfactory conclusion which is much to be desired in the interests of both parties.

(Question 277.)

44. *Paragraph 14, *ibid.**—We note that the contract for the Eastern Mail service will come under revision by the Imperial Government in 1928 when the question of India's contribution will require careful consideration.

45. *Paragraph 22, *ibid.**—The extent of the loss involved from the chartering of this vessel is somewhat startling. We note that the circumstances were special and we recognise that unusual steps were necessary to provide accommodation for officers returning to service in India.

46. *Paragraph 29, *ibid.**—We are not satisfied that adequate precautions were taken before making an advance of £2,000 to the film lecturer without security.

(Question 288)

47. *Paragraph 30, *ibid.**—Steps should be taken without delay to recover the sum due from the War Office on account of the hire of the "Dufferin."

for conveying a British regiment in relief of an Indian one. The failure of the authorities in India to present this claim seems to require investigation.

48. *Paragraph 33, ibid.*—We have received from the Finance Department a copy of the minutes of the proceedings of the Provincial Finance Members' conference held in Delhi in November 1925, at which the procedure for submission of demands in respect of expenditure in England was discussed. An acceptance of uniform procedure would facilitate the work of the accounting and audit authorities in England. See Appendix X to this report.

49. *Paragraph 3 of Home Auditor's report on the High Commissioner's accounts.*—We trust that the question of the ultimate liability for stores lost in the "Clan Mackay" will soon be settled. We understand that the Indian case is now ready for submission to the Arbitrator.

50. *Paragraph 5, ibid.*—It appears that the levy of 2 per cent. for (Question 1050) departmental expenses on the value of stores purchased has not in all cases been sufficient to cover the charges incurred by the Central Government. Where the Central Government is making purchases on behalf of the Provincial Governments or outside bodies, it is we think important that the charge levied should be fully adequate in order that no final expenditure may fall on the central taxpayer. We recommend that the department concerned should re-examine the adequacy of this levy. See Appendix XIII to this report.

51. *Paragraph 6 (8), ibid.*—It is particularly important when expenditure is incurred on purposes such as entertainment that there should be no failure to present vouchers in full justification of the expenditure.

52. *Paragraph 6 (10), ibid.*—We are not satisfied that the interests of (Question 1151) the taxpayer were adequately considered in the various motor car deals referred to.

53. *Paragraph 24 of the Report of the Accountant General, Central Revenues : Grants No. 43-Civil Works and No. 62-Delhi Capital outlay.*—(Question 1087) The misrepresentation of facts and the manipulation of accounts to avoid audit objection are serious misdemeanours and we agree with the Auditor General that any steps which may be necessary to check such practices should be promptly taken.

54. *Paragraph 30 (vi) (a), ibid : Grant 1-Customs.*—The conditions (Question 076) disclosed in the character of the warehousing work of the Bombay Custom House were unsatisfactory. We are informed that action has now been taken to set matters right and trust that no recurrence of such conditions will be permitted.

55. *Paragraphs 59 and 62, ibid : Grant No. 3-Salt.*—These cases illus- (Question 613) trate the importance of the question of the methods of dealing with contracts which is referred to at greater length in paragraph 18 of this report. The story of the co-operative society in question as given in evidence before us has considerable human interest. The criticisms of the Auditor General regarding the complete irregularity of the arrangements adopted are amply justified. If this arrangement proved entirely successful and economical, this is a result which may do credit to the particular officer who combined the functions of president of the society taking the contract and of Government servant measuring the work and authorising payment but does not justify the superior officers who permitted such an extraordinary arrangement to come into being.

- (Question 548.) Page 242, *ibid.*—The large amount written off for wastage of salt in the Bombay Salt Department suggest the need for an investigation of the causes. We understand that a special officer has been appointed to investigate the various questions relating to salt policy and administration arising out of the recommendations of the Taxation Enquiry Committee. This officer has been asked *inter alia* to examine the present arrangements in Bombay in regard to weightment into store, the details of the Stock Accounts, and the guarding and fencing of factories.
- (Question 472.) 56. Paragraph 111, *ibid* : Grant No. 30—Medical Services.—The large balance of stores at the X-ray Institute at Dehra Dun was explained to us as resulting from accumulations during and immediately subsequent to the war and the necessity of keeping a large reserve during that period. A large stock, if locked up for a long time, naturally deteriorates and its value is depreciated. We consider that active steps should be taken to dispose of the excess with as little loss as possible. It may even be desirable to give stores away to deserving institutions if they cannot be otherwise disposed of before becoming entirely obsolete and useless.
- (Question 1042.) 57. Paragraph 119, *ibid* : Grant No. 40—Indian Stores Department.—We were informed that the Indian Stores Department was in some respects in a position to undertake more work than it at present secures. We trust that every effort will be made to see that it obtains sufficient employment to make it self-supporting.
- (Question 1055.) 58. Paragraph 125, *ibid.*—The rush of purchases at the close of the year must necessarily lead to undesirable consequences. Every effort should be made to remedy the defects disclosed.
- (Question 891.) 59. Paragraph 133, *ibid* : Grant 43—Civil Works.—The question of the return obtained on furniture rented by officers occupying furnished houses at Simla and Delhi is a difficult one. The necessity of obtaining a reasonable return on the capital invested in addition to making adequate charges for maintenance and depreciation should be carefully kept in mind by the department concerned and by the Finance Department.
- (Question 910.) 60. Paragraph 143, *ibid* : Grant No. 43—Civil Works.—We agree with the Auditor General that special care should be taken by high officials not to ask for furniture which is inadmissible under the rules from supplying officers who may be placed in a difficult position if such demands are made.
61. Paragraph 166, *ibid* : Grant No. 51—Baluchistan.—Frequent re-appropriation of petty amounts should be avoided.
- (Question 882.) 62. Paragraph 184, *ibid* : Grant No. 54—Andamans and Nicobar Islands.—The action of the Deputy Commissioner in taking advantage of his official position to compel the treasury officer to make a payment to him without proper authority was highly irregular and reprehensible.
- (Question 900.) 63. Paragraphs 194 to 200, *ibid* : Grant 62—Delhi Capital outlay.—We are informed that a departmental enquiry is being instituted to enquire into the general questions raised by these paragraphs in regard to the collection of materials in advance or in excess of requirements and the position of the store accounts. We trust that the enquiry will result in improved control.

64. Paragraph 201, *ibid* : Grant 62-Delhi Capital outlay.—We understand that a special investigation is in progress in regard to the accounts of the store yard, where supervision seems hitherto to have been lax. The results of the investigation should be important. (Question 988.)

65. Page 265 Item A-1, *ibid*.—The excess of nearly rupees 17 lakhs requires investigation. (Question 788.)

66. Paragraph 3 of Audit Report on the Posts and Telegraphs Department.—We understand that the question of increasing the security required from officers who handle large sums of money is under consideration by the Government. Their conclusions on the matter will, we think, be of interest to the Public Accounts Committee of next year. (Question 119.)

67. Paragraphs 3 and 23, *ibid*.—These cases left us with the impression that there was some laxity of supervision in the department requiring rectification, and the evidence given on behalf of the department did not suffice to remove this impression. We desire to add that the fact that a sum lost is completely recovered does not necessarily imply that no additional punishment is required. (Question 184.)

68. Paragraph 48, *ibid*.—We note that recruitment of telegraphists has been stopped subject to certain commitments to schools where telegraphists are under training. All possible steps should be taken to reduce the present surplus of telegraphists. (Question 288.)

69. Page 43 of Appropriation Report on the Accounts of the Posts and Telegraphs Department. Grant No. 41.—The double debit of over Rs. 7 lakhs and the erroneous adjustment under Grant 21-Survey of India referred to in paragraph 5 above (item 2), point to some fault of system which should repay investigation by the Auditor General. More care should have been taken in the office of the Controller, Stationery and Printing. We note that the Accountant General, Posts and Telegraphs, has arranged for a scrutiny of the internal accounts of the Controller which deal with the supplies to the Posts and Telegraphs Department. (Questions 384 and 418.)

BASIL P. BLACKETT.

S. K. DATTA.

J. D. CRAWFORD.

N. M. JOSHI.

K. G. LOHOKARE.

V. N. MUTALIK.

E. MONTEITH MACPHAIL.

GULAB SINGH.

S. MURTAZA.

14. *Paragraphs 32 and 33.*—The Committee decided to examine the Railway Board witness in this connection.

15. The Committee took up Appendix X to the Report of 1922-23, Volume I. The Financial Secretary stated the principles which had been accepted by the Government of India for determining when a demand for grant should be exhibited 'gross' and when 'net'. These may be summarised as follows :—

“ When a recovery from another Government represents nothing more than the debit to that Government of expenditure which was properly so debitable at the moment when the expenditure was sanctioned, that recovery does not represent revenue, and a *net* grant should be presented. Recoveries of all other kinds do represent revenue. They should be shown as such and the grant for expenditure should be gross.”

He pointed out that under these principles no grant could ever be voted both 'gross' and 'net'. After short explanations by the Chairman, the Financial Secretary, and the Auditor General on the method of exhibition of working expenses of Commercial Departments in the accounts and estimates and in the Budget it was decided to continue the discussion at the next meeting.

Proceedings of the second meeting of the Public Accounts Committee held on Tuesday, the 27th July, at 11 a.m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,

Maulvi Syed MURTUZA Saheb Bahadur,

Rev. Dr. E. M. MACPHAIL,

Dr. K. G. LOHOKARE,

Sardar GULAB SINGH,

Colonel J. D. CRAWFORD,

Dr. S. K. DATTA,

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General, was also present.

The Hon'ble Mr. J. E. C. JUKES, Financial Secretary — *Witness.*

1. The Committee continued its discussions on the question of gross or net grants and on the exhibition of working expenses. It accepted generally the principles enunciated by the Financial Secretary for determining whether a grant should be exhibited gross or net, but reiterated the view that in the demands for grants both gross and net figures should be exhibited.

2. As regards the exhibition of working expenses the Committee agreed with the Auditor General that, in the accounts at least, working

expenses should be shown as expenditure and not, as at present, by deduction from receipts. In the demands for grants, so long as they are exhibited in detail as at present, it is immaterial whether they are shown as expenditure or as reduction from receipts. As regards exhibition in the Budget statement, the Committee was provisionally of opinion that both gross and net figures were necessary to give an adequate picture. It was decided that draft paragraphs on the subject should be prepared for further consideration when the draft Report came under discussion.

3. An enquiry was made as to the progress in the commercialisation of Forest accounts. The Auditor General explained that certain units of forest accounts had been commercialised in some provinces and that some of the other Provinces were still considering the matter.

4. It was stated that the Posts and Telegraphs Department were proposing to adopt a system by which any realised annual surplus in the commercial accounts on the Posts and Telegraphs Department will not be brought into the revenue of the year but used for reducing the debt on which the Posts and Telegraphs Department pay interest, while a deficit would increase that debt, so that under that arrangement there will be neither profit nor loss on the Posts and Telegraphs Department during the year.

5. On the discussion of the Report of the Home Auditor, on the accounts of the Secretary of State, the Committee enquired whether, for the expenditure of the Secretary of State an appropriation Account was available similar to those covering expenditure in India. It was explained that in respect of certain classes of expenditure separate grants are placed at the disposal of the Secretary of State and of the High Commissioner while, in respect of other classes of expenditure there is a combined grant for expenditure both in India and in England. The underlying principle is that there should be a combined grant for expenditure both in India and in England except in respect of those classes of expenditure which cannot be controlled from India.

6. The Committee desired to have a statement regarding the discussion in the last Conference of Provincial Finance Members regarding the method of placing grants at the disposal of the High Commissioner and the Secretary of State.

Appendix X

7. Section I of the Home Auditor's Report on the Secretary of State's account for 1924-25 was then taken up.

Paragraph 2 ibid.—The Committee asked for information regarding the appointment of the auditor in England. It was explained that under the Government of India Act the Home Auditor was entirely separate from the Auditor General in India. It was noted that there is some anomaly in the fact that voted expenditure of any kind should be audited otherwise than by the Auditor General and that expenditure incurred in the United Kingdom by the High Commissioner who is subordinate to the Government of India is audited not by the Auditor General but by the Home Auditor. The Auditor General undertook to present a statement for incorporation in an appendix to the Report regarding the Home Auditor's relations with himself.

Appendix IV.

8. *Paragraph 10.*—The Committee decided to question the Railway Financial Commissioner as regards the staff for the management of the debentures of the East India Railway Company.

Revenues, merely the interest thereon being brought into the commercial account. In the case of ordinary Central Public Works expenditure, where no attempt had been made to commercialise the accounts the cost of all buildings except in the case of New Delhi is met direct from General Revenue, no major head "Capital Expenditure met from revenue" having been opened.

3. The Committee were informed that interest is charged on the depreciated value as on the 1st April 1925 *plus* new capital expenditure, the theory being that in effect the Posts and Telegraphs has borrowed this from general revenue and is being charged with the interest. The rate of interest on all expenditure up to 1916-17 has been fixed. After 1916-17 the rates have been the yearly borrowing rates calculated by the Auditor General and applied to the loans by the Government of India to borrowers such as the Railways and the Provincial Governments. The rate is falling year by year.

4. The Sinking Fund and "straight line" method of depreciation were explained to the Committee. The Committee desired that the two matters stated below should be further investigated by the Department concerned :—

(1) Whether general revenues are being under-charged and the Posts and Telegraphs Department over-charged in respect of radios ?

(2) Whether radios should have a separate profit and loss account ?

5. The Committee also noted that questions were outstanding in regard to the cost of telegraph services rendered to the Postal Department and to Railways.

6. The Committee then took up for discussion the Audit Report 1924-25 on the accounts of the Posts and Telegraphs.

7. *Page 3.*—The Committee noted that the question of increasing the amount of security required from officers entrusted with large sums of cash was under consideration.

8. *Page 11, paragraph 16.*—The Committee formed the impression that there was a lack of supervision throughout the Department. It was urged by the Departmental authorities that, owing to the paucity of "inspections", due partly to insufficiency of the inspection staff and their reluctance to go out often owing to the alleged inadequacy of the travelling allowance rates, the matter was difficult to remedy. (The question of travelling rates as well as the fact that losses were a very small percentage of the amount handled were taken up in the next meeting also.)

9. *Page 12, paragraph 19.*—The Committee were inclined to the view that the mere recovery of Rs. 450 from the Deputy Postmaster was not a sufficient deterrent punishment.

10. *Page 13, paragraph 22.*—The Committee noted a general laxity of supervision in this case.

The Committee thought that the reluctance to travel could be overcome by effective supervision but that the rates of travelling allowance should be scrutinised. It was stated that this was being done. Mr. Badenoch stated that as an experiment the Audit inspections staff was being increased in one Audit Circle.

**Proceedings of the fifth meeting of the Public Accounts Committee held
on Wednesday, the 28th July 1926 at 3 p. m.**

PRESENT :

The Hon.ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI, Maulvi Syed MURTUZA Saheb Bahadur, Rev. Dr. E. M. MACPHAIL, Dr. K. G. LOHOKARE, Sardar GULAB SINGH, Colonel J. D. CRAWFORD, Dr. S. K. DATTA, Sardar V. N. MUMALIK,	}	Members.
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Sir FREDERIC GAUNTLETT, the Auditor General, Mr. A. C. BADENOCH, Accountant-General, Posts and Telegraphs, Mr. M. R. COBURN, Financial Adviser, Posts and Telegraphs,	}	were also present.
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Sir G. P. ROY, Director-General of Posts and Telegraphs.—*Witness.*

1. The Committee continued the discussion of the Audit Report 1924-25 on the accounts of the Posts and Telegraphs.

2. *Para. 23.*—It was stated that the Post Master General had since been warned.

3. *Para. 34.*—The Committee drew attention to the gap in the rules and suggested that the Leave Rules should be suitably amended. The Auditor-General stated that a complete revision of the Leave Rules for clerical establishment was under consideration and it was decided to ask the Home Department representative what was being done in this matter.

4. *Para. 38.*—The question of prescribing definite contract forms was again suggested by the Committee. The Accountant General stated that he had already drawn up some suitable forms and they were being used.

5. *Para. 42.*—The Committee endorsed the view of the Auditor-General that disregard of such clear instructions by the Head of the Circle was unsatisfactory.

6. *Para. 44.*—The important question of an agent incurring expenditure without authority from his principal was taken up on this paragraph. The Committee decided to draw the attention of the Government to the need for remedying the many unsatisfactory features disclosed by this case.

7. *Para. 48.*—The Committee noted that recruitment had been stopped subject to certain commitments to schools where telegraphists are under training.

8. *Para. 49.*—The Committee were assured that the appointment of the Financial Adviser, Posts and Telegraphs, would prevent an irregularity of this nature recurring in future.

9. *Para. 53.*—The Committee noted with satisfaction that the stores balances of the Indian Telegraph Department according to figures supplied for the years 1925-26 and 1926-27 showed a progressive reduction.

In connection with the general question of frauds and embezzlements the Committee elicited the fact that the actual loss by frauds in the Postal Department was .01 per cent. of the money handled by that Department. This ended the discussion on the Audit Report.

10. It was stated that the Eastern Mail Contract mentioned in para. 14 of the Home Auditor's Report on Secretary of State's account would come under revision by the Imperial Government in 1928. The apportionment of cost between England and India would then come under discussion. The questions referred to in paras. 56 to 61 of the 1923-24 Public Accounts Committee's Report were discussed. A statement with reference (Appendix VI) to the Motor Mail Contract (para. 61) was put in by the Director-General.

11. The appropriation report 1924-25 was then taken up.

12. *Para. 4.*—The excess over the grant was found to be due to an issue of stores much less than was anticipated when the budget estimate was framed. The diminution in the issue is a necessary accompaniment of the large over-estimate in Works expenditure. The Committee were assured that a greatly improved procedure was now in force both as regards closer estimating and in the matter of watching the progress of expenditure. The Committee agreed to recommend the excess vote to the House.

13. *Para. 5.*—The Committee noted that the system of "re-grants" was satisfactory.

14. *Page 18.—Maintenance and repairs of buildings—see also para. A 7 on pages 49 and 50.* It was pointed out to the Committee that this fault of over-estimating is common to all Public Works expenditure. The advantage of the system of a lump sum cut as made in recent railway budgets was discussed. It was admitted that as a system it could be justified only by success, but it was also admitted that hitherto it had been so justified. The Committee recommended the adoption of the system.

15. *Page 25-A. 4.*—The Committee asked whether the saving in travelling allowance was due to any tendency on the part of touring officers not to travel so much owing to the reduced rates of that allowance, but no definite answer could be given.

16. *Page 26 D. I.*—The Financial Adviser now prevents the occurrence of such defects.

17. *Page 43-A 1 (1).*—The Committee desired to question the Accountant General, Central Revenues, regarding the double debit and the apparent want of touch between the two Accountants General.

Proceedings of the sixth meeting of the Public Accounts Committee
held on Thursday, the 29th July 1926 at 11 a. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,

Maulvi Syed MURTUZA Saheb Bahadur,

Rev. Dr. E. M. MACPHAIL,

Dr. K. G. LOHOKARE,

Sardar GULAB SINGH,

Colonel J. D. CRAWFORD,

Dr. S. K. DATTA,

Sardar V. N. MUTALIK,

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,

Mr. T. K. RAJAGOPALAN, Officer on Special Duty,
Finance Department,

Mr. G. KAULA, Accountant General, Central
Revenues,

} *were also present.*

Mr. G. S. BAJPAI, Deputy Secretary, Department
of Education, Health and Lands,

Mr. J. D. V. HODGE, Deputy Secretary, Home
Department,

} *Witnesses.*

1. The first witness to be called was Mr. J. D. V. Hodge on matters with which the Home Department was concerned. The outstanding questions on which this witness was examined were :—

(1) *Secret Service expenditure at the disposal of the Secretary of State* (para. 19 of the Home Auditor's Report).

The reply was that a certificate from the Secretary of State showing the disbursement was given to the Home Auditor. The Government of India were not consulted as to the expenditure.

(2) *The advance of £2,000 to the film-lecturer* was made by the Secretary of State after consultation with the Government of India. The Government of India were not consulted as to the terms of the contract.

(3) *Page 19, Post and Telegraph Audit Report 1925, regarding excessive leave to a clerk.*—The revision of leave rules for the clerical establishment was under consideration by the Government of India.

2. The witness was then examined on the grants relating to the Home Department in the Accountant General, Central Revenue's Audit and Appropriation Accounts 1924-25.

3. *Grant 15 V—General Administration (page 276).*—The Committee examined the witness on the general saving under nearly every sub-head. The Committee commented that there was a tendency to over-estimate throughout.

4. *Grant 37—Census (page 364).*—It was noted that the excess was more than covered by allotments made by the Finance Department from its reserve. If this cannot be held to cover the excess it means that sums already voted by the Assembly for the reserve must again be voted when that reserve is used to cover an excess grant. Thus the Committee must necessarily raise the general question whether the voting on two occasions of sums to meet the same expenditure is permissible by pointing out that a vote to cover this excess involves such a double vote.

5. *Grant 52—(page 497—Note regarding the Lady Hardinge Medical College).*—The Committee would like to be assured that the grant-in-aid, which forms such a large proportion of the expenditure of the College, is being properly spent, and that the conditions of the grant are being fulfilled. The Committee did not desire that summarised accounts of private institutions of this nature should be submitted to the Auditor-General and by him to the Public Accounts Committee, as any such course might create a dangerous precedent and involve unwarranted interference in the functions of such institutions, though they should certainly be submitted to Government.

6. *Andaman and Nicobar Islands—Account I (page 512).*—The whole question of the working of the steamship "Maharaja" was under consideration.

7. *Ibid—Account II—Forests.*—Commercial accounts have been introduced in this head.

8. *Page 128—para. 184.*—The Committee re-affirmed the view that the action of the Deputy Commissioner in over-ruling the Treasury Officer by taking advantage of his own position, was most irregular.

The Home Department representative then withdrew.

9. The next witness to be examined was Mr. G. S. Bajpai on the grants relating to the Education, Health and Lands Department.

10. *Grant 8—Forest (page 257)-B-3.*—The Committee considered the case of grant of travelling allowance to Research Officers and were of opinion that the machinery for watching this expenditure was defective.

11. *Grant 21 Survey of India (page 75).*—The question of Stores Account for maps (para. 103) was under consideration.

12. At this stage the Committee adjourned to continue in the afternoon session.

Proceedings of the seventh meeting of the Public Accounts Committee -
held on Thursday, the 20th July at 3 p. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,

Maulvi Syed MURTUZA Saheb Bahadur,

Rev. Dr. E. M. MACPHAIL,

Dr. K. G. LOHOKARE,

Sardar GULAB SINGH,

Colonel J. D. CRAWFORD,

Dr. S. K. DATTA,

Sardar V. N. MUTALIK,

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,

Mr. T. K. RAJAGOPALAN, Officer on Special Duty,
Finance Department,

Mr. G. KAULA, Accountant General, Central
Revenues,

} *were also present.*

Mr. G. S. BAJPAL, Deputy Secretary, Department
of Education, Health and Lands,

A. C. LOTHIAN, Deputy Secretary, Foreign and
Political Department,

Mr. ERNEST BERTRAM HIGGS, Assistant Secretary,
Foreign and Political Department,

Rai Sahib CHUNI LAL, Foreign and Political De-
partment,

} *Witnesses.*

1. After the outstanding points raised in this morning's discussion had been cleared up, *Grant 21, Survey of India*, was taken up.

2. *Page 303.*—The Committee decided to recommend to the Assembly the excess vote of Rs. 1,13,327. Such excess will be less likely now that the Pay and Accounts Officer can warn the Surveyor-General in good time regarding supplementary grants. It was pointed out to the Committee that the total activities of the Surveyor-General can be forecasted approximately, but that the distribution between the Central and Provincial Governments cannot easily be gauged. The Committee noted, however, that in 1924-25 there was an excess under the two heads combined of 1,29. The excess under this grant is more than covered by the reduction of 1,80 in the anticipated receipts from the sale of maps, a head which it is always difficult to forecast.

3. *Grant 26—Archaeology (page 315).*—The excess is explained by the adjustment with the United Provinces Government for the amount of the upkeep of monuments and Gardens. The Committee observed that such an adjustment in the accounts of a year in which there was no budget provision was against the recommendation of the Committee of 1922-23 (page 70, para. 5, Public Accounts Committee's Report 1922-23).

4. *Grant 30—Medical Services (page 324).*—The Committee considered that the stores in stock were unduly large, and that active steps should be taken to get rid of them before they become obsolete.

5. *Grant 33—Civil Veterinary Services (page 358).*—The excess voted under this head is due partly to lack of foresight in not providing in the estimates for Customs duty on stores ordered, and partly to excess of expenditure on books—Item H (page 358). The Committee drew attention to the lack of care displayed by the officer concerned in incurring such a large excess on expenditure of an optional character. They were assured that if a Pay and Accounts Officer were appointed to deal with the transactions of this Department he would help in preventing similar occurrences in future. The Committee decided to recommend that the excess be voted.

7. After this the Foreign and Political Department representatives were examined on the grants relating to that Department.

8. *Grant 29—Education (page 320).*—The excess in the Aitchison College grant was enquired into by the Committee. It was explained by the witness that arrangements had now been made for monthly recoveries.

9. *Para. 17 of Home Auditor's Report on the Secretary of State's Accounts.*—On the question of the moiety recoverable on account of diplomatic and consular establishments in Persia, it was pointed out that the approval of the Government of India is always obtained to expenditure under this head in addition to that of the British Foreign Office and of the Treasury.

10. *Grant 50—North West Frontier Province—(page 115, para. 164).*—The Committee noted that several serious irregularities had been committed in this case and that, had it occurred recently, it would have taken serious notice of it. But as it had happened so far back as 1920, they decided not to pursue the case further.

The Committee questioned the representatives on many points raised under this grant and were satisfied with the replies given by the witnesses. The Committee pointed out the great advantage derived from the presence of a witness from the Province itself with an intimate knowledge of the accounts.

11. The Committee adjourned after deciding to continue the grant relating to the Foreign and Political Department in their meeting of the 31st instant.

Proceedings of the eighth meeting of the Public Accounts Committee held on Friday, the 30th July 1926 at 11 a. m.

PRESENT.

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI.

Rev. Dr. E. H. MACPHAIL.

Dr. K. G. LOHOKARE.

Sardar GULAB SINGH.

Colonel J. D. CRAWFORD.

Dr. S. K. DATTA.

Sardar V. N. MUTALIK.

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,

Mr. G. KAULA, Accountant General, Central Revenues

} were also present.

Mr. A. H. LLOYD, Member, Central Board of Revenue.

Mr. J. C. FERGUSSON, Commissioner, Northern India Salt Revenue.

} *Witnesses.*

The Accountant General, Central Revenues' Audit and Appropriation Report was considered.

Grant No. 3 -Salt.—Messrs. Lloyd and Fergusson were examined.

2. On behalf of the Central Board of Revenue Mr. Lloyd made a general statement about the irregularities brought to light by the Audit Officer with regard to the Sambhar Lake Salt administration. Although requests had been made in 1917 and 1921, it had not been possible to introduce local Audit in that administration before 1924-25, and this is the first report on the results on such an audit. The irregularities, which appear very serious, are due mainly to lack of knowledge of accounting rules and to the difficult nature of work in that locality. The officer-in-charge had to take quick decisions frequently in order to avert what might otherwise have led to great loss of Government money and property. The executive do not at present admit the accuracy of all the statements in the report but the Central Board of Revenue admit that irregularities have been committed.

The Committee was informed that practically all the cases in the Report were under discussion with the Government of India. It agreed that, while the matter was so important as to justify inclusion in the report before final orders had been passed thereon, the Committee could not be in a position to make any remarks before it was in possession of an agreed statement of fact. It expressed tentatively the opinion that officially the officer had not been given enough powers, though unofficially he had been given a free hand. It was suggested that a special Committee should be appointed to investigate the whole question, but it was decided that the action that the Committee should take with reference to this matter would be determined on the draft Report. The Committee endorsed the general comments of the Auditor General on this case.

3. Here, as elsewhere, over-budgeting for the pay of establishment was noticed. The Auditor General suggested that statistics might be kept showing the difference between the sanctioned scale and the actual expenditure.

4. *Paragraph 40.*—The Committee considered the suggestion made in this paragraph. While expressing general approval it desired to emphasise the proposal that estimates should be prepared as far as possible on detailed schemes, specially so far as Major Works were concerned and that this should be done before provision for the same was included in the budget. Further the Government of India should frame suitable rules to meet emergencies specially such as must arise in remote and difficult places, where the conditions of labour and transport are totally different from those obtaining in more favoured localities.

5. *Paragraph 62.*—The Committee could not help noting in this case that, although all rules were broken, the results certainly were good.

The Central Board resented the imputations against the officer concerned in this paragraph. The Committee was of opinion that his position, as described in the report, was most invidious and was glad to note that he was no longer an Executive officer of Government as well as chairman of the Co-operative Society.

Proceedings of the ninth meeting of the Public Accounts Committee held on Friday, the 30th July 1926 at 3 p. m.

PRESENT.

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI.

Maulvi Syed MURTUZA SAHEB BAHADUR.

Rev. Dr. E. M. MACPHAIL.

Dr. K. G. LOHOKARE.

Sardar GULAB SINGH.

Colonel J. D. CRAWFORD.

Dr. S. K. DATTA.

Sardar V. N. MUTALIK.

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,

Mr. G. KAULA, Accountant General, Central Revenue } were also present.

Mr. A. H. LLOYD, Member, Central Board of Revenue.

Mr. J. C. FERGUSSON, Commissioner, Northern India Salt Revenue. } *Witnesses.*

The discussion of the Salt Grant was continued.

2. *Grant 3 (page 231).*—The Committee thought that audit should scrutinise carefully all cases in which works were begun during the course of a financial year and paid for by reappropriation so as to secure that the rule forbidding reappropriation for new services is not infringed. The question of increasing the monetary limit of certain sanctioning authorities as regards Major and Minor Works was one which, the Committee thought, could be suitably taken up.

The Committee considered that the details given in pages 231 to 234 were unnecessarily voluminous, and that it would be better if details were given only in cases in which attention was drawn to some important irregularity.

3. *Page 242.*—The Committee were assured that a Special Officer was looking into the question of keeping the cost of production of Salt down to a minimum, including the question of over-production and excessive stocks.

4. *Grant 1—Customs.*—This grant raised three important questions—

(1) *Appraising staff.*—The Committee considered the problem of adequate supervision of the work of the appraising staff so as to prevent recurrence of fraud. It came to the conclusion that improvement could only be effected by better check before the goods actually left the Custom House. It was informed that proposals for further check on acts of appraisement were under discussion at a cost of approximately one lakh of rupees a year. The Committee decided to make a recommendation on this matter in the draft Report.

(2) *Paragraph 32—Internal check.*—The Committee was informed that much improvement had been brought about in Calcutta where an experiment was being conducted of having a special Pay and Accounts Officer in the Custom House itself. The Central Board contemplated further improvement here and elsewhere by the appointment of an officer at Headquarters who would control the departmental check.

(3) *Revision of Sea Customs Act.*—It was explained that the Sea Customs Act of 1878 was obsolete and needed drastic amendment in order to bring it up to date and that, pending such revision, audit against the provisions of the Act, was a matter of extreme difficulty and likely to lead to much friction. The Committee hoped that the Act would be amended early.

The question of over-budgetting in the 'pay of establishment' was again referred to

5. The points raised under Grants 2, 4, 7 and 15 were replied to by the representative to the satisfaction of the Committee.

Proceedings of the tenth meeting of the Public Accounts Committee held on Saturday, the 31st July 1926 at 11 a.m.

PRESENT :

The Hon'ble SIR BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI.	}	<i>Members.</i>
Maulvi Syed MURTUZA Saheb Bahadur.		
Rev. Dr. E. M. MACPHAIL.		
Dr. K. G. LOHOKARE.		
Sardar GULAB SINGH.		
Colonel J. D. CRAWFORD.		
Dr. S. K. DATTA.		
Sardar V. N. MUTALIK.		

Sir FREDERIC GAUNTLETT, the Auditor General,	}	<i>were also present.</i>
Mr. T. K. RAJAGOPALAN, Officer on Special Duty,		
Finance Department,		
Mr. G. KAULA, Accountant General, Central Revenues.		

Mr. J. E. C. JUKES, Financial Secretary.	}	<i>Witnesses.</i>
Mr. A. C. LOTHIAN, Foreign and Political Department.		
Mr. E. B. HIGGS, Foreign and Political Department.		

Examination of the Foreign and Political Department witnesses was continued.

1. *Grant 51—Baluchistan.*—The Committee desired that the question of a separate Accounts Office for Baluchistan should be considered.

Paragraph 174.—The Committee after examination considered this nothing more than a technical irregularity which, however, should be avoided in future.

Page 477.—The excess vote is mainly due to the writing-off of irrecoverable temporary loans. The Committee desired to make it clear that an excess vote should never be necessary. The Foreign and Political Department were asked to make a written statement showing whether the question of applying in time for a supplementary grant had been raised in this case.

Account IX—Education (page 485).—The Committee observed that a *prima facie* reading of some of the figures in this Report suggested that there was a tendency to save on Primary education for the purpose of spending additional sums on Secondary Schools.

2. *Grant 55—Rajputana—paragraph 186.*—The Committee decided to take the question of irregular draws of money in advance of requirements as a general question.

The Foreign and Political Department witnesses then withdrew.

3. Grants relating to the Finance Department were then taken up, the Financial Secretary appearing before the Committee.

The Finance Secretary undertook to put in a memorandum with reference to the excess of over 2 lakhs under item F on page 488 (Grant 51—Account XII).

4. *Grant 13—Interest on Ordinary Debt (page 265).*—The Finance Secretary undertook to put in a memorandum with reference to the excess in item A-1—Interest on Permanent Debt.

5. *Grant 16—Audit—paragraph 101.*—The Committee were assured that there were not many cases where an officer was his own Disbursing Officer.

6. *Grant 45—Superannuation Allowances and Pensions—(page 407).*—The Committee were informed that the excess vote was necessary in this case because though the gross estimated expenditure was not exceeded the amounts chargeable to the Commercial Departments had been over-estimated with the result that the net estimate was exceeded. The new procedure had been introduced that year and not only had the budget figure proved too high but also even at the time of the revised estimates the excess was not foreseen owing to lack of experience of the new system. Thanks in part to the introduction of a separate Pay and Accounts office in the United Provinces more accurate estimating is now assured, and the recurrence of such an excess is improbable.

The point arose under this grant whether it was correct to show minus supplementary grants under voted sub-heads. The Finance Department and Auditor General promised to consider the point, which is a technical one.

7. *Grant 49—Refunds (page 435).*—It was explained to the Committee that the excess vote was required owing to the adjustment of Railway freight taxes, now no longer in existence, referring to previous periods.

8. *Grant 59—Expenditure in England under the control of the High Commissioner (page 541).*—The Committee observed that there seemed to be a considerable degree of over-estimating in this grant. Item H.-6 seemed to be an instance of receipts being used in deduction of expenditure without sufficient justification.

The Finance Department witness then withdrew

**Proceedings of the eleventh meeting of the Public Accounts Committee
held on Monday, the 2nd August 1926 at 11 a. m.**

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman*.

Mr. N. M. JOSHI, Maulvi Syed MURTUZA Saheb Bahadur, Rev. Dr. E. M. MACPHAIL, Dr. K. G. LOHOKARE, Sardar GULAB SINGH, Colonel J. D. CRAWFORD, Dr. S. K. DATTA, Sardar V. N. MUTALIK,	}	Members.
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Sir FREDERIC GAUNTLETT, the Auditor General, Mr. G. KAULA, Accountant General, Central Revenues, Mr. T. K. RAJAGOPALAN, Officer on Special Duty, Finance Department, Mr. E. W. GRINDAL, Accounts Officer, Central Accounts Office,	}	were also present.
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Mr. W. ROCHE, Deputy Secretary, Department of Industries and Labour, Mr. A. BREBNER, Superintending Engineer, Simla Imperial Circle, Mr. J. L. SALE, Chief Engineer, Delhi,	}	Witnesses.
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The Committee continued with the Audit and Appropriation Accounts (1924-25) of the Accountant General, Central Revenues.

The Committee examined the representative of the Education, Health and Lands Department on the experimental fruit farms referred to in paragraphs 167 and 168 of the Audit and Appropriation Report and were satisfied in one case that suitable account forms were being introduced and in the other that the loss was not due to any negligence but to a depression in trade.

2. The representative of the Industries and Labour Department was then examined with reference to Grant No. 10—Irrigation.

Page 262, Item F.—The Committee were informed that this is the first year in which such pensionary charges had been included and, therefore, the estimating was not as good as it might have been—Much improvement in this respect was expected from this year.

The same witness was examined on Grant No. 35—Aviation—to the satisfaction of the Committee.

3. The representative of the Public Works Branch of the Industries and Labour Department was then examined. With reference to an outstanding

question whether allotments from the Reserve should be made on account of establishment, the witness agreed that this should not be done.

Paragraph 129.—The view was expressed that some non-official should be included in any Committee convened to discuss rents of houses to be occupied by officials.

Paragraph 132.—The Committee recommended that quarters at Longwood when not required by the Members of the Assembly should be let.

Paragraphs 133 and 136.—The problem of rent for furniture was admittedly a very difficult one owing to the annual move from Simla to Delhi, but the Committee were satisfied that the subject was being thoroughly considered. The simplest way out of the difficulty would be to provide unfurnished houses but this, of course, was out of the question.

Paragraph 143, etc.—The Committee endorsed the view expressed by the Auditor General in his forwarding letter. Under this grant two important general questions were taken up:—

- (a) The Committee noticed that there was a considerable saving in the total, and were informed that it was due to the fact that there was a tendency on the part of Departments to ask for money before details were ready. Also, the Executive Engineer is asked to forecast his expenditure many months ahead and so is not in the best position to estimate closely with regard to his actual requirements.
- (b) The Committee were of opinion that the officer who answers before them, should take steps to keep in touch with expenditure all over India.

The Committee were satisfied with the manner in which the Statement of Expenditure on important new works was presented in this Report. They thought it would be useful.

Cases referring to Delhi were then taken up, and the Chief Engineer, Delhi, together with his Accountant were examined.

Paragraph 100.—The Committee were informed that the question of the reduction of the rate entered in the Delhi Bus contract was under consideration.

Paragraphs 130, 134 to 139.—All these paragraphs were taken together as they raised important issues. The irregularities brought out were due mainly to the need for the change of Fundamental Rule 45. This change had been in contemplation for a very long time, but there was a great difficulty in redrafting this Rule in order to make it a compact and yet comprehensive one.

The Committee observed that house rents had been too low and were satisfied that the Pay and Accounts Officer was looking into the matter, so that new rules of rents will be enforced from 1926-27. Houses for officers of higher status should not be allotted to officers of a lower status.

The Committee were informed that residence on the 5 months basis at Delhi must work out to a loss.

Proceedings of the twelfth meeting of the Public Accounts Committee
held on Monday, the 2nd August 1926 at 3 p. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman*.

Mr. N. M. JOSHI, Maulvi Syed MURTUZA Saheb Bahadur, Rev. Dr. E. M. MACPHAIL, Dr. K. G. LOHOKARE, Sardar GULAB SINGH, Colonel J. D. CRAWFORD, Dr. S. K. DATTA, Sardar V. N. MUTALIK,	}	Members.
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Sir FREDERIC GAUNTLETT, the Auditor General, Mr. G. KAULA, Accountant General, Central Revenues, Mr. T. K. RAJAGOPALAN, Officer on Special Duty, Finance Department, Mr. E. W. GRINDAL, Accounts Officer, Central Accounts Office.	}	were also present.
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Mr. J. L. SALE, Chief Engineer, Delhi, Mr. J. S. PITKEATHLY, Chief Controller of Stores, Mr. A. G. CLOW, Deputy Secretary, Depart- ment of Industries and Labour, Mr. S. LALL, Under Secretary, Department of Industries and Labour,	}	Witnesses.
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Grant No. 62.—Delhi Capital Outlay—Was continued in the afternoon.

Paragraphs 194-200.—The Committee were informed that these paragraphs related to cases of risk of loss in the collection of materials in advance or in excess of requirements, shortages noticed and verification of stores, purchases of stores at excessive or at different rates, and were to be investigated by an independent officer.

Paragraph 201 (a)—Heavy losses or risks of loss in connection with collection and dressing of stone.—The Committee were informed that the matter had been brought to the notice of the proper authority and is under investigation.

Paragraph 201 (c).—This loss of Rs. 27,86,000 is merely a book-keeping adjustment, but tends to obscure the real cost of the buildings for which the stones are to be used.

Paragraph 202 (g).—The Committee were dissatisfied with this case, which showed careless scrutiny in the first instance by the officers who passed the final bill for work done by a contractor.

Paragraph 205.—The Committee were informed that the risk of contracts being defective was minimised now as every contract had to go through the Accounts Officers. This was left to be considered in connection with the general comments to be made by the Committee on contracts.

Some of the cases referred to under this grant related to house rent charged to Government officers occupying Government buildings. It was pointed out to the Committee that such cases could only be settled in a satisfactory manner after Fundamental Rule 45 had been properly drafted. That question was discussed this morning.

The other grants relating to the Industries and Labour Department were satisfactorily replied to by their representatives.

Proceedings of the thirteenth meeting of the Public Accounts Committee held on Tuesday, the 3rd August 1926 at 11 a. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI, Maulvi Syed MURTUZA Saheb Bahadur, Rev. Dr. E. M. MACPHAIL, Dr. K. G. LOHOKARE, Sardar GULAB SINGH, Colonel J. D. CRAWFORD, Dr. S. K. DATTA, Sardar V. N. MUTALIK,	}	<i>Members.</i>
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Sir FREDERIC GAUNTLETT, the Auditor General, Mr. G. KAULA, Accountant General, Central Revenues,	}	were also present.
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Mr. G. M. YOUNG, Joint Secretary, Home Department, Mr. J. D. PENNY, Deputy Secretary, Com- merce Department, Mr. H. SHANKAR RAU, Assistant Secretary, Finance Department,	}	<i>Witnesses.</i>
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- The Commerce Department representative was examined.

Grant 15—Account No. IX, page 281, Item D.—The Accountant General, Central Revenues, was asked to put in a statement* :—

- (1) as to the reason why the charges for the maintenance of the
 - “Dufferin” were debited to “Contingencies”, and
- (2) why a vote of the Assembly had not been obtained for this expenditure, as the charge seemed to be for a new service.

2. *Grant 20—Ports and Pilotage, Page 299, Item F.*—The Committee again emphasised the opinion that expenditure should be recorded in the accounts under the head in which Budget provision had been made for it, and *vice versa*.

3. *Grant 36—Commercial Intelligence.*—The Committee desired a statement* from the Commerce Department showing under what head provision for the Trade Journal had been made and whether this journal was a paying proposition.

4. *Grant 39—Joint Stock Companies.*—The small excess vote under this head was recommended by the Committee to the Assembly. The fact that the sum had been paid out of the Reserve did not make the provision of a supplementary grant unnecessary.

The witness then withdrew.

The general questions involved in the first five paragraphs of the *Auditor General's covering letter dated the 9th July 1926 on the Audit and Appropriation Accounts of the Central Government* were then taken up.

Paragraphs 1, 2, and 3.—The Committee expressed their appreciation of the way in which the Audit and Appropriation Report had been compiled, involving as it did an enormous amount of time and labour. Any defects were due probably to the fact that this was the first time in which the two reports had been combined into one on the lines of the English Report.

The Committee considered that the subsidiary notes to the accounts went into too much detail and were too large in number. If cases were described in detail in the body of the report nothing more than a reference to the paragraph in the report was necessary in the notes appended to the accounts. This would reduce the bulk of the volume.

In this Report cases had been included on which definite orders had not been passed. The Committee agreed with the Auditor General that he should use his discretion in presenting such cases, but that it was as a rule desirable to avoid doing so, unless the cases were of considerable value or there had been delay in dealing with them.

The Committee noted with satisfaction the pioneer work done by the Pay and Accounts Offices with an independent audit. The system had clearly improved control over expenditure, and the extra cost for the staff of such offices approved to be fully justified.

The Committee endorsed paragraph 3 of the Auditor General's letter. It was suggested that attention should be drawn in the preamble of the report prepared by the Accountant General to the more important questions referred to therein. It was pointed out that the Auditor General endeavoured to do this in his forwarding letter. It was also suggested that the Auditor General himself should write the report on all Central appropriation accounts. It was pointed out that this would necessitate a change in the Statute. The Auditor General promised to consider both suggestions.

Paragraph 4 of the Auditor General's letter.—With regard to this matter the Auditor General and the Home Department representative stated their cases before the Committee. The Auditor General modified his request to the

extent that he would be content if the Government of India asked the Secretary of State if he would be good enough to give the Auditor General a detailed statement of the reasons underlying his decision with regard to the rental of Members' houses. It was suggested that this request might be raised when the specific cases of revision of electric installation and current charges in the residences of the Heads of Provinces are sent up to the Secretary of State. The Auditor General was reluctant to accept this suggestion in view of the possible delay which might be entailed, but was willing to agree on the understanding that every effort would be made to avoid all further delay.

The Committee recommended that the question of the direct access of the Auditor General to the Secretary of State should be taken up by the Government of India.

The Home Department representative then withdrew.

The question of over-estimating was again taken up by the Committee and the Finance Department representative explained the detailed procedure for the preparation of the Budget. The Committee were informed that the control of the Finance Department was greater now and that stricter supervision was exercised to prevent savings being diverted. This was watched strictly before sanction was given and any attempt at a secret reserve was frustrated. Also, there was a special watch over the rush of expenditure in March. As regards over-estimating on establishments, the new remedy of a "lump cut" had been introduced and had been found to work satisfactorily in almost every case. There was a constant enquiry going on in the Department with a view to reduce expenditure.

Proceedings of the fourteenth meeting of the Public Accounts Committee held on Wednesday, the 4th August 1926 at 11 a. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,
Maulvi Syed MURTUZA Saheb Bahadur,
Rev. Dr. E. M. MACPHAIL,
Dr. K. G. LOHOKABE,
Sardar GULAB SINGH,
Colonel J. D. CRAWFORD,
Dr. S. K. DATTA,
Sardar V. N. MUTALIK,

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,
Mr. M. K. MITRA, Accountant General, Rail-
ways,

} *were also present.*

Mr. A. A. L. PARSONS, Financial Commissioner,
Railways,

Mr. A. M. HAYMAN, Director of Finance, Rail-
ways,

} *Witnesses.*

The Railway Department representatives were examined. They first explained the position with regard to the outstanding questions mentioned

in paragraphs 32 and 33 of the Resolution on the Public Accounts Committee's Report. They also replied to points raised by the Committee with reference to the staff maintained in connection with the management of the annuity by which the State purchased the East Indian Railway in 1879 (Compare paragraph 10 of the Report of the Auditor on the accounts of the Secretary of State, Section 1).

2. The Committee again raised the general question of contracts and noticed cases in which there had been failure to draft proper contracts. Later in the day the Committee's attention was drawn to cases where the contract had been so drawn up as to entail losses to the Railway. The conclusion of the Committee was that care should be taken to obtain legal and financial advice when contracts were being drawn up.

Audit Report on the accounts of Railways in India, 1924-25.

3. *Paragraph 10.*—The officer who introduced the machine for the compilation of statistics was specially commended by the Committee. The possibility of the use of this machine in ordinary Civil offices was discussed but it was explained that this would not be economical.

4. *Paragraph 19.*—The Committee desired that Rate Registers should be introduced as quickly as possible in all Railways.

5. The Committee noted with satisfaction the considerable reduction in stores balances (nearly eight crores) and also the fact that further reduction was expected. The Committee desired that the question raised in the report of the Workshops Committee whether stores were being prematurely transferred to works should be examined by the Railway Board. Fourteen crores was regarded as approximately the present minimum balance for all railways combined. But the representatives explained this might vary from time to time having regard to the work then being undertaken and its locality.

6. *Paragraph 28.*—The Committee raised the question whether the balances of the "materials at site" account should not also be shown in the Statement in this paragraph. It was agreed that this should be done. The representatives of the Railway Board desired to consider whether a more suitable date than the 31st March could not be selected and indeed, whether the record should not show the balances on different dates for different Railways.

Under this paragraph was raised the question whether it would not be better to centralise Railway stores purchased for the whole of India under one Department. The present system of having a stores purchasing Section in each Railway might be unnecessary. There were obvious difficulties in centralisation but the Committee desired that the matter should be considered. The Committee asked whether greater use could not be made of the Indian Stores Department. It was explained that the Stores Departments on Indian Railways were highly organised, and that more use was not made of the Indian Stores Department because it had not been proved that a more extensive use of that organisation would be beneficial.

7. *Paragraph 64.*—The contractors are no longer in the List of Contractors.

8. *Paragraph 90 (II).*—The Committee wished to bring out the fact that recovery of money should not be considered a complete punishment in every case.

9. *Paragraph 113 (ii).*—The Committee noted with satisfaction that there was a reduction in compensation payments and, while noting the improvement, expected even greater reduction in the East Indian Railway in this respect.

10. The Committee observed that when the Auditor General mentioned a case, it was the duty of the Department concerned to have it examined in time, so that their representatives should be in a position to give all the facts of the case when they appeared before the Committee. (Of course it must be ensured that Audit and Appropriation Reports come in earlier than they did this year).

Proceedings of the fifteenth meeting of the Public Accounts Committee held on Wednesday, the 4th August 1926 at 3 p. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,

Maulvi SYED MURTUZA Saheb Bahadur,

Rev. Dr. E. M. MACPHAIL,

Dr. K. G. LOHOKARE,

Sardar GULAB SINGH,

Colonel J. D. CRAWFORD,

Dr. S. K. DATTA,

Sardar V. N. MUTALIK.

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,

} were also present.

Mr. M. K. MITRA, Accountant General, Railways,

Mr. A. A. L. PARSONS, Financial Commissioner,
Railways,

Mr. A. M. HAYMAN, Director of Finance, Railways,

} *Witnesses.*

The Appropriation Report of the Railways for 1924-25 was taken up in the afternoon.

With reference to paragraph 112 (v) of the Audit Report, Mr. Parsons explained that the question of the Castor Oil Plantation had now been finally closed, the loss having been written off.

Page 17.—The Committee examined the witnesses on the Statement on this page showing the ratio of total working expenses excluding suspense to gross earnings.

Page 71.—It was suggested that as the Legislature had accorded special sanction to a provision of 150 crores for capital expenditure in 5 years a special report should be presented to the Assembly on such expenditure. After considerable discussion it was decided not to pursue this point. In the

course of the discussion it was brought out that a sum of 30 crores a year could not possibly be spent by the Railway Department and that in recent years steps had been taken to reduce the amount in the Budget.

Paragraph 73.—The question of over-estimating on Capital Works was taken up on this paragraph, but it was decided to consider it in connection with the general question. The Committee were informed that jump sum cuts were now applied to these estimates.

The representatives replied to the other questions raised on this Report. They admitted the accuracy of the criticisms in paragraphs 15 to 23 of the Auditor General's letter on the Appropriation Report, but explained that these defects were due to the transitional period after the separation of the Railway Budget. Steps had been taken to rectify these defects.

Proceedings of the sixteenth meeting of the Public Accounts Committee held on Thursday, the 5th August 1926 at 3 p. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI.

Maulvi Syed MURTUZA Saheb Bahadur,

Rev. Dr. E. M. MACPHAIL,

Dr. K. G. LOHOKARE,

Sardar GULAB SINGH,

Dr. S. K. DATTA,

Sardar V. N. MUTALIK,

} *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General,

Mr. E. BURDON, Secretary, Army Department,

Mr. A. G. BARR, Director, Army Audit,

} *were also present.*

1. The Report of the Committee appointed to examine the audit and Appropriation Reports on the Army accounts for 1924-25 was discussed:

2. *Paragraphs 51 to 65 of the Auditor General's covering letter dated the 4th June 1926.*—The Committee concentrated on the question of the cost accounting system in the Army and desired to know what action Government was taking in the matter of abolishing it.

The official note on the subject was read out showing the intentions of Government in the matter which have however still to be confirmed by the Secretary of State. It was pointed out to the Committee that the cost accounting system in the Army had been found to be too laborious and did not give results commensurate with the expenditure and trouble involved except in the cases of manufacturing establishments and ordnance. It was supposed to give better control over expenditure, but experience showed that without decentralisation, to which the Army authorities could not agree, there was no chance of success for this system of accounting. The Committee noted this statement of the intentions of Government and asked that the next Committee should be

iven an opportunity of examining the practical working of the system to be introduced and expressing its opinion on the new methods and forms adopted.

3. *Report on the Audit and Appropriation Reports on the Army accounts for 1924-25.—Paragraph 2.*—The Committee emphasised the importance of local audit.

4. *Paragraph 7.*—The Committee noted the desirability of cordial relationship between the financial and audit officers on the one hand and the Military on the other.

5. *Paragraph 8.*—The Director, Army Audit, was asked to put in a short statement* as to the general nature of these cases.

6. *Paragraph 18.*—The Committee endorsed the decision.

7. *Paragraph 30.*—The general question of reappropriation was discussed.

8. *Paragraph 35.*—The Committee re-affirmed the accounting principle that money should not be drawn, least of all at the end of the year, before the date on which it was actually disbursed.

9. *Paragraph 46.*—The Committee desired that orders to this effect should be issued.

10. *Paragraph 47.*—The Committee endorsed the recommendation made with regard to insurance.

Proceedings of the seventeenth meeting of the Public Accounts Committee held on Wednesday, the 11th August 1926, at 4 p. m.

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,	} Members.
Rev. Dr. E. M. MACPHAIL,	
Dr. K. G. LOHOKARE,	
Dr. S. K. DATTA,	

Sir FREDERIC GAUNTLETT, the Auditor General, was also present.

The Committee examined a draft of the Report and suggested several alteration and amplifications which should be brought up before the next meeting.

**Proceedings of the eighteenth meeting of the Public Accounts Committee
held on Monday, the 16th August 1926, at 11 a. m.**

PRESENT :

The Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. N. M. JOSHI,
Rev. Dr. E. M. MACPHAIL,
Dr. K. G. LOHOKARE,
Dr. S. K. DATTA,
Colonel J. D. CRAWFORD, } *Members.*

Sir FREDERIC GAUNTLETT, the Auditor General, was also present.

The Committee considered the Report, revised according to the recommendations made in the last meeting, and passed it.

APPENDIX I.

Finance Department Resolution No. D.-1089-A., dated the 1st June 1926.

No. D.-1089-A.—The Governor General in Council has perused with interest the Report of the Public Accounts Committee on the accounts of the year 1923-24 and wishes to express his appreciation of the care and thoroughness with which the Committee have accomplished their task and his sense of the value of their careful scrutiny of the financial administration of the country. The Report under consideration deals with several matters of high constitutional importance, involving legal questions of great complexity, the determination of which will naturally require time.

2. As pointed out by the Committee, though this was the third year after the introduction of the Reforms as a consequence of which part of the expenditure of the Government of India became subject to the vote of the Assembly and passed under the scrutiny of a Committee of the Assembly, it was the first year in which some of the results of such a scrutiny could be observed. The Governor General in Council shares the hope of the Committee that the appropriation accounts of the next and future years will show the marked improvement in the accounts that may be expected from the decisions taken on earlier reports of the Committee.

3. The Governor General in Council has carefully considered the recommendations made and the opinions expressed by the Committee in the report and in the minutes of their meetings, and the decisions reached on important points are detailed in the following paragraphs :—

4. *Paragraphs 3—8 of the Report.*—The Governor General in Council regrets the wide divergence between the actual expenditure of the year and the estimates ; but as the Committee have themselves recognised, the circumstances of the year were peculiar in view of the fact that the Report of the Inchaape Committee was not available early enough to be utilised in the preparation of the detailed estimates. As pointed out by the Committee, the most serious divergence was under Railways, where there was a saving of 2 crores under Revenue expenditure and 18 crores under Capital expenditure. As regards the latter, it is necessary to point out that the method adopted for fixing the amount of the Capital expenditure in the year was based upon the Resolution passed by the Legislature setting aside a sum of 30 crores per annum for 5 years, all lapses in any one year being added to the figure for the subsequent year. Obviously this meant that the estimates were not based on the capacity of the Railways to spend but were determined in advance for a period of 5 years at a fixed sum. The result was that this carry-forward reached enormous dimensions and a sum of no less than Rs. 38,63,95,000 was accordingly provided in the budget for 1923-24 as the Capital grant for the year, and, not unnaturally, the spending capacity of Railways being what it was, nearly half of this sum was left unspent. Under the procedure now in force the Agents of the Individual Railways prepare their estimates of what they are likely to spend on individual programmes during the financial year.

These estimates have in practice been found to be far too optimistic; and the Financial Commissioner makes his own estimate based upon the experience of previous years. Any reduction which he considers to be necessary is made, not in the estimates submitted by the Agent, but in the shape of a lump sum reduction of the total grant. For example, in the budget for the year 1926-27 the total programme for new construction and open line work in the year was estimated by the railway administrations at over 34½ crores. The Financial Commissioner in the light of past experience, held that the total amount required would not exceed 22 crores, exclusive of the 4 crores necessary for the purchase price of the Delhi-Umballa-Kalka Railway, and accordingly reduced the total provision to this figure, while still leaving to each Railway Administration the power to spend up to the full amount set forth in its programme. This method was first tried in framing the estimates for the year 1925-26 and proved successful. The total requirements of the administrations amounted to 33 crores, but the grant which the Assembly was asked to vote was 23 crores. It is now anticipated that 19½ crores only will have been spent on capital works during the year, though the true expenditure will be about 2 crores more, as the total capital locked up in stores will be reduced by that extent. It will be seen therefore that the lapses have been reduced within reasonable limits when compared with the estimate.

5. *Paragraph 10, ibid.*—The Governor General in Council agrees with the Committee in the view that those amounts only by which the actual expenditure exceeds the total grant, including supplementary grants, sanctioned by the Assembly should be placed before the Assembly for sanction. Where the total expenditure has not exceeded the total grants sanctioned by the Assembly, though it has exceeded some smaller amount which was placed at the disposal of the actual disbursing authorities by the authority responsible for the grant, the sanction of the Executive Government which has issued orders restricting the expenditure is alone required. The new form of Appropriation Accounts will show clearly the actual expenditure on each sub-head of a grant, together with the provision therefor as accepted by the sanctioning authority, which is the Legislative Assembly in the case of voted grants.

6. As regards the actual excesses over voted grants in the year 1923-24, it should be explained that after the Report of the Committee was presented to the Assembly, it was brought to the notice of the Government of India that there was no real excess over the voted grant under the head "Adjustments with Provincial Governments"; the excess shown in paragraph 11 of their Report being due to the fact that certain non-votable expenditure was debited against the voted grant. The Auditor General has since expressed his opinion that, as assignments to Provincial Governments on account of income-tax are governed by Devolution Rule 15, they should be considered as non votable. Excluding these payments, there has been no excess over the grant under this head and, following the opinion expressed by the Committee in paragraph 13 of the report, this item was omitted from the statement of excess grants submitted to the Assembly and sanctioned by them on the 15th of February.

7. The Governor General in Council agrees with the Committee that under a well regulated system of control over expenditure, an excess vote is, in essence, a thing which ought not to occur, for it represents a failure on the part of the Executive Government to observe the limits set by the Legislature in voting grants for expenditure. He recognises, with the Committee, that expenditure control cannot be perfect in present circumstances, owing partly to the present procedure of accounting. He desires, however, to impress on all authorities that it is a part of their duty to try to ensure that excess grants should not become necessary. He notices that among the specific instances discussed by the Committee in their Report the excess under 'Refunds' is the only excess which shows a defect of system. The remarks of the Committee with regard to this item have been brought specifically to the notice of the Accountant General, Railways, and he has been directed to take steps to make in his budget the best possible estimate of the amount likely to be required in the course of the succeeding year and to bring to notice in good time any expenditure which is likely to necessitate a Supplementary Grant. The sum of 2½ lakhs has accordingly been provided for this purpose in the budget for 1926-27.

8. *Paragraph 12, item 4, ibid.*—The Governor General in Council has now adopted the view that mere provision in the Revised Estimates is not sufficient to prevent an excess. A specific application for a grant must be made by the proper authority. The necessary instructions will be issued as early as possible.

9. *Paragraph 16, ibid.*—The Governor General in Council fully agrees with the view of the Committee that grants voted by the Assembly can be increased by the Assembly alone. He regrets the misunderstanding that arose in connection with this in the year 1923-24 and hopes that similar misunderstandings will not recur; but, as suggested by the Public Accounts Committee, he takes this opportunity of emphasising the point.

10. *Paragraphs 17—19 and 21—26, ibid.*—The Governor General in Council accepts the opinion of the Committee as regards the necessity of providing adequate machinery to watch the progress of expenditure against grants, so that steps may be taken in time to provide additional funds where necessary. This is a very important matter and has been brought to notice in successive reports of the Public Accounts Committee. The Government have had under consideration various methods by which the control of expenditure can be made effective. With Finance Department letter to the Auditor General No. D.-5142-Ex. of 20th July 1925, was enclosed a list of authorities held responsible for the control over expenditure in each Demand for a Grant, against the budget provision for 1925-26. The Governor General in Council considers that this procedure can be utilised with advantage in order to ensure that funds are obtained from the proper authority, either the Legislative Assembly or the Executive Government, as the case may be, before expenditure is incurred. The authorities who are responsible for control over expenditure will in future be required to bring to the notice of the Department on whose request a grant has been voted by the Assembly or, in the case of non-voted expenditure, sanctioned by the Governor General in Council, any anticipated excess or savings in the actual expenditure as compared with the

grants placed at their disposal. These statements, which should be prepared separately for voted and non-voted expenditure, should be submitted to the Departments before the end of December, checked as far as possible with the accounting officer's figures. On receipt of these statements the Administrative Department concerned will, wherever it is empowered to do so, transfer savings to meet excesses within the grant, and, when re-appropriations are beyond its powers, and the consent of the Finance Department is necessary, take steps to obtain such consent. It will forward to the Finance Department before the middle of January a statement comparing the total anticipated expenditure with the original grant so that steps may be taken, where excesses are anticipated, to obtain a supplementary grant from the Assembly in the case of voted expenditure or to make the necessary arrangements for sanctioning a grant in the case of non-voted expenditure. Where, on the other hand, important savings, in a grant are foreseen, the Finance Department will ordinarily issue instructions withdrawing part of the original grant. It is recognised that it may be difficult to enforce full responsibility in the matter at present owing to the difficulties caused by accounts adjustments which are sometimes made after the close of the year. The officer controlling the grant will, however, be expected to take into account all such adjustments as can reasonably be foreseen, in consultation with his Accounting Officer wherever necessary, and to make every effort to see that the revised forecast of expenditure against the grant is as reasonably accurate as he can make it. It is important in this connection to note that it is as necessary to report probable savings as excesses in expenditure, in order that the total resources at the disposal of the Government may be used to the best advantage.

11. *Paragraph 20, ibid.*—The suggestion that new and important items of expenditure not contemplated when the original estimates were framed of which the cost can be met within the grant from savings elsewhere, should be brought to the notice of the Legislative Assembly by means of a token vote, is under the consideration of the Governor General in Council.

12. The Governor General in Council has also had under consideration the question of expenditure under the various sub-heads within a grant. Certain powers of re-appropriation within a grant are at present possessed by various authorities under rules framed by the Finance Department, and in theory the spending authorities are expected to transfer savings from sub-heads where such occur to meet excess expenditure under other sub-heads in the same grant, obtaining the concurrence of the Finance Department to such re-appropriations where necessary. These re-appropriations cannot, however, be formally made after the close of the year in which the expenditure occurs. In such a case the question arises whether it is not desirable to prescribe some action in order to ensure that the circumstances in which excesses under sub-heads occurred, and were not met by re-appropriation from other sub-heads, should be reviewed by higher authority. These will, of course, be brought to notice in the Appropriation Report and will be scrutinised by the public Accounts Committee: but the Governor General in Council considers it desirable that, before the scrutiny by the Public Accounts Committee there should be a preliminary examination by the Department responsible for the grant. He has accordingly decided that in all cases, whether the ex-

senditure is voted or non-voted, the Department responsible for the grant should take steps to scrutinise such excesses to find out whether these were avoidable or not and whether funds could not have been re-appropriated before the close of the year, and to give instructions to the authority actually administering the grant as to any change of procedure which may be necessary to secure proper control over the expenditure. Though technically re-appropriation is impossible after the close of the year, all excesses should thus be formally reported for sanction, and if the grant as a whole is not exceeded and if re-appropriations could have been made before the expiry of the year by the Department, the excess should formally be sanctioned by the Department. If re-appropriations could not have been made without the sanction of the Finance Department, such excesses should receive the sanction of that Department. In cases where the grant as a whole has been exceeded, an additional grant should be asked for from the Finance Department in the case of non-voted expenditure or obtained from the Assembly in the case of voted expenditure.

13. *Paragraphs 27-29, ibid.*—Steps have already been taken by the Auditor General to reduce misclassifications to a minimum.

14. *Paragraph 28, ibid.*—The question of the establishment of a separate Accounts Office at Peshawar for the North-West Frontier Province is engaging the consideration of Government. A rough estimate of the cost of the Pay and Accounts Office has been worked out and the Chief Commissioner's estimate of the cost of providing buildings, etc., is awaited. It is hoped that a decision will not be long delayed.

15. *Paragraphs 30-33, ibid.*—The Governor General in Council has under consideration the view of the Committee that in all cases where the expenditure debitable to any grant exceeds the amount granted by the Assembly even though such excess may be covered by the allotment of funds from the reserve, steps should be taken to obtain a grant from the Assembly to cover the excess. Attempts have been made to formulate a scheme by which something of the nature of a Civil Contingencies Fund could be started in India. There are, however, certain legal objections to the creation of such a fund, and it is feared that the difficulty cannot be effectively met save by an amendment of the Government of India Act specifically permitting the institution of something analogous to the English procedure. Efforts are being made to arrive at a solution of this difficulty, but the Governor General in Council is unable at present to come to a final decision on this matter. It is hoped that it will be possible to place before the Public Accounts Committee next year a scheme for full consideration and report.

16. *Paragraph 34, ibid.*—The Governor General in Council desires to associate himself with the Committee in expressing his appreciation of the thoroughness with which the problem of making the Appropriation Accounts more illuminating has been treated in the report of the Auditor General on that question. The proposals made therein have been accepted in principle. Such of them as deal with the form of the demands for grants have already been given effect in the demands placed before the Assembly this year. The one question which can be considered as at all controversial is that of empowering the Auditor to bring to notice in his report such matters as are still under the consideration of Government. This may perhaps be considered open to

objection as in interference by audit with the freedom of action of the Executive. The Governor General in Council does not desire that the discretion of the Auditor General or the principal Auditor in bringing irregularities to notice should be fettered in any way, and he has no doubt that the Auditor General will take special care to satisfy himself that it is really desirable in the public interests to refer to any matter which is still *sub judice*. It is therefore not considered desirable to lay down an absolute rule forbidding the mention of matters which have been reported to Government and which are still under their consideration ; but the Governor General in Council considers that in most, if not all, cases the practical advantage will usually be found to lie on the side of not mentioning them prematurely. The Auditor will doubtless prefer ordinarily to bring cases of irregularity before the Public Accounts Committee not *ex parte* but after the Administration has been given an opportunity of explaining the alleged impropriety.

17. *Paragraphs 35-36, ibid.*—The question whether grants sanctioned by the Legislature should be for gross or for *net* expenditure, in cases where recoveries occur which might be taken in reduction of expenditure, has now been settled and orders will issue shortly.

18. *Paragraph 37, ibid.*—The Governor General in Council agrees with the view that it is desirable to adhere ordinarily to the general rules that particular receipts should not be diverted to meet particular expenditure.

19. *Paragraph 38, ibid.*—The Governor General in Council is of opinion that the Public Accounts Committee is competent to deal with receipts in so far as matters relating to such receipts are mentioned in the Appropriation Report. A small portion only of the receipts of the various Governments in India comes up, for audit by the Auditor General, but wherever irregularities come to notice in the course of the Auditor General's audit of such receipts and are included in the reports presented to the Committee by the Auditor General, there is nothing to prevent the Committee from dealing with such matters. The Auditor General has accepted this view.

20. *Paragraph 39, ibid.*—It has always been the practice, except in Bombay, for income-tax to be paid direct into a Government Treasury, or into the Imperial Bank where the management of the Treasury is in the hands of the latter. The practice in Bombay used to be for the assessee to pay income-tax to the Income Tax Department and for the latter to credit it into the Imperial Bank later. This practice has since been discontinued and no payments are now received by the Income-tax Department even in Bombay.

21. The other suggestion that fees in respect of minor services rendered by Government should be collected by means of stamps is under consideration. Each Department has been instructed to examine the question in connection with the receipts in respect of services for which it is responsible. The decision of the Government will be announced later.

22. *Paragraphs 40-41, ibid.*—The Governor General in Council recognises the extreme importance of taking the necessary steps to maintain an adequate check over Customs receipts. The question is at present being discussed with the Auditor General.

23. *Paragraph 42, ibid.*—The Governor General in Council trusts that the number of frauds, embezzlements and other serious financial irregularities will be reduced in future years, in view of the action now being taken in such cases against those found guilty either of fraud or of inefficient supervision. He concurs with the Committee as regards the necessity of keeping a watchful eye on the facts of frauds and embezzlements which come to light, and also to see whether there is any defect in system that needs remedying.

24. *Paragraph 43, ibid.*—The suggestion of the Committee with regard to disciplinary action in the case of officers after retirement is one of great importance and requires careful consideration. The orders of the Governor General in Council will be issued separately in due course.

25. *Paragraphs 45-46, ibid.*—The Governor General in Council accepts the recommendations made in these paragraphs and proposes to issue suitable instructions to all authorities responsible for the initial preparation of budget estimates.

26. *Paragraph 48, ibid.*—The Officer concerned has since retired from service, consequently it is not proposed to communicate to him the Public Accounts Committee's remarks, with which the Governor General in Council is in entire agreement.

27. *Paragraph 49, ibid.*—The Governor General in Council agrees with the Committee's suggestion and will take steps to give effect to the proposal.

28. *Paragraphs 51-52, ibid.*—The Auditor General is requested to issue instructions, as desired by the Committee, that details of sums allotted for the Public Works Department out of the reserve at their disposal should be given in the Appropriation Account in future. The Governor General in Council also accepts the suggestion that allotments from the reserve should not be made except to cover lapses in grants in previous years and that no allotment should be made on account of establishment. The question of improving the procedure for preventing technical excesses over grants caused by the impossibility of estimating the percentage for establishment and tools and plant to be added to the cost of works expenditure is being investigated.

29. *Paragraph 54, ibid.*—The Governor General in Council has considered the suggestion of the Committee that a way out of the difficulty of estimating refunds would be to make the refunds in question statutory, but has found that it is impossible to do so. He takes the opportunity to bring to the notice of all officers concerned that there should be an appropriation for all refunds whether voted or non-voted. A grant should be obtained from the Assembly or from the Executive Government in the case of non-statutory and statutory refunds respectively. In order to make the position more clear, it has been decided from 1925-26 onwards to bring together all refunds under one grant instead of having them scattered through the different Demands including the Area Demands as hitherto. The only exceptions to this rule will be refunds under Railways and Posts and Telegraphs which will be shown with their respective grants.

30. *Paragraph 55, ibid.*—The Governor General in Council agrees with the suggestion of the Committee that such major works only as have been specifically approved on detailed estimates should be included in the budget for Capital expenditure, while there should be a separate provision for minor works, and reserves for lapses and for unforeseen expenditure. The budget for 1926-27, it may be noticed, is based on a more careful estimate of probable requirements for expenditure during the year. The total amount of Capital expenditure proper, excluding stores and other suspense transactions, is 88 lakhs and closely follows the revised estimate for the previous year which is 98 lakhs as against a budget estimate of nearly 143 lakhs.

31. *Paragraphs 56—58 and 60-61, ibid.*—The remarks of the Committee are under the consideration of the Government of India in consultation with the Posts and Telegraphs Department authorities.

32. *Paragraph 62, ibid.*—The Railway Board have decided to employ on the Other State Railways, the services of the same officer who gave assistance to the Agent of the Great Indian Peninsula Railway in effecting reductions in staff and in overhauling the establishment of that Railway.

33. *Paragraph 64, ibid.*—The question of the re-valuation of stores is still under consideration by the Standing Finance Committee for Railways. It is hoped that the matter will be settled in consultation with the Auditor General at an early date.

34. There are a few matters of minor importance on which the Committee has expressed an opinion which have not been specifically dealt with in the above paragraphs. The Governor General in Council does not feel it incumbent upon himself to take action in matters not mentioned in the main report and therefore suggests to the Committee the desirability of referring briefly in the main report to matters, which though subsidiary in themselves, are yet of interest to the Committee. The Governor General in Council is in general agreement with the views expressed by the Committee and desires that the suggestions should be examined in detail by the Departments concerned and the necessary action taken. A statement giving in detail the action taken on each point will be placed before the Public Accounts Committee as in the previous year.

Statement showing the action taken or proposed to be taken on the points noticed by the Public Accounts Committee in their Report on the accounts of 1923-24.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
1	That in view of the wide divergence between the actual expenditure of a year and the estimates, steps should be taken to effect improvements in the method of estimating of expenditure specially in the case of Railways.	Paras. 3-8. (Vol. I, pages 1-3.)	Steps have been taken by the Financial Commissioner, Railways, to devise a new procedure by which Railways will be able to spend up to their grants and thus keep lapses within reasonable limits of the estimate.
2	That the amounts by which the actual expenditure exceeds the total grant, including supplementary grants sanctioned by the Assembly, should be placed before the Assembly for sanction.	Para. 10. (<i>Ibid</i> , pages 3-4.)	The newly constituted Appropriation Accounts will show clearly the actual expenditure under a grant and the allotment sanctioned by the Assembly.
3	That mere provision in the revised estimates is not sufficient to prevent an excess and that specific application from proper authority for a grant is necessary.	Para. 12, item 4. (<i>Ibid</i> , page 5.)	Steps are being taken for the issue of necessary instructions.
4	That with a well regulated system of control over expenditure, there ought not to be any excesses at all.	Para. 14. (<i>Ibid</i> , pages 6-7.)	Attention of all authorities concerned have been drawn to this principle in para. 7 of the Government of India Resolution No. D-1089-A., dated 1st June 1926.
5	That grants voted by the Assembly can be added to only by the Assembly and that any transfers to a grant from another grant or from a non-voted head are invalid unless voted by the Assembly.	Para. 16. (<i>Ibid</i> , page 7.)	The principle has again been emphasised in para. 9 of the Resolution quoted above.
6	Necessity of providing adequate machinery to watch the progress of expenditure against grants, so that steps may be taken to provide additional funds where necessary.	Paras. 17-19, 21-26 and 44. (<i>Ibid</i> , pages 7-12 and 20.)	Finance Department letter No. D-5142-Ex., dated 20th July 1925, prescribes a list of authorities responsible for control of expenditure in each demand for grant. The method by which such control can be effectively exercised is described in para. 10 of the same Resolution.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
7	Suggestion that new and important items of expenditure not contemplated when the original estimates were framed, of which the cost can be met from savings within the grant, should be brought to the notice of the Assembly by means of a token vote.	Para. 20. (<i>Ibid</i> , page 9.)	The matter is under consideration and officers will issue in due course.
8	That steps be taken to reduce misclassification of expenditure to a minimum.	Paras. 27-29. (<i>Ibid</i> , page 12.)	Necessary instructions to Accounts Officers have been issued by the Auditor General.
9	That a separate Accounts Office at Peshawar for the N.-W. F. Province be established.	Para. 28. (<i>Ibid</i> , page 12.)	Chief Commissioner's estimate of cost of providing buildings, etc., is being awaited.
10	That in all cases where the expenditure exceeds the amount granted by the Assembly, though the excess is covered by allotment of funds from the reserve, steps should be taken to obtain a grant from the Assembly to cover the excess.	Paras. 30-33. (<i>Ibid</i> , pages 13-15.)	It was proposed to formulate a scheme of the nature of the Civil Contingencies Fund in England but owing to legal and technical difficulties the Government of India could not arrive at a satisfactory solution of the question which is therefore still under consideration.
11	That the suggestion made in the Auditor General's Report of Enquiry into the possibility of improving the Indian Appropriation Reports should be applied also to the Appropriation Reports of the Army, Railway and Posts and Telegraphs Departments.	Para. 34. (<i>Ibid</i> , page 16.)	The question of bringing these Appropriation Reports into line with the A. G. C. R.'s is under consideration.
12	That it will be possible to give effect to the proposals made in the Auditor General's Report of Enquiry at an early date.	Para. 34. (<i>Ibid</i> , page 16.)	Subject to the modification that cases of irregularity should not be brought before the P. A. Committee <i>ex parte</i> , but after the authorities concerned have been given an opportunity of explaining them, the proposals have been accepted in principle. The A. G. C. R.'s newly constituted Audit and Appropriation Accounts have been drawn up on the lines recommended.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
13	Question whether grants sanctioned by the Legislature should be for gross or <i>net</i> expenditure in cases where recoveries occur which may be taken in reduction of expenditure.	Paras. 35-36. (<i>Ibid</i> , pages 16-17.)	The main issue has been settled in a Conference. As, however, this is a question of accounting, the Auditor General proposes to consult Local Governments before issue of final orders.
14	That it is desirable to adhere ordinarily to the general rule that receipts should not be utilised to meet expenditure.	Para. 37. (<i>Ibid</i> , page 17.)	The particular instance of irregularity which gave rise to this has been set right by the issue of revised orders.
15	That the questions of (a) the competence of the P. A. Committee to deal with receipts and (b) the treatment of losses of revenue due to fraud, defalcation, etc., as a form of expenditure be considered carefully by the Govt. of India.	Para. 38. (<i>Ibid</i> , pages 17-18.)	As regards (a) the views of the Govt. of India, which is accepted by the Auditor-General, will be found in para. 19 of Resolution No. D-189-A., dated 1st June 1926, (b) is still under consideration.
16	That all receipts on account of Govt. dues like income-tax should be paid direct into the Imperial Bank.	Para. 39. (<i>Ibid</i> , page 18.)	Under existing arrangement income-tax is paid direct into a Govt. treasury or into the Imperial Bank where the management of the treasury is in the hands of the latter.
17	That, in order to avoid the risk of defalcations, fees in respect of minor services rendered by Government, e.g., passport fees, which are transmitted direct by the collecting officer to the treasury, should be collected by means of stamps.	Para. 39. (<i>Ibid</i> , page 18.)	Views of the Departments concerned on the feasibility of the proposal have been invited and the Government of India hope to arrive at a decision soon.
18	Introduction of a system of internal check on Customs receipts, which will ensure an efficient scrutiny of the collection of such dues.	Paras. 40-41. (<i>Ibid</i> , pages 18-19.)	The question is at present under discussion with the Auditor General.
19	Necessity of keeping a watch on the facts of frauds and embezzlements, which come to light, in order to see whether there is any defect in system.	Para. 42. (<i>Ibid</i> , pages 19-20.)	Instructions had already been issued to this effect; they have been reiterated in para. 23 of the above Resolution.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
20	That the fact that an officer has retired between the date of committing an irregularity and the date of the discovery is not by itself a sufficient justification for not taking any disciplinary action at all in the matter.	Para. 43. (<i>Ibid</i> , page 20.)	The question is under consideration.
21	That provision of lump sums in the estimates is a thing undesirable in itself and should be resorted to only in really exceptional circumstances.	Para. 45. (<i>Ibid</i> , pages 20-21.)	The Government of India propose to issue suitable instructions to all authorities responsible for the initial preparation of budget estimates.
22	That no provision should be made in future in the budgets for any appointments which it has been decided to keep in abeyance.	Para. 46. (<i>Ibid</i> , page 21.)	Same remarks as against item 21.
23	That the Government of India will express their disapproval of the irregularity committed by an officer in respect of the purchase of a motor car—referred to in paragraph 3 (xiv) of the A. G. C. R.'s Audit Report for 1923-24.	Para. 48. (<i>Ibid</i> , page 22.)	The officer having retired from service, it is not proposed to take the action suggested.
24	That rules should be framed providing that unusual conditions in new contracts or material variations in contracts already made, should not be accepted without the consent of the Finance Department.	Para. 49. (<i>Ibid</i> , page 22.)	Steps are being taken to give effect to the proposal.
25	That details of sums allotted for the P. W. Department out of the reserve at their disposal should be given in the Appropriation Report.	Para. 51. (<i>Ibid</i> , page 23.)	The Auditor General has been requested to issue necessary instructions.

Nos.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
26	That allotments from the reserve should not be made except to cover lapses in grants in the previous year and for unforeseen works and that no allotment should be made on account of establishments, etc.	Para. 51. (<i>Ibid</i> , page 23.)	As regards regrant of lapses instructions were issued in Department of I. and L. (P. W. Branch) letter No. A.C.W.-27, dated 21st February 1925. The further suggestion of the Committee has been accepted by the Government of India and emphasised in paragraph 28 of the Resolution quoted above.
27	Question of improving the procedure for preventing technical excesses over grants caused by the difficulty of estimating the percentage for establishment and tools and plant in the case of works expenditure.	Para. 52. (<i>Ibid</i> , page 23.)	The question is under investigation.
28	That the estimates in connection with the grant for refunds should be more carefully prepared.	Para. 54. (<i>Ibid</i> , page 23.)	A procedure is laid down in paragraph 29 of the above Resolution and brought to the notice of all officers concerned.
29	That such major works only as have been specifically approved on detailed estimates should be included in the budget for capital expenditure and that the present system of control over expenditure should be improved.	Para. 55. (<i>Ibid</i> , pages 23-24.)	The suggestion will be acted on in future but it will occasionally be necessary to provide for really urgent works the need for which could not be foreseen. As regards control of expenditure, the matter is engaging the careful attention of the D. G. and the F. A., Posts and Telegraphs.
30	That the necessity for every effort to secure important economies in the working expenses of the P. and T. Department will continue to be borne in mind.	Para. 5 .. (<i>Ibid</i> , page 24.)	The Government of India have accepted in principle most of the recommendations of the Ryan Committee which, when given effect to, will achieve this end.

Nos.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
31	That the question of charging fees for services rendered by radio offices to other Departments and to shipping be carefully considered.	Para. 58 .. (<i>Ibid</i> , page 24.)	The D. G. considers that the amount of fees recovered will be relatively insignificant and will have no appreciable effect on the profit or loss on running these wireless stations. No change in the existing system is therefore contemplated.
32	That the adequacy of the amount of security taken from the P. and T. officials and the question of obtaining certificates regarding the existence and solvency of these sureties from some competent authority other than the official himself should be carefully considered.	Para. 60 .. (<i>Ibid</i> , page 25.)	As regards the amount, the D. G. is of opinion that any general enhancement will affect adversely the recruitment for the Department. The other suggestion was put to the Local Governments by the D. G. but they are opposed to throwing this task on their officers. The D. G. is, however, considering the possibility of having these sureties verified by officers of the Department.
33	Irregularities in regard to the payment by the D. G., Posts and Telegraphs to contractors for conveyance of mails.	Para. 61 .. (<i>Ibid</i> , page 25.)	A separate Memorandum on this question is being submitted to the P. A. Committee.
34	Enquiry as to whether the economies effected on the G. I. P. Railway do not suggest possibilities of further economies on the other State Railways.	Para. 62 .. (<i>Ibid</i> , page 25.)	The Railway Board have decided to employ for this purpose the services of the same officer, who gave assistance to the Agent of the G. I. P. Railway.
35	Question of modifying the existing rules regarding the pricing of Railway stores with a view to bringing them into close accord with current market rates.	Para. 64 .. (<i>Ibid</i> , page 26.)	It is hoped that the question will be settled in consultation with the Auditor General at an early date.
36	That the Military Appropriation Report be reconstituted on the lines of the recommendations made in the Report of Enquiry and accepted by the Government of India.	Para. 66 .. (<i>Ibid</i> , page 27.)	The Auditor General is considering the proposal in consultation with the F. A., M. F.

Nos.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Action taken or proposed to be taken on points noticed.
37	That the system of cost-accounting should be placed on a simple and intelligible basis which will provide an effective check on the purchase, stocking and consumption of Military stores.	Para. 67 .. (<i>Ibid</i> , page 27.)	The Report of the Army Accounts Committee that enquired into the subject has been published but has not yet been dealt with.
38	Necessity of watching the progress of expenditure and of co-ordinating the estimating work so as to minimise the danger of wrong estimation.	Para. 68 .. (<i>Ibid</i> , page 27.)	The system has recently been improved and it is expected that the arrangements now in force and those likely to be introduced will have the desired effect.
39	That such steps should be taken as will place Army expenditure on the most economic and efficient footing in the interests of the taxpayer.	Para. 69 .. (<i>Ibid</i> , page 27.)	The Military Accounts Department was considerably disorganised by the post-war conditions. By the return of normal conditions there will, it is hoped, be more attention paid to compliance with rules on the part of the executive and to greater efficiency in that Department.

APPENDIX II.

Statement comparing expenditure with grants for 1924-25.

Number and name of Grant.	Grant.	Expenditure.	EXPENDITURE COMPARED WITH GRANT	
			Less than granted.	More than granted.
A.—EXPENDITURE CHARGED TO REVENUE.	Rs.	Rs.	Rs.	Rs.
1. Customs	Voted .. 72,37,000	66,07,311	6,29,689	..
	Non-voted .. 9,64,405	9,50,895	13,510	..
2. Taxes on Income ..	Voted .. 61,32,000	56,91,566	4,40,434	..
	Non-voted .. 3,37,871	2,67,172	70,699	..
3. Salt ..	Voted .. 1,06,55,000	89,50,282	17,04,718	..
	Non-voted .. 37,43,825	37,26,894	16,931	..
4. Opium ..	Voted .. 2,38,64,000	2,34,14,347	4,49,653	..
	Non-voted .. 96,000	92,807	3,193	..
5. Land Revenue ..	Voted .. 1,000	..	1,000	..
	Non-voted .. 17,000	1,363	15,637	..
6. Excise ..	Voted .. 4,000	..	4,000	..
	Non-voted .. 5,000	559	4,441	..
7. Stamps ..	Voted .. 12,19,000	8,41,191	3,77,809	..
	Non-voted .. 3,225	2,368	857	..
8. Forest ..	Voted .. 7,79,900	6,07,920	1,11,980	..
	Non-voted .. 4,07,825	3,95,006	12,819	..
9. Railways (inclusive of working expenses and payment of surplus profit to Railway Companies).	Voted .. 67,46,00,000	64,38,89,913	3,07,70,087	..
	Non-voted .. 25,28,10,000	24,38,91,151	89,18,849	..
10. Irrigation, Navigation, etc.	Voted .. 18,02,000	16,23,866	1,78,134	..
	Non-voted .. 1,72,000	1,30,115	41,885	..
11. Indian Posts and Telegraphs Department.	Voted .. 8,27,53,000	8,41,81,892	..	14,28,692
	Non-voted .. 86,15,000	81,09,903	5,05,097	..
12. Indo-European Telegraph Department.	Voted .. 34,47,000	30,07,429	4,39,571	..
	Non-voted .. 5,50,000	4,63,487	86,513	..

Number and name of Grant.	Grant.	Expenditure.	EXPENDITURE COMPARED WITH GRANT		
			Less than-granted.	More than granted.	
	Rs.	Rs.	Rs.	Rs.	
13. Interest on ordinary Debt and Reduction or Avoidance of Debt.	Voted ..	21,06,000	19,06,543	1,99,457	..
	Non-voted ..	14,26,40,000	14,87,22,619		60,82,619
14. Interest on Miscellaneous Obligations.	Voted ..	3,62,92,000	3,60,75,015	2,16,985	..
	Non-voted ..	1,16,000	1,06,275	9,725	..
15. General Administration	Voted ..	72,90,000	66,62,410	6,27,590	..
	Non-voted ..	37,03,439	35,87,724	1,16,715	..
16. Audit	Voted ..	76,45,000	70,04,295	6,40,705	..
	Non-voted ..	6,26,730	5,78,260	48,470	..
17. Administration of Justice.	Voted ..	46,000	44,897	1,103	..
	Non-voted ..	49,007	24,404	24,603	..
18. Jails and Convict Settlements.	Voted ..	5,000	769	4,241	..
	Non-voted ..	15,000	12,181	2,819	..
19. Police	Voted ..	2,41,000	2,29,768	11,232	..
	Non-voted ..	8,92,699	8,24,626	68,073	..
20. Ports and Pilotage ..	Voted ..	12,94,000	12,24,725	69,275	..
	Non-voted ..	11,84,000	11,45,350	38,650	..
21. Survey of India ..	Voted ..	23,48,000	24,61,327	..	1,13,327
	Non-voted ..	7,69,000	7,21,529	47,471	..
22. Meteorology	Voted ..	6,35,000	6,18,292	16,708	..
	Non-voted ..	51,000	49,233	1,767	..
23. Geological Survey ..	Voted ..	2,20,000	1,62,894	57,106	..
	Non-voted ..	4,10,000	2,95,545	1,14,455	..
24. Botanical Survey ..	Voted ..	6,41,000	3,64,960	2,76,040	..
	Non-voted ..	21,000	19,982	1,018	..

Number and name of Grant	Grant.	Expenditure.	EXPENDITURE COMPARED WITH GRANT		
			Less than granted.	More than granted.	
	Rs.	Rs.	Rs.	Rs.	
25. Zoological Survey ..	Voted ..	1,47,000	1,41,218	5,782	..
	Non-voted ..	5,250	4,914	336	..
26. Archaeology ..	Voted ..	12,29,000	12,86,702
	Non-voted ..	1,09,000	86,537	22,663	57,702
27. Mines ..	Voted ..	1,40,000	1,26,660	13,350	..
	Non-voted ..	91,920	90,328	1,592	..
28. Other Scientific Departments.	Voted ..	5,36,000	4,37,840	98,160	..
	Non-voted ..	89,000	1,29,099	..	40,099
29. Education ..	Voted ..	3,81,000	3,82,546	..	1,546
	Non-voted ..	38,210	32,651	5,559	..
30. Medical Services ..	Voted ..	7,79,000	7,20,552	58,448	..
	Non-voted ..	4,03,767	3,23,726	80,041	..
31. Public Health ..	Voted ..	9,55,000	8,82,402	72,598	..
	Non-voted ..	1,82,286	1,62,843	19,443	..
32. Agriculture ..	Voted ..	19,18,000	16,99,413	2,18,587	..
	Non-voted ..	2,77,603	2,47,369	30,234	..
33. Civil Veterinary Services.	Voted ..	6,45,000	6,58,395	..	13,395
	Non-voted ..	77,065	73,635	3,430	..
34. Industries ..	Voted ..	25,23,000	25,11,694	11,306	..
	Non-voted ..	36,19,536	35,80,365	39,171	..
35. Aviation ..	Voted ..	19,000	17,563	1,437	..
	Non-voted ..	2,500	1,657	643	..
36. Commercial Intelligence.	Voted ..	2,72,000	2,65,828	6,172	..
	Non-voted ..	28,000	31,157	..	3,157

EXPENDITURE COMPARED
WITH GRANT

Number and name of Grant.	Grant.	Expenditure.	EXPENDITURE COMPARED WITH GRANT	
			Less than granted.	More than granted.
	Rs.	Rs.	Rs.	Rs.
37. Census	Voted ..	1,000	3,330	2,330
	Non-voted ..			
38-A. Emigration—Internal.	Voted ..	57,000	46,190	10,810
	Non-voted ..	6,600	6,600	
38-B. Emigration—External.	Voted ..	99,000	91,785	7,215
	Non-voted ..	25,300	25,986	686
39. Joint Stock Companies	Voted ..	1,32,000	1,33,483	1,483
	Non-voted ..			
40. Miscellaneous Departments.	Voted ..	14,47,000	12,03,915	2,43,085
	Non-voted ..	2,30,280	2,34,535	4,255
41. Currency	Voted ..	37,58,000	33,78,294	3,79,706
	Non-voted ..	1,54,611	1,28,589	26,022
42. Mint	Voted ..	13,93,000	12,60,340	1,32,660
	Non-voted ..	1,25,650	1,07,508	18,142
43. Civil Works	Voted ..	1,39,69,000	1,18,81,315	20,87,685
	Non-voted ..	68,77,880	58,41,560	10,36,300
44. Famine Relief	Voted ..	14,000		14,000
	Non-voted ..			
45. Superannuation Allowances and Pensions.	Voted ..	33,00,000	35,63,167	2,63,167
	Non-voted ..	2,55,30,940	2,40,41,563	14,89,377
46. Stationery and Printing.	Voted ..	48,38,000	32,88,601	15,49,399
	Non-voted ..	1,10,900	1,04,480	6,420
47. Miscellaneous	Voted ..	48,22,000	17,13,761	31,08,239
	Non-voted ..	29,37,128	29,60,529	23,401

Number and name of Grant.	Grant.	Expenditure.	EXPENDITURE COMPARED WITH GRANT.		
			Less than granted.	More than granted.	
	Rs.	Rs.	Rs.	Rs.	
48. Adjustment with Provincial Governments.	Voted ..	22,65,000	13,78,144	8,86,856	..
	Non-voted ..	36,95,700	36,95,981	..	281
49. Refund	Voted ..	94,83,000	96,64,548	..	1,81,548
	Non-voted ..	4,36,40,000	3,85,50,941	50,89,059	..
50. North-West Frontier Province.	Voted ..	1,09,38,000	1,05,02,934	4,35,066	..
	Non-voted ..	1,18,61,868	1,15,51,669	3,10,199	..
51. Baluchistan ..	Voted ..	26,25,000	27,65,733	..	1,40,733
	Non-voted ..	47,49,900	46,00,421	1,49,479	..
52. Delhi	Voted ..	31,52,000	29,46,626	2,05,374	..
	Non-voted ..	5,10,749	3,68,621	1,42,128	..
53. Ajmer-Merwara ..	Voted ..	14,96,000	12,82,408	2,13,592	..
	Non-voted ..	1,35,000	1,40,365	..	5,365
54. Andamans and Nicobar Islands.	Voted ..	39,62,000	36,97,838	2,64,162	..
	Non-voted ..	1,67,001	1,76,127	..	9,126
55. Rajputana	Voted ..	4,74,000	4,50,070	23,930	..
	Non-voted ..	10,11,360	9,68,953	42,407	..
56. Central India ..	Voted ..	6,83,000	6,59,739	23,261	..
	Non-voted ..	7,83,910	7,60,355	23,555	..
57. Hyderabad	Voted ..	2,08,000	1,76,889	31,111	..
	Non-voted ..	3,79,400	3,58,613	20,787	..
58. Expenditure in England under the control of the Secretary of State for India.	Voted ..	25,20,000	23,84,704	1,35,296	..
	Non-voted ..	8,69,000	8,25,427	43,573	..
59. Expenditure in England under the control of High Commissioner for India.	Voted ..	47,39,000	38,74,411	8,64,589	..
	Non-voted ..	32,16,000	27,86,514	4,29,486	..
Ecclesiastical		30,60,133	28,57,803	2,02,330	..
Political		1,81,29,113	1,69,02,304	12,26,809	..

Number and name of Grant.	Grant.	Expenditure.	EXPENDITURE COMPARED WITH GRANT.		
			Less than granted.	More than granted.	
	Rs.	Rs.	Rs.	Rs.	
Territorial and Political Pensions ..	30,57,884	29,16,514	1,41,370	..	
Extraordinary Payments	1,01,635	..	1,01,635	
Bangalore	23,53,918	22,70,172	83,746	..	
Army	57,22,85,377	54,68,05,595	2,54,79,782	..	
Marine	87,72,000	74,10,717	13,61,283	..	
Military Works	4,38,37,339	4,25,85,080	12,52,259	..	
Total	Voted ..	95,72,35,900	91,11,10,430	4,63,29,393	22,03,923
	Non-voted ..	1,18,16,39,084	1,13,89,68,886	4,89,40,822	62,70,624
B.—EXPENDITURE CHARGED TO CAPITAL.					
60. Railways	Voted ..	29,97,61,000	13,41,83,047	16,55,77,953	..
	Non-voted ..	4,09,000	4,15,309	..	6,309
60-A. Irrigation	15,000	95,898	..	80,898	
61. Capital Outlay on Telegraphs ..	1,73,95,000	1,17,55,881	56,39,110	..	
62. Delhi Capital outlay	Voted ..	1,42,97,000	1,37,98,125	4,98,875	..
	Non-voted ..	4,15,000	4,20,743	..	5,743
Total	Voted ..	33,14,68,000	15,98,32,951	17,17,15,947	80,898
	Non-voted ..	8,24,000	8,36,052	..	12,052
—DISBURSEMENT OF LOANS AND ADVANCES.					
63. Interest free advances	5,90,89,000	5,39,66,924	51,22,076	..	
64. Loans and advances bearing interest	14,15,26,000	11,77,37,318	2,37,88,682	..	
Total voted	20,06,15,000	17,17,04,242	2,89,10,758	..	
Grand Total	2,67,17,81,984	2,38,24,52,561	29,78,96,920	85,67,497	
Total	Voted ..	1,48,93,18,900	1,24,26,47,623	24,89,56,098	22,84,821
	Non-voted ..	1,18,24,63,084	1,13,98,04,938	4,89,40,822	62,82,676

APPENDIX III.

Memorandum No. 467-A./1924-Coll.-III, dated the 10th October 1925, furnished by the Director General of Posts and Telegraphs with reference to paragraph 12 of the Proceedings of the sixth Meeting of the Public Accounts Committee held on the 12th August 1925.

SUBJECT.—*Payment to contractors for conveyance of mails.*

In all contracts for the carriage of mails a maximum daily, monthly or annual, limit is fixed to the number of miles to be run by the Contractor's lorries in carrying out the service. Provided this maximum is not exceeded the payment to the contractor is restricted to the amount of subsidy fixed under the contract. The maximum limit is kept as low as possible since the tenders received for such contracts are naturally influenced by this important factor and it therefore sometimes happens that from various causes the mileage actually run exceeds the limit, in which circumstances the contractor is entitled to payment in addition to the amount of the subsidy in respect of such excess. At two centres during the year 1922 the contractual mileage limits were exceeded owing to alterations in the timings of mail trains and the extra payments that had in consequence to be made to the contractor were being treated as contingent charges. In August 1922 that audit authorities pointed out that as these extra payments were of a fixed recurring nature they must be regarded as increases in the subsidies (which required the sanction of the Government of India) and not as contingent charges. The Director General, Posts and Telegraphs accordingly requested the Government of India in December 1922 to sanction increases in both subsidies with effect from the 1st September 1922, but in reply he was informed that the Government of India were not prepared to sanction such increases and he was directed to arrange to reduce the mileages to within the maximum limits. As a result of special investigations it was then found possible to reduce the mileages as desired by Government and the extra payments thereupon ceased. But as in the meantime the lorries had continued to run excess mileage, payments had to be made therefor under the terms of the contracts and the sanction of the Government of India to these payments was applied for and accorded in due course. It will therefore be seen that there was no attempt on the part of the Director General of Posts and Telegraphs to evade the orders of Government or to increase the subsidies by payments under the guise of contingencies.

APPENDIX IV.

Memorandum furnished by the Central Board of Revenue with reference to Question Nos. 439—443 in Volume II of the Report of the Public Accounts Committee on the Accounts of 1923-24.

Paragraph 3 (xvi) of the Audit Report for 1923-24.—The Bombay Government's memorandum conveying the sanction of the Government of India to the purchase of a new boat for the Dhabol port was received by the Deputy Commissioner of Salt and Excise on the 2nd March 1923. The sanction was expressly accorded on the condition that the expenditure involved (Rs. 1,325) was met from the sanctioned budget for 1922-23. The boat builder was instructed to take up the construction of the boat at once and to finish it by the end of March, if possible. The money was drawn from the Treasury before the close of the financial year, although the construction of the boat had not been completed. It was, however, fully expected that the boat would be completed early in April. The money was paid to the boat builder in two instalments, one of Rs. 1,000 on the 11th May 1923 and the other of Rs. 325 on the 9th June 1923. The Deputy Commissioner concerned states that every care had been taken to guard against any loss to Government, as the first instalment paid to the boat builder represented the actual value of the work done by him by that date, and the balance was paid when the boat was complete and ready for delivery. After full consideration, the Government of Bombay partly absolved the Deputy Commissioner concerned from the responsibility for the irregularity, on the ground that the sanction of the Government of India to the construction of the boat was granted on the condition that the expenditure should be met from the budget grant for 1922-23 and the officer therefore, had no other alternative but to draw the amount before the close of the year.

Paragraph 3 (xvii) of the Audit Report for 1923-24.—Certain Taluka Officers of the Salt Department drew money from the Treasury in March 1923 for expenditure on petty constructions and repairs. In 6 out of the 7 cases the amounts were disbursed in April 1923. The Collector of Salt Revenue, Bombay, stated that the amounts were not drawn with a view to prevent the grant from lapsing but because the works in question had either been completed or were approaching completion and the payment was due to the contractors. The payments could not be made earlier as the petty contractors concerned were not present to receive payments. These contractors are not usually present to receive payments when the amount is actually drawn from the Treasury but are absent attending to other works or collecting labour and material. They receive payments at their leisure and convenience. In the seventh case, the amount was paid in June 1923. The repair of the road for which the payment was to be made had been completed before the 15th March 1923, the date on which the amount was drawn, and the contractor concerned was sent for immediately to receive payment but he was away. Meanwhile, the road in question was spoiled by the same contractor's bullock-carts and it was considered in the interest of Government to withhold payment till the road was set right. It will thus be seen that in all the above cases, the

amounts were drawn for immediate payment, but could not, under the circumstances explained, be disbursed before the close of the financial year. The Salt Department is the only department which spends annually large sums of money on the departmental construction of buildings, while elsewhere the works are carried out by the P. W. D. agency. The difficulties in getting together labour and artisans and in collecting water, building materials, etc., at isolated *chowkies* in salt works surrounded by sea and in the inaccessible parts of the Lesser Runn of Cutch or the hilly tracts of the Goa Frontier are great and in practice it is not always possible to conform strictly to accounts procedure.

APPENDIX V.

Memorandum furnished by the Director General, Posts and Telegraphs for the Public Accounts Committee regarding Motor Mail Services in General and the Calcutta Motor Mail Contract with reference to para. 61 of the Public Accounts Committee's Report on the accounts of 1923-24.

In paragraph 61 of their report on the accounts for the year 1923-24 the Public Accounts Committee have questioned the effectiveness of the competition in the matter of motor mail contracts when put out to public tender. The committee have also referred to a promise given by the Director General in the course of his evidence before them to put in a memorandum giving a full explanation of the motor mail contract at Calcutta.

2. As regards the question of competition for mail contracts the experience of the department is that for contracts in the larger cities tenders are received from a considerable number of reputable firms and there is no reason to believe that the competition in these cases is not really effective in keeping down the rates to a minimum. In the smaller places the number of tenders is of course not so large and instances have occurred in which only one tender has been received. In such cases however, tenders for horse-drawn conveyances are also called for and if the rates quoted for a motor mail service are considered too high the department generally arranges for conveyance of the mails by horse-drawn vehicles. An examination of all the minor motor mail contracts is being undertaken with the object of reducing expenses wherever possible.

3. Turning now to the particular case of the Calcutta motor mail contract it is understood that the committee has some doubts whether the cost of running this service under departmental arrangements, provided certain economies proposed by the Audit Inspecting Officer have been carried out, would not be less than that payable under the contract recently concluded with Messrs. The Garage, Limited, of Madras.

4. The history of this contract is as follows :—

The advisability of giving the Calcutta motor mail service out on a contract instead of running it departmentally had been considered on several occasions. In 1923 however, at the instance of the Deputy Auditor-General, the question of arranging for a contract service was again considered and tenders called for. The cost of working the departmental service was stated to be Rs. 2,30,555 during 1921-22 and Rs. 2,33,757 during 1922-23. This worked out to about 10½ annas a mile but as no tender was received for less than 14 annas a mile the idea of resorting to a contract service was abandoned.

Tenders were again called for in January 1925 and the cost of running the service departmentally was at the same time recalculated. It was then found that the previous figures of cost had omitted certain accounts adjustments and that the true cost during the year 1923-24 amounted to approximately Rs. 2,64,000. Altogether 7 tenders were received and the offer of Messrs. The Garage, Limited, of Madras was accepted as

being the most advantageous from the points of view of both efficiency and economy.

5. A statement is attached to this memorandum showing the comparative costs of running the service departmentally and under the new contract. It will be seen that this indicates an annual saving of Rs. 26,000 per annum which will be further increased by Rs. 6,000 per annum from the 5th to the 10th year of the contract. Moreover the giving out of the service to contract saved the department an expenditure of Rs. 22,400 on the purchase of new cars during the year 1925-26. It is thus clear that by entering into this contract the department has effected a considerable saving in expenditure as compared with the previous cost of running the service.

6. The suggestions made by the Audit Inspecting Officer for reducing the cost of the service when carried out under departmental arrangements were fully investigated but were found to be in most cases impracticable. It has not been possible to estimate with any accuracy the extent to which the actual cost to the department of running the service could eventually have been reduced but in any case the total possible economies could not have amounted to anything like Rs. 26,000 per annum, the actual saving secured under the new contract.

*Comparative Statement of Cost of Working the Motor Mail Service in Calcutta
Departmentally and under the new Contract.*

Contract of working the service departmentally.		Cost under the new contract.	
	Cost per annum. Rs.		Cost per annum. Rs.
Interest on capital value of vehicles at 6 per cent	7,588	Subsidy to contractor	2,004,000*
Depreciation on vehicles at 16 per cent.	40,473	Payments under contract for extra despatches	4,000
Running expenses of vehicles (petrol, oil, repairs, etc.)	1,15,020	Pay, leave, and pension charges of reduced staff of mail clerks	30,000
Pay, etc., of drivers and supervisors	49,277		
Pay, leave and pension charges of mail clerks	38,664	Total	2,38,000
Estimated rental value of garages and capital charges of special machinery for the vehicles	13,000	Saving per annum	26,022
Total	2,04,022		

* After the first five years of the contract, the subsidy will be reduced to Rs. 16,500 per annum or Rs. 1,98,000 per annum.

APPENDIX VI.

Memorandum No. T-517, dated 30th July 1926 on the relations between the Auditor of the Home Accounts and the Auditor General.

Furnished by the latter with reference to para. 7 of the second meeting of the Public Accounts' Committee held on 27th July.

The Auditor of the Home Accounts is appointed under Section 27 of the Government of India Act. This section contains no less than 10 sub-sections of which the more important are: (1), (2), (5) and (7). Sub-section (1) empowers His Majesty to "appoint an auditor of the accounts of the Secretary of State in Council." Sub-section (2) requires that auditor to "examine and audit the accounts of the receipt, expenditure and disposal in the United Kingdom of all money, stores and property applicable for the purposes of the Act." Sub-section (5) requires the auditor to bring specially to the notice of the Secretary of State in Council "cases if any in which it appears to him that any money arising out of the revenues of India has been appropriated to purposes other than those to which they are applicable." Sub-section (7) requires the auditor to "lay all his reports before both Houses of Parliament."

2. This provision for an appointment of an Auditor of the Home Accounts first appeared in the Government of India Act of 1858, *i.e.*, in the first Act which gave the Secretary of State for India full control over Indian affairs. The importance which was then attached to the appointment of such an authority is evident from the unusual detail which is set out in the 10 sub-sections of this section. The main reason for the importance which was thus attached to the appointment is evident from sub-sections (5) and (7) which I have quoted, especially (7) which requires all his reports to be presented to both Houses of Parliament. It is evident from that provision that the main reason for the appointment was that there should be an authority who should scrutinise on behalf of Parliament the exercise by the Secretary of State in Council of the powers entrusted to that authority by the Government of India Act. It will be noted that sub-section (5) requires the Auditor specially to bring to notice all cases in which any action of the Secretary of State is *ultra vires* of the Act.

3. At the time when this appointment was first created the Secretary of State in Council under sections 2 and 21 of the Act was the supreme authority in respect of expenditure from the revenues of India. The Secretary of State in Council exercised his scrutiny over the detailed exercise by authorities in India of the powers delegated by him to them through the scrutiny applied by the Comptroller and Auditor General who was appointed by the Secretary of State but worked in direct subordination to the Government of India.

4. At the time of the creation of this post of Auditor of the Home Accounts and in fact up to the date of the passing of the Government of India Act of 1919 the Auditor obtained no greater powers under sub-section (2) than under sub-section (1) inasmuch as all transactions in the United Kingdom were brought to account in the accounts of the Secretary of State in Council.

5. With the appointment of the High Commissioner, however, under section 29-A. of the Act the position radically changed. Numerous transactions in the United Kingdom then came under the control of the High Commissioner and were brought to account in his books. It was decided that, in view of sub-section (2) of section 27, the Auditor of the Home Accounts must automatically become the Auditor of the Accounts of the High Commissioner and that is the position at present.

6. It remains to consider whether the existing arrangements are compatible with the constitutional position. All expenditure from the revenues of India is incurred under the authority of the Government of India Act. If such expenditure is regular—

- (1) it must be *intra vires* of the Act,
- (2) it must have received the sanction of competent authority; and
- (3) there must appropriation of funds by competent authority to meet the expenditure.

7. The Auditor of the Home Accounts is specially required to see that any order passed by the Secretary of State authorising expenditure is *intra vires* of the Act.

8. As regards (2) the absolute powers of the Secretary of State prior to the passing of the Government of India Act of 1919 have now been limited by the clause "subject to the provisions of this Act and rules made thereunder." Thus, the supreme power of sanctioning expenditure is now divided between the Secretary of State in Council and, in respect of transferred expenditure, certain authorities in India. The exercise by the latter authorities of the powers thus vested in them is scrutinised in detail by the Auditor General in India, while the Auditor of the Home Accounts is still in a position to scrutinise the exercise by the Secretary of State in Council of the powers remaining with him.

9. As regards (3), however, the position has been radically changed by the passing of the Government of India Act of 1919. Prior to that date, the Secretary of State was the ultimate authority in respect of appropriation of funds. The Government of India Act of 1919, however, entrusted very large powers of voting funds to the Indian legislatures.

The total expenditure incurred by the Secretary of State is met from funds—

- (1) granted by the Home Government,
- (2) voted by the Legislative Assembly, and
- (3) allotted by the Government of India.

It is essential, therefore, having regard to the constitutional position, that the reports of the Auditor of the Home Accounts on the accounts of the Secretary of State for India should be submitted to the Legislative Assembly and to the Council of State as well as to both Houses of Parliament and I submit that in due course section 27 of the Government of India Act should be amended so as to provide for such submission.

10. I submit that the appointment of an independent authority such as the Auditor of the Home Accounts to audit the accounts of the High Commissioner for India is incompatible with the constitutional relations between the High Commissioner and the Government of India. This can

best be proved I think by reference to sub-section (7) of section 27 of the the Act which requires the auditor to "lay all his reports before both Houses of Parliament." The High Commissioner for India is in direct subordination to the Government of India and it surely cannot be necessary for the reports of the Auditor of the Home Accounts upon the accounts of the High Commissioner to be submitted to both Houses of Parliament !

11. The High Commissioner for India acts under the direct instructions of the Government of India. His financial transactions, which have to come under the scrutiny of the Auditor of the Home Accounts, are governed entirely by orders of the Government of India and by such compilations of orders as the Civil Service Regulations and the Fundamental Rules. Many of these rules and orders have to be followed by subordinate authorities in India as well as by the High Commissioner. The transactions of the authorities in India come under my audit and it is essential that the authority responsible for the audit of the accounts of the High Commissioner for India and the authority responsible for the audit of similar transactions in India should interpret these rules and orders in the same way. Thus, there is specific provision both in the Civil Service Regulations and in the Fundamental Rules that the final authority for the interpretation of those rules is the Government of India. That authority in practice is always exercised in direct consultation with me and interpretations of those rules are issued by me as "Audit Instructions."

12. Again, under sub-section (1) of section 27 of the Government of India Act, the Auditor's assistants are specified in the Warrant of Appointment of the Auditor. This provision in practice vests in the Secretary of State the power of appointing the Auditor's assistants both gazetted and non-gazetted. As they are appointed under statute their pay is non-voted. The staff working under the Auditor General in India is sanctioned by the Government of India and a greater portion of the funds to meet the expenditure on that staff is provided by the vote of the Legislature. There seem no reason why the staff employed on the audit of the transactions of the High Commissioner should not be sanctioned by the Government of India and why funds should not be voted by the Legislature to meet the expenditure on that staff.

13. I submit, therefore, that in due course section 27 of the Act should be so amended as not to give the Auditor of the accounts of the Secretary of State in Council the statutory right of auditing the accounts of the High Commissioner. I think also it should be made clear that the authority in England who will be entrusted with the audit of the accounts of the High Commissioner shall act in due subordination to the Auditor General in India. Whether the Auditor of the Home Accounts should be asked to act in that capacity on behalf of the Auditor General in India is a question which can remain open for discussion until the Act is so amended as to raise that question.

14. I should state that the present Auditor has met in practice all the more important of the difficulties pointed out above. He submits to the Government of India copies of all his reports. Those reports are submitted to the Legislature and are scrutinised by the Public Accounts' Committee. He does consult me as to the interpretation of rules which have to be applied both in the office of the High Commissioner and in offices in India.

APPENDIX VII.

Memorandum dated 9th December 1925 furnished by the Financial Secretary on Expenditure Control, for the use of Controlling Officers served by Pay and Accounts Offices.

One of the principal objects of the experimental institution of pay and accounts offices is to place controlling officers in a position to exercise that control over their expenditure which, under the reformed constitution, is demanded from the officers responsible for the administration of grants voted by the Legislature.

2. It is desirable to form a clear idea of the general nature of the expenditure control which is expected from a controlling officer by the Government of India and the Public Accounts Committee. The first and most important requirement is that the total expenditure should be kept within the amount of the total grant ; and that, in case an excess is unavoidable, a supplementary grant should be obtained betimes to cover it. It must be remembered, however, that the Public Accounts Committee regards an unnecessary application for an additional grant as a sin only a little less heinous than that of exceeding a grant ; and an application should not be made, except in the case of funds required for an entirely new service which must in any case be brought to the notice of the Legislature, until it is reasonably certain that no spare funds are available within the grant. The test of a new service for the purpose of the above exception should ordinarily be the question whether the Legislature has in the past voted funds for similar expenditure. In certain cases expenditure on a recognised service may, however, be of sufficient importance to justify classification as a new service ; as, for example, the construction of a new police station or a new school. In case of doubt, the Government of India in the Finance Department should be asked for a ruling.

3. A second, and only slightly less important, duty of the controlling officer is to see that none of the appropriations voted by the Legislature under the various units of appropriation within the grant is exceeded unless additional funds have been provided by competent authority. The ordinary procedure, when the probability of an excess over the amount at the disposal of a subordinate disbursing officer under a particular detailed head becomes apparent, should be somewhat as follows :—

- (a) The first step is to examine the state of the allotments given to other disbursing officers under the same detailed head, with a view to the transfer of such sums as can be spared by his colleagues to the officer requiring an additional grant. Since appropriation audit will be conducted against totals of units, there is here no question of re-appropriation in the technical sense of the term. The process amounts to nothing more than a re-distribution, which the controlling officer can ordinarily effect without reference to other authority.
- (b) Should such a re-distribution be found to be impossible, it will be necessary to examine the state of the allotments against other detailed heads under the same unit of appropriation, with the object of discovering probable savings and effecting a re-distribution or re-appropriation, as the case may be.

- (c) If provision of funds from within the unit of appropriation concerned proves to be impracticable, it will next be considered whether a re-appropriation from another unit within the grant is feasible.
- (d) Except, as already indicated, in the case of provision of funds for an entirely new service of sufficient importance to require reference to the Legislature, it is not until the expedients suggested in clauses (a), (b) and (c) of this paragraph are proved to be impossible that the controlling officer will apply, through the usual channel, to the administrative department of the Government of India for a supplementary demand to increase the grant at his disposal.

4. The duties of a controlling officer in relation to the regulation of expenditure against appropriations have been discussed in the two foregoing paragraphs. His responsibilities do not, however, end here. He is required to see, generally, that the grant at his disposal is expended in the best interests of the tax-payer and upon the objects for which it was voted by the Legislature or provided by the Government of India, as the case may be. In particular, he is responsible for the observance of all relevant financial rules and regulations both by his own office and by disbursing officers subordinate to him. He must ensure, for example, that expenditure is not incurred without proper sanction; that funds are allotted to subordinate officers in sufficient time to permit of their economical disbursement during the financial year; and that money is not wasted at the end of the year by hurried expenditure designed to prevent the lapse of grants. In short, the controlling officer is expected to assume before the Public Accounts Committee, if necessary, complete responsibility for the expenditure from his grant, and to explain and justify any particular instance in which his outlay does not conform to that which contemplated by the sanctioned budget estimates.

5. Under the ordinary accounting system of India, control of the desired kind is very difficult. In order to exercise it, the controlling officer requires to be in close touch with the progress of his expenditure, as recorded in the accounts. The accounts are, however, kept by an usually distant Accountant General, whose returns reach the controlling officer many weeks after the incurring of the expenditure which they record. Another drawback of the ordinary system is that expert financial advice cannot as a rule be quickly obtained by the controlling officer. It is largely in order to remove these defects that the pay and accounts offices have been instituted.

6. In the case of a large department, which enjoys the full-time services of a pay and accounts officer, the defects are automatically removed. The accounts are kept, in many instances, under the same roof which covers the office of the head of the department, and, in any case, in close proximity to it. The controlling officer is thus in a position to know, practically from day to day, the progress of expenditure from his grant under the various minor and detailed heads, and to secure, at the shortest of notice, any information which is derivable from the accounts. Further he has at his elbow, in the person of the pay and accounts officer, a financial adviser who is an expert in all rules and orders bearing upon expenditure and accounts and can be consulted before any financial commitment

is incurred. Finally, although the pay and accounts officer is ultimately responsible to the Finance Department, the departmental controlling officer is empowered, in cases which he considers to be cases of urgency, to impose his orders upon him in any matter of accounts or expenditure relating to his grant. Where these conditions exist, the controlling officer is fully equipped with the means of exercising complete control over his expenditure.

7. In an ideal system, every officer ultimately responsible for the administration of a grant or part of a grant would be provided with his own pay and accounts officer and would be in the position outlined in the foregoing paragraph. Grants, and parts of grants separately administered, are, however, very numerous and many of them are very small. It would be a costly measure to provide the officer administering each of them with a separate accounts office of his own; and, for the present at any rate, it has been considered necessary to try the experiment of establishing combined pay and accounts offices to handle the accounts of a number of smaller departments. Even with this system, where the pay and accounts office is located in the same place as the head-quarters of the departmental controlling officer, the latter is still to all intents and purposes in the desired position. His accounts are still readily accessible to him and the advice of the pay and accounts officer is available, even if that officer is not entirely at his beck and call. The position is not quite so favourable in the case of the comparatively few departments which are served by a pay and accounts office situated at a considerable distance, where actual scrutiny of original accounts and verbal consultation with the officer responsible for their maintenance is out of the question. Controlling officers of such departments must rely upon the copies of their compiled accounts which are sent to them by the pay and accounts officer and which usually reach them soon after the middle of the month following that in which the expenditure concerned was incurred; while they are not in a position to take financial advice in any matter which is too urgent to admit of the delay entailed by procedure by correspondence. The punctual receipt of their accounts places them, however, in a far better position as regards expenditure control than they have ever occupied in the past. Moreover, as will be shown in a later paragraph, the pay and accounts officer will afford them material assistance in exercising their control. In the circumstances, it is thought that even those controlling officers who are served by accounts offices located at a considerable distance from them should be in a position to exercise an adequate control over the expenditure from their grants.

8. Before discussing the relations between the pay and accounts officer and the controlling officer for whose accounts he is responsible, it is desirable to form a clear conception of the duties and functions of the pay and accounts officer. He is primarily answerable to the Finance Department, by which he is appointed, transferred and controlled. He is, however, deputed to his present post in order to assist the controlling officer whose accounts he keeps. On behalf of that authority, he scrutinises all claims to money, subjecting them to all the checks ordinarily applied in the Accountant General's office. In the case of a few exceptional classes of bills, this scrutiny is exercised after they have been paid, as in the Accountant General's office. In the great majority of cases, the pay and accounts officer scrutinises the claims before they are met,* and, if he finds them to

be in order, himself pays them by cheque. He then brings all sums disbursed finally to account. It is, of course, his duty to test all claims by reference to the relevant rules and regulations, and to reject any which he considers to be inadmissible, whether for want of appropriation, for want of sanction or on account of any other irregularity. It cannot be too strongly emphasised that, in so functioning, he is securing the interests of the controlling officer. If the latter is to be held responsible for the expenditure from his grant, he cannot but welcome the interposition of an expert authority who will test on his behalf the admissibility of claims before they are honoured. Moreover, it is recognised that, if the controlling officer is to be responsible for his own expenditure, he must be master in his own house ; and he is therefore armed with power, in respect of the expenditure for which he is responsible, to issue written orders to the pay and accounts officer in any case where he does not accept the latter's opinion. The pay and accounts officer is bound to obey such orders when received ; but, as a safeguard against abuse, provision is made that the papers of the case should at once be shewn to the officer in charge of the separate audit establishment, so that he may take the matter up in audit if he considers this course to be necessary. It must be clearly understood that it is the duty of the pay and accounts officer to maintain his own opinion until he is either convinced of its inaccuracy or definitely overruled by orders in writing. He is, however, instructed to adopt always the attitude of an entirely friendly critic towards the departments which he serves and, while using his expert knowledge to save the controlling officer from exceeding his financial powers or committing other irregularities, to avoid unnecessary objections and to assist his departmental chief to devise legitimate means of effecting legitimate objects.

9. It will be obvious from the foregoing paragraph that, in practically every aspect of expenditure control, the initial action will fall to be taken by the pay and accounts officer. He is in a position to watch, practically from day to day, the progress of the expenditure of the various spending officers against the allotments at their disposal ; and he is required, as soon as an excess over an allotment becomes probable, to inform the authority concerned and to suggest the steps which are necessary in order to provide additional funds. If a reference to a subordinate disbursing officer is sufficient to meet the requirements of the case, he will ordinarily refrain from troubling the controlling officer ; but he will meet the wishes of the controlling officer if the latter desires that a report should be made to him in any particular class of case. He is specially instructed to exercise particular vigilance in this respect in the last four months of the financial year and to bring any probable excess which then becomes apparent immediately to the notice of the head of the department and of the subordinate officer, if any, who is competent to regularise matters. Scrutiny so exercised during the month of December is of particular importance, as that is the latest month in which requests may be submitted for supplementary demands. In the following three months, the effort of the pay and accounts officer will be concentrated on the prevention of excesses over appropriation. Again, the pay and accounts officer is in a position to detect, when they first arise, the majority of the irregularities which form the subject of paragraph 4 of this note, and can frequently insist upon their rectification before expenditure is actually incurred.

10. While, however, the initial responsibility for most aspects of expenditure control rests upon the pay and accounts officer, this does not release the controlling officer from his own responsibility in the matter. He may take every advantage of the vigilance of the pay and accounts officer, but he himself receives copies of his accounts and is expected to draw his own deductions from them. It must be remembered that control of expenditure against appropriation cannot safely be based upon accounts figures only. In order to maintain a proper control, it is necessary to know, not only what has been spent from a grant, but also what commitments and liabilities have been and will be incurred against it. This is particularly desirable in relation to outlay upon important non-recurring objects, such as grants and contributions or supplies and services of various kinds. The pay and accounts officer will, as a general rule, have little or no information concerning such commitments, whether incurred by the controlling officer himself or by officers subordinate to him, and it is essential that the controlling officer should make his own arrangements to keep himself fully acquainted with them. He must bear them in mind, not only when considering proposals for re-distribution or re-appropriation of funds, but also when scrutinising the monthly accounts presented to him by the pay and accounts officer. If he examines the accounts of expenditure with reference to commitments, he may often detect a probable excess before this has attracted the notice of the pay and accounts officer. He can then, in consultation with the latter officer, take timely steps to set matters right.

11. As regards irregularities in the financial proceedings of subordinate officers, the controlling officer is not ordinarily in a position to detect these and must rely upon the scrutiny exercised on his behalf by the pay and accounts officer. He must, however, remember that he himself, as the authority which will answer for the expenditure, is keenly interested in the prevention of irregularities. It is therefore most desirable that he should identify the pay and accounts officer, to the greatest possible extent, with his own departmental organisation; and thus add the greatest possible weight to communications addressed from the accounts offices to subordinate authorities. Complete identification of this kind will, of course, not be possible except where the pay and accounts officer serves a single department. In other cases, it is suggested that controlling officers should always be prepared to issue to officers under their control general or special orders proposed by the accounts officer in order to prevent errors and irregularities. The Accountant General has, in the past, been too often regarded as a distant and hostile critic, whose decisions and orders should, so far as may be, be questioned and ignored; and there is a danger that the pay and accounts officer may drift into the same position. This cannot happen if the pay and accounts officer is largely identified with the staff of the controlling officer. An order of the latter will be accepted by subordinate authorities in a very different spirit from that of an Accountant General; and his timely intervention will be amply rewarded if it operates to establish among his officers a tradition of submitting legitimate claims in a regular manner. It is further suggested that controlling officers should not lose sight of the desirability of suitable disciplinary action in extreme cases. Where gross carelessness, perhaps bordering on dishonesty, or continued and obstinate neglect of rules and orders is encountered, an exemplary punishment, the details of which can be communicated to other officers, will produce far more effect than a multitude of circulars and warnings. A system of indiscriminate punishment

has little to commend it ; but the proved certainty that the controlling officer will not hesitate to take severe disciplinary action when the circumstances call for it must be a valuable factor in establishing within a department that spirit of responsibility which is so greatly to be desired.

12. There will, of course, necessarily be some slight division of financial responsibility between a controlling officer and his pay and accounts officer. The former will remain primarily responsible for all expenditure from the grant or grants at his disposal ; but there will be certain cases in which he will be entitled to pass on the whole or part of the responsibility to the pay and accounts officer. The latter must, for example, except where he has been definitely over-ruled by the controlling officer, retain entire responsibility for the technical accuracy of the accounts which he compiles. The controlling officer is entitled to assume that the accounts are accurate and to regulate his expenditure accordingly ; though he may always challenge the accuracy of any particular entry and, in the last resort, may, if he is prepared to face an immediate challenge by audit, require the pay and accounts officer to correct it. In the matter of sanctions to expenditure, the primary responsibility rests with the controlling officer. All sanctions are accorded by himself or by executive authorities subordinate to him, and he must always answer for the acts of his subordinates. If he fears a misuse of delegated power by an officer under his control, it is open to him to move the Finance Department to modify the orders of delegation. No part of the responsibility for an improper sanction can be passed on to the pay and accounts officer, unless it can be shewn that the latter was consulted before the sanction was given and that his advice was followed ; though the pay and accounts officer can be independently held to account for failure to detect an impropriety. Much the same is the case with bills, which are, in effect, claims to receive money. Here again, the claims are submitted by executive authorities and the responsibility for them rests with the head of the executive. The pay and accounts officer, on his side, is entitled to assume that claims are in accordance with facts and to accept as accurate the certificates of administrative authorities. If he is convinced that a certificate is inaccurate, he may refuse to honour the claim and leave it to the controlling officer to over-rule him if he desires to do so ; and, if he is doubtful as to the accuracy of a certificate, he may meet the claim provisionally and refer the case for orders to the controlling officer. These powers of the pay and accounts officer do not, however, release the controlling officer from his responsibility. Many claims will come to the accounts office already countersigned by the controlling officer ; but it will be open to the latter, if he so desires, to have the bills examined in the pay and accounts office before he appends his countersignature. It will also be open to him, if he considers this to be necessary, to move the Finance Department to add to the classes of bills requiring his countersignature. He is thus fully equipped to exercise his responsibility for claims submitted. If the pay and accounts officer has admitted and honoured an improper claim, this will doubtless be recorded against him and may serve, to some extent, as a mitigation of the lapse of the departmental chief ; but the latter will be required to answer for the irregular claim to the Public Accounts Committee. The above examples will give a sufficiently accurate idea of the general position, and it is unnecessary to multiply illustrations. It is sufficient to state that the pay and accounts officer will be required to answer

for mistakes which originate in his own office, such as technical irregularities in his accounts or payments not justified by the claims submitted to him ; for the rest, the controlling officer must accept responsibility for the expenditure from his grants, though he may at times be able to plead, in extenuation of an irregularity, the fact that he acted on the advice of his pay and accounts officer.

13. Reference has been made to the power of the controlling officer to issue written orders to his pay and accounts officer in any matter of accounts or expenditure. Cases may, however, arise where, although the controlling officer is strongly of opinion that the view taken by the pay and accounts officer is wrong, he is not prepared to take the responsibility of over-ruling him. In such cases, it is open to the head of the department concerned to refer the question, for the orders of the Government of India, to the officer on special duty in the Finance Department. The latter will obtain the necessary orders, and will communicate them to the head of the department, to the pay and accounts office and to the audit office. It may be added that the officer on special duty will always be glad to consider any suggestions for the improvement of the experimental system or for the removal of defects in its working in particular offices which heads of departments may care to make to him.

APPENDIX VIII.

Statement showing the recommendations or suggestions made by the Public Accounts Committees of 1923, 1924 and 1925, on which action is still outstanding.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Remarks.
1	That wherever there is an excess over the net grant and no excess over the gross grant, recoveries having been less than anticipated, the formal authority of the Assembly should be required for such excess.	Report of 1923, page 6, para.27 also Report of 1924, page 9, para. 27.	This matter is dealt with in para. 9 of our report for this year.
2	That the Government should take steps to study thoroughly the question of devising adequate methods to ensure the watching of progress of expenditure in local areas from headquarters.	Report of 1924 page 4, para. 9.	Rules have been issued on the subject.
3	That it is desirable to amend and simplify the leave rules, and that the decision in this matter should be expedited.	Report of 1924 page 11, para. 23.	This question is still under consideration.
4	That it is desirable that an inventory of all Government property, buildings, etc., should be kept, and that the adequacy of the existing system of checking dead stock registers should be considered.	Report of 1924, page 11, para. 35.	This question is still under consideration in consultation between the Auditor General and the Industries and Labour Department.
5	That mere provision in the revised estimates is not sufficient to prevent an excess and that specific application from proper authority for a grant is necessary.	Report of 1925, page 5, para.12	Steps are being taken for the issue of necessary instructions.
6	Suggestion that new and important items of expenditure not contemplated when the original estimates were framed, of which the cost can be met from savings within the grant, should be brought to the notice of the Assembly by means of a token vote.	Report of 1925 page 9, para. 20.	This matter is dealt with in para. 19 of our report for this year.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Remarks.
7	That a separate Accounts Office at Peshawar for the N. W. F. Province be established.	Report of 1925, page 12, para. 28.	Chief Commissioner's estimate of cost of providing buildings, etc. is being awaited.
8	That in all cases where the expenditure exceeds the amount granted by the Assembly, though the excess is covered by allotment of funds from the reserve, steps should be taken to obtain a grant from the Assembly to cover the excess.	Report of 1925, pages 13—15, paras. 30—33.	This matter is dealt with in para. 12 of our report for this year.
9	Question whether grants sanctioned by the Legislature should be for gross or <i>net</i> expenditure in cases where recoveries occur which may be taken in reduction of expenditure.	Report of 1925, pages 16—17, paras. 35—36.	This matter is dealt with in para. 9 of our report for this year.
10	That the question of the treatment of losses of revenue due to fraud, defalcation, etc., as a form of expenditure be considered carefully by the Government of India.	Report of 1925, pages 17—18, para. 38.	This matter is still under consideration.
11	That, in order to avoid the risk of defalcation, fees in respect of minor services rendered by Government, <i>e.g.</i> passport fees which are transmitted direct by the collecting officer to the treasury, should be collected by means of stamps.	Report of 1925, page 18, para. 39.	Views of the Departments concerned on the feasibility of the proposal have been invited and the Government of India hope to arrive at a decision soon.
12	Introduction of a system of internal check on Customs receipts, which will ensure an efficient scrutiny of the collection of such dues.	Report of 1925, pages 18—18 para. 40—41.	This matter is dealt with in paragraph 29 of our report for this year.
13	Question of improving the procedure for preventing technical excesses over grants caused by the difficulty of estimating the percentage for establishment and tools and plant in the case of works expenditure.	Report of 1925, page 23, para. 52.	The question is under investigation.

No.	Recommendations or observations made by the Public Accounts Committee.	Reference to Report.	Remarks.
14	That the Military Appropriation Report be reconstituted on the lines of the recommendations made in the Report of Enquiry and accepted by the Government of India.	Report of 1925, page 27, para. 66.	The Auditor General is considering the proposal in consultation with the F. A., M. F.
15	That the system of cost accounting should be placed on a simple and intelligible basis which will provide an effective check on the purchase, stocking and consumption of Military stores.	Report of 1925, page 27, para. 67.	This matter is dealt with in paragraph 34 of our report for this year.

APPENDIX IX.

Memorandum No. 5417-Ex., dated the 10th August 1926 furnished by the Financial Secretary.

SUBJECT :—*Additions to non-voted grants made by the Finance Department.*

At their meeting on the 26th July 1926, the Public Accounts Committee observed that where an excess over a voted sum¹ was anticipated the Government of India applied to the Legislative Assembly for a supplementary grant, while in the case of non-voted expenditure the Finance Department made the necessary additional appropriation. The Committee desired that the possibility might be examined of supplying to the Assembly information as to the additional sums provided in the course of the year for non-voted expenditure. It is understood that the intention was that the Finance Department should produce for the information of the Legislative Assembly at a comparatively late period in the financial year a statement showing the additions and reductions which had been made up to date in non-voted grants. The question has been carefully examined by the Finance Department, and in its opinion it is clearly desirable that the figures, if furnished, should be as near finality as possible. It is accordingly considered that the best method of showing the figures would be to put them up at the same time as the Demands for Grants are presented to the Legislative Assembly so that they may be open to comparison with the revised estimates of expenditure from non-voted grants which will appear in the Demands for Grants. If the Committee agrees, this procedure will be adopted with effect from the Demands for Grants to be presented to the Legislative Assembly in March next.

APPENDIX X.

**Extract from Proceedings of the Conference Financial Representatives,
1925.***Submission of Demands for expenditure in England to Provincial Legislatures.*

As uniformity of procedure was considered desirable, the question was referred to a sub-committee consisting of a representative of each province and Sir Frederic Gauntlett.

Reports of sub-committees.

The Conference next considered and adopted the reports of the sub-committees appointed on the first day. As regards the first report (Annexure A) Sir William Keith explained that the procedure followed by the Government of Burma gave the High Commissioner and the Secretary of State considerably greater power than that suggested by the report of the Sub-Committee ; he therefore proposed to make no change unless the High Commissioner and the Secretary of State desired Burma to come into line with other provinces for the sake of uniformity. Mr. Briscoe stated that the Government of Bihar and Orissa adhered to its view that it was unnecessary to show stores expenditure under the subject Demand unless the amount involved was considerable and did not desire to change its practice unless it was felt that absolute uniformity was essential. Sir F. Gauntlett explained that uniformity of accounts classification would be essential and that it was convenient that the form of the budget estimate should be comparable with the form in which the appropriation accounts were finally compiled.

PROCEDURE FOR SUBMISSION OF DEMANDS IN RESPECT OF EXPENDITURE IN ENGLAND.

Members of the Sub-Committee.

The Hon'ble Sir William Keith.

The Hon'ble Mr. T. E. Moir.

The Hon'ble Mr. H. S. Barnes.

Mr. Miles Irving.

Mr. G. Wiles.

Mr. J. A. Woodhead.

Mr. H. K. Briscoe.

Mr. A. E. H. Blunt.

Sir Frederic Gauntlett.

Mr. J. E. C. Jukes.

As regards expenditure on stores, all the Members of the Sub-Committee save one agree that, for practical reasons, it is desirable that provision for all such expenditure should be made in the relevant subject grant. The representative of Bihar and Orissa adheres to the view of his Local Government that this method should be used in those cases only where the outlay is considerable. Where it is insignificant, provision should be made for it in the grant for expenditure in England.

2. Eliminating stores, the great bulk of the remaining home expenditure is incurred on leave salary and pensions. The Sub-Committee is unanimous in thinking that it is unnecessary to provide for these charges, which are usually inevitable, in the subject grants however heavy they may be. It, therefore, recommends that all expenditure in England, other than expenditure on stores, should be included in the grant for expenditure in England and not in the subject grants. The Sub-Committee thinks it desirable to reserve a right to include in a subject grant and not in the English grant any very item of miscellaneous expenditure in England were such expenditure contemplated in any year.

3. All Members of the Sub-Committee agree in recommending that there should be a single grant for expenditure in England, apart from that on stores, which should cover the outlay of both the Secretary of State and the High Commissioner on both reserved and transferred subjects. They consider that, in view of the comparative unimportance of the voted expenditure involved, practical considerations should in this case prevail over strict considerations of constitutional propriety.

4. The Sub-Committee unanimously recommends that the Secretary of State and the High Commissioner should be given powers of re-appropriation, each within his own share of the combined grant. Re-appropriation from the one share to the other should be effected by the Local Government alone. The powers of re-appropriation conferred should, as suggested by the Government of the Central Provinces, cover the transfer of funds :—

- (i) between the allotments for non-voted expenditure ;
- (ii) between the allotments for voted expenditure ; and
- (iii) from definite savings in the voted allotments to meet an excess over a non-voted allotment ;

and be subject to the conditions that, without the previous consent of the Local Government, no re-appropriation should be made : —

- (a) to meet expenditure of a kind for which no provision has been included in the budget as voted by the Legislative Council, or
- (b) which will have the effect of increasing the expenditure on an item the provision for which has been specifically reduced by vote of the Legislative Council.

The Sub-Committee further considers that the powers of re-appropriation should not be utilised to create a new recurring liability.

5. The Sub-Committee agrees that Gain or Loss by Exchange should be exhibited in the same grant in which the relevant expenditure appears.

APPENDIX XI.

Memorandum furnished by the Accountant General, Central Revenues with reference to para. 1 of the Proceedings of the 13th Meeting of the Public Accounts Committee held on the 3rd August 1926.

It appears that the question of classifying the charges in connection with the maintenance of s. s. "Dufferin" came up for decision in September 1924 and that as the Commerce Department of the Government of India were directly concerned in the matter, the Accountant General, Central Revenues, held, under Article 181 (1) of the Audit Code, that they should be accounted for under '22 General Administration', the only major head appropriate to the expenditure of that Department.

2. The question of obtaining a supplementary vote was apparently not considered, as the Finance Department reappropriated Rs. 17,000 from savings within the provision for the Commerce Department. Perhaps it was not realised that the expenditure might be held to be expenditure on a new service not provided for in the budget, and that it might therefore be necessary to approach the Assembly for a supplementary grant, even though a token grant.

3. On the instructions of the Auditor General the charges in connection with this vessel are now being accounted for under the grant for Posts and Pilotage (Central).

APPENDIX XII.

Memorandum furnished by the Commerce Department with reference to para. 3 of the Proceedings of the 13th Meeting of the Public Accounts Committee held on the 3rd August 1926.

Provision for the Indian Trade Journal is made under "Stationery and Printing". Commerce Department has on record a report from the Director General of Commercial Intelligence to the effect that for the year 1924-25 the cost of producing the journal amounted to Rs. 14,200, credit by scales amounted to Rs. 14,127 and by advertisements to Rs. 22,690. The net proceeds or balance in favour of Government was, therefore, Rs. 22,617. Even if some deduction were made for overhead charges in the Publication Branch, the net profit is probably about Rs. 20,000.

APPENDIX XIII.

Adequacy of the charge of 2 per cent. levied on stores obtained by the High Commissioner.

A charge of 2 per cent. for departmental expenses is levied in the case of stores supplied through the agency of the India Store Department, London, to provincial Government, Local Funds, Railways, Posts Telegraphs, Imperial Irrigation Services, Indian States, private individuals, etc. This charge is of very old standing and was sufficient to cover the costs incurred when partially the whole of the stores required by the Government of India were purchased through the London Stores Department. In 1922 the question of the adequacy of the charge was taken up with the High Commissioner and it was then found that it was satisfactory. During the year 1924-25 the purchases effected by the India Store Department diminished considerably in volume and the percentage of departmental expenses incurred rose to 3½ per cent. This was due to the smaller volume of work carried out for State Railways and also to the fact that it is the policy of Government to make increasing use of the Indian Stores Department. It is difficult to say whether the 2 per cent. charge will continue to be unsatisfactory in future years as Government have now taken over the management of the East Indian and G. I. P. Railways and it is possible that the volume of purchases through the London Stores Department may increase.

2. The Hon'ble Sir Basil Blackett stated that if the departmental charges are not sufficient to cover the expenses incurred, as was the case in the year 1924-25, the Central Government is actually incurring an expenditure on behalf of provincial Governments which is not desirable after the reforms. The Committee, therefore, considered it necessary that the question of the revision of the departmental charges should be re-examined.

APPENDIX XIV.

Memorandum furnished by the Director of Army Audit on the proposal to relax audit in regard to a number of war items.

As a result of the Great War, and of the Afghan War and other hostilities on the North West Frontier of India, the Military Accounts Department had to be expanded far beyond its capacity. Consequently,

nearly every Military Accounts office was composed almost entirely of temporary men, many of the officers also being new to the work. Further, in the administrative services, especially what is now the Military Engineer Service, there was a very serious shortage of officers familiar with the financial side of their duties. Later, when the Military Accounts officers became reorganised, it was found that enormous balances were outstanding, in their Objection Books, of items which could not be passed in audit for want of various audit requirements. Under "M. E. S." the most common audit requirements which were lacking were, want of estimate, excess over estimate, want of vouchers. It is not perhaps necessary to give further detail of the missing audit requirements. This load of objections, it was found, was occupying a great deal of the time of Controllers of Military Accounts and of administrative officers and practically no advance towards its clearance was being made. The sanction of the Secretary of State to the admission of the expenditure which could not be passed in audit was necessary. The position was explained to the Secretary of State and a table of cases sent to him so that he could form an opinion of the nature and extent of the outstandings which had been referred to him. The Secretary of State approved of the principle that the Government of India should be empowered to authorise acceptance of this outstanding expenditure in consultation with the Auditor General. Lists of outstanding items are being obtained from Controllers of Military Accounts and scrutinised in audit and their disposal is now well advanced. The matter is being referred to again in the Audit Report for 1925-26. The bulk of this expenditure which could not be passed in audit falls under Military Engineer Service as already mentioned. The other main heads are Ordnance and Royal Air Force. Apart from these three main divisions, there are only a few items of unimportant amount.

A few typical examples are appended. In nearly all the cases there is a strong presumption that there was little, if any, actual loss : the absence of accounts records, payees' receipts, etc., necessitate the treatment of these items as items of loss though in almost all cases there is information available indicating that the services paid for were actually rendered or that the stores apparently lost must in fact actually have been used.

List of cases.

Subject.	Amount.	Date of write off.	A. D. letter or Despatch to Secretary of State.
Adjustment of the expenditure outstanding in the accounts of A. C. R. E., Derajat, for want of vouchers.	Ra. a. p. 9,172 15 5	July 1917 ..	A. D. letter No. 24310-1 (M. W. 5), dated 23rd August 1922.
Admission in audit without vouchers or details of personal clothing and necessaries issued to recruits of the 49th Bengal, of which no proper accounts have been kept by the O. C.	86,549 12 8	April 1922 ..	A. D. letter No. 34702-1 (Q. M. G. 12), dated 21st April 1922.
Deficiency of technical stores in No. 15 M. T. Coy. Quetta written off. To render this unit mobile, after a Board of Enquiry had found that it was unfit for immediate service, certain technical stores were required and, working on the assumption that such stores had been originally on charge of the unit, loss statements were submitted. Owing to the ignorance or slackness of the units' officers, no books or vouchers were kept and it is doubtful whether the articles were ever issued to the unit in the first instance.	56,602 11 0	June 1922 ..	A. D. letter No. 44209-2 (Q. 8), dated 30th June 1922.
Regularisation of the sum outstanding against the Officer Commanding, Supply Depot, Jamrud, in respect of certain stores supplied to him. No actual loss was involved. The stores were issued to units by the Supply Depot and necessary receipted vouchers were obtained, and sent to the audit officer, who cannot now produce the vouchers.	55,120 4 0	March 1924 ..	A. D. letter No. 53329-1 (Q. M. G. 6-A.), date 10th March 1924.

APPENDIX XV.

Memorandum on the Reconstitution of Postal and Telegraph Accounts.

This memorandum which describes briefly the various decisions that have been reached in connection with the reconstitution of the accounts of the Indian Postal and Telegraphs Department in accordance with the principles of commercial book-keeping, has been prepared for the information of the Public Accounts Committee by the Accountant General, Posts and Telegraphs and the Financial Adviser, Posts and Telegraphs.

Introductory.

2. The need had long been felt for a re-organisation of the accounts of this department so that they should exhibit as accurately and clearly as possible its true financial position, and enable all concerned to ascertain readily therefrom (1) the extent to which the department as a whole was imposing a burden on the general taxpayer or bringing in revenue to the Exchequer, (2) how far each of the three constituent branches of the department, *viz.*, Post Office, Telegraphs, and Telephones, was contributing towards this result, and (3) as a direct deduction from (2), whether the rates charged to the public for the various postal, telegraph, and telephone services were inadequate or excessive. The first definite step was taken in the year 1920 when it was decided to obtain the assistance of some eminent firm of Chartered Accountants in the examination of the existing system of accounts as a preliminary to their reconstitution. This decision was announced by Sir Malcolm Hailey during the debate in the Legislative Assembly on the budget for the year 1920-21. The Secretary of State was able to secure the services of Messrs. Price, Waterhouse & Co. of London, whose representatives toured the country in the following two years and submitted a number of reports which were considered in great detail with the help of the Auditor General. The examination of the reports indicated the necessity for certain changes in the fundamental principles of the accounts and these were referred to the Secretary of State for his orders. The Secretary of State approved in principle the institution of a Depreciation Fund to provide for the timely renewal and replacement of assets and the institution of a properly prepared Profit and Loss account. It may here be mentioned that the proposal to commercialise the accounts of this department (to use a somewhat loose expression) received warm support from Lord Incheape's Committee, and the same policy was strongly advocated by various non-official members of the Legislative Assembly.

Inception of
the Scheme.

3. The preliminaries having thus been settled, strenuous efforts were made to effect the change as rapidly as possible, but as will be readily understood, the work has proved very difficult and tedious and it has required three years' sustained

effort to bring it near completion. In order to meet the imperative demand for the reconstitution of the accounts as early as possible, provisional decisions have been given on a number of important questions so that the budget for the year 1925-26 might be presented to the Assembly in its new form. These decisions still await the final approval of the Secretary of State, and their application may also be modified in detail as experience brings out faults. But in view of the great public interest that has been displayed in the matter the Government of India have decided to take this opportunity of explaining their intentions in order to remove a good deal of misunderstanding that seems to exist on the subject and also to obtain the benefit of any advice and criticisms that the Committee may wish to offer.

**Underlying
Policy.**

4. For the declaration of the policy of Government in relation to the Postal and Telegraph Department of which the change in accounts is merely a form of expression, members are referred to the statement made by the Honourable Sir Atul Chatterjee in the Legislative Assembly on the 12th March 1924, during the debate on the Postal and Telegraph Demand for Grants for 1924-25, in reply to Mr. Neogy. He said * * * * * " I entirely agree with Mr. Neogy in considering that the Post Office should be looked upon as a public utility service. But in the same way as the Railways and any other organisations which are for the benefit of the general public and are looked upon as public utility services should at the same time pay their way, I consider that the Post and Telegraph Department should pay its own and I have the authority of my Honourable Colleague, the Financial Member, in saying that the Government do not look to the Postal and Telegraph Department as a revenue earning Department. I hope this statement will satisfy my Honourable friend. At the same time, I wish him to understand that there is no reason whatever why the Postal and Telegraph Department, if it is properly managed should be a burden on the tax-payer. It has to be remembered that the Government enjoy a valuable monopoly in the Postal and Telegraph Department and in my view that monopoly should be so worked as to be a source of benefit to the general tax-payer without being a burden on him ". Sir Atul's statement defines exactly the objects that have been kept in view in considering and introducing the various changes that are now reported for the information of the Public Accounts Committee.

General Principles.

5. Before describing in detail the more important of these changes it will be necessary to indicate and examine at some length the broad principles on which the whole reconstitution is based. The decision to institute a depreciation fund has already been referred to, and particulars of the procedure for maintaining and operating this fund are given in a later section of this memorandum. The other fundamental decision, on which the whole re-organisation hinges, is that requiring the preparation in accordance with the principles of commercial accounting of

an annual Profit and Loss account of the department. Before this decision could be carried into effect a number of subsidiary decisions had to be taken on various important matters of principle which will now be discussed.

6. It was decided on the recommendation of a conference ^{Reality of the Profit and Loss Account.} assembled by the Auditor General that the Profit and Loss account should be a real account inside the Government accounts. Members of the Committee will be interested to know that this represents a considerable advance on the accounts of any commercial undertaking of the State either in India or in England, because, in every other case the commercial accounts of big departments, like the British Post Office, are *pro forma* accounts, that is to say they are not accounts which form part of the general Government accounts rendered to the representatives of the nation. The Government of India considered and definitely rejected the practice followed by the British Post Office of having two sets of accounts, one in the form usual to Government accounts for presentation to Parliament and the other based on commercial principles to ascertain the exact financial result of the year's working. The advantages to be expected from the decision to make the Profit and Loss account of a commercial department an integral part of the public accounts may appear at first sight to be purely theoretical. The Government of India are nevertheless convinced that the decision must inevitably lead to economy and greater accuracy in accounting. From the very nature of things, a *pro forma* account does not receive the same scrutiny or command the same esteem as does a real account. The psychological effect of a commercial account both on those who render it and on those to whom it is rendered is one of the most important purposes to be kept in view. It can hardly be disputed that this effect is greater in the case of a real account. While this consideration is of great importance in the accounts of any large Government department it is doubly important in the case of the Postal and Telegraph Department which is utilised, on account of its widespread organisation, by other departments to perform multifarious services which are not, strictly speaking, included in its ordinary functions. For instance, military pensions are paid through Post Offices; payments for salt are made into the Post Office; a growing Savings Bank with a large number of branches is managed by the Indian Post Office and a considerable amount of our securities are sold through the same agency. As a natural corollary of the decision just referred to it follows that the Postal and Telegraph Department must receive real credits in respect of the value of these services. Obviously, a department utilising the services of the Postal and Telegraph Department does not pay the same attention to a hypothetical assessment of remuneration for the work it proposes to do through Post Office agency as to an actual claim that it will have to provide for in, and meet from, its own budget. In the latter case the department served becomes at once directly interested not only in seeing that it is not being overcharged but also in watching that due economy is observed

in regard to such work. From the questions that have been asked and the resolutions that have been moved in the Assembly from time to time Government are inclined to think that members of the Public Accounts Committee will appreciate the importance and utility of this decision.

**Adjustments
for
"overlap"
in cash
transactions.**

7. Members of the Committee are aware that Government accounts are based on actual receipts and disbursements of the year and do not ordinarily take into account any liabilities that may remain unliquidated or receipts that may remain unrealised. In commercial concerns, on the other hand, the annual Profit and Loss account is based on "earnings" and "working expenses". The commercial method is not unknown to State accounts and the accounts of State Railways worked by Companies afford a familiar example. The adoption of a similar principle in Postal and Telegraph accounts has received very detailed consideration as it was realised that there are sound practical reasons for the commercial practice which seeks to allocate receipts and expenditure to the year to which they relate. Non-State trading or manufacturing concerns generally aim at making and distributing profits to partners or dividends to shareholders. The personnel of partners or shareholders may change from year to year by demise of partner or transfer of shares, and it is therefore of great importance that the profit (or loss) should be determined for the "accounting period" so that any particular partner or shareholder may receive the profit produced during the period of his connection with the enterprise. Further a partnership or business is subject to taxation, and may at any time be wound up or go into liquidation, circumstances which afford additional reasons for the accurate determination of profits for an accounting period.

8. It was realised that the conditions in a commercial department of Government are in some respects essentially different. Its purpose is not the distribution of dividends but the provision of a public service. The functions for the performance of which these departments exist are assumed by Government either because the magnitude of the undertaking places it beyond private enterprise or to secure the retention by the State of an important monopoly. The termination of these activities is hardly even a remote possibility. Taxation of such a department would only be by Government itself and meticulous accuracy in the assessment from year to year would be unnecessary. Nevertheless it was recognised that if the new accounts were to serve their main purpose of enabling Government to carry out their declared policy in regard to the Postal and Telegraph Department (see paragraph 4 above), the discrepancies between "earnings" and actual receipts and between "working expenses" and actual disbursements could not be wholly ignored. It was therefore ordered that each particular class of transactions should be considered on its merits with a view to determining whether a rigid adherence to the principle, requiring an adjustment to be made for "overlap" would cause undue inconvenience or for any other reason would be inexpedient.

9. The principal classes of transactions concerned are as follows :—

Receipts—

- (1) Sale of stamps.
- (2) Telephones rentals.
- (3) Receipts from other telegraph administrations.

Expenditure—

- (4) Purchase and manufacture of stores.
- (5) Manufacture and printing of stamps and postal stationery.
- (6) Expenditure on renewal and replacement of wasting assets.
- (7) Pay of officers and establishments for March disbursed in April.

An adjustment is actually made in respect of the sale of stamps, the largest receipt item to allow for fluctuations in the balances of stamps unsold to the public in the hands of the postmasters and telegraph masters on the 31st March.

In regard to expenditure item (4), no special adjustment is necessary so far as telegraph stores are concerned since payments for such stores have always been passed through a stores suspense account.

There has in the past been some irregularity in the expenditure on manufacturing and printing stamps and postal stationery but this has been caused largely by the change in the system of purchase and issue, which resulted at one time in the holding of an abnormally large reserve. The manufacture of stamps, etc., in the recently established Security Printing Press at Nasik should tend to stabilise expenditure on this item.

The institution of a depreciation fund ensures the inclusion in the yearly revenue accounts of the proper amount required to provide for the wasting of assets irrespective of the actual expenditure on rehabilitation in any particular year.

10. After careful consideration of the above and other minor items it has been decided that generally speaking the disturbances due to fluctuations in the "overlap" from year to year of receipts and expenditure in the Postal and Telegraph Department are not serious enough to justify the opening of a general suspense head in accordance with the conventional commercial practice. The considerable interval between the end of the official year and the final closing of Government accounts tends further to eliminate inaccuracies in this respect.

11. The case of pensions, which represent a liability maturing considerably after the date on which the service is rendered was specially considered and it has been decided that the actual payments of Postal and Telegraph pensions will be made from the general Exchequer and that the Postal and Telegraph Department will make each year a contribution based not on actual

**Provision
for Pensions**

payments during the year but on the pensionary liability to be met on the retirement of the employees then in the service. For the present the contribution has been fixed at 50 lakhs of rupees per annum, exclusive of extraordinary pensions or those granted under the provisions of the Workmen's Compensation Act. The amount fixed represents a sum roughly equivalent to a fifty per cent. increase on the actual payments of Postal and Telegraph pensions in the year 1923-24. This amount is subject to revision on completion of a special actuarial examination of the department's pensionary liability, now in its preliminary stage.

Treatment of current expenditure of a capital nature.

12. The question of basing the classification of expenditure as between Capital and Revenue (Working Expenses) on its nature or alternatively on the source from which it is financed, as well as the cognate question of interest, received very careful consideration from Government. As regards classification it has been decided to adopt the former alternative under which all expenditure of a capital nature should be treated as such according to the ordinary principles of Accountancy. At the same time it has been decided as a measure of ordinary financial prudence, that expenditure on articles of a perishable and ephemeral nature or below a certain monetary limit should not be treated as capital expenditure. The general monetary limit for the Indian Postal and Telegraph Department has been fixed at Rs. 250 applied to the total cost of any work, but some exceptions have been made in special cases. On the question of the source from which capital expenditure will be financed, Government have, after full consideration, decided to adhere to their past practice of charging expenditure on Post Office buildings and railway mail vans against the revenue grant. So far as the accounts of the Postal and Telegraph Department are concerned however, expenditure on Post Office buildings and railway mail vans will be treated in the same way as other capital expenditure and the decision to meet it from general revenues will make no difference to the department either in the matter of determining the amount available to it for capital expenditure on these items or in the matter of its liability for interest or depreciation.

Interest charges.

13. The question whether interest on capital outlay is a proper component of the annual Profit and Loss account, forms, as the Committee are no doubt aware, one of the standing controversies amongst Accountants. The practice in the accounts of State Railways has always been to levy interest on the total amount of capital invested irrespective of the source from which it was found. From the standpoint of Government, the question is eminently open for decision on considerations of financial and administrative policy rather than on those of accounting theory. No undertaking can obtain the use of capital without paying for such use either by way of dividend or of interest. The former kind of charges, which in any case may be considered to contain an element of interest is out of place in the accounts of State undertakings the object of which is not

profit but performance of certain services of public utility. To enable the department to discharge its functions, certain assets or plant are handed over to it for which payment should be made by way of interest. An account purporting to display the financial situation of a commercial department which failed to take interest into account would fail to disclose the real cost of the undertaking to the tax-payer ; and as Postal and Telegraph accounts are to be real, it necessarily follows that the interest charged against the department should be taken to the credit of general revenues.

14. The opinion has however been strongly expressed and widely supported that as some part of the capital invested in State commercial undertakings has been found out of surplus revenues or cash balances the undertaking is entitled to escape interest on the amount of such investments of revenue surpluses. This view appears to be based on an incomplete appreciation of the financial policy of Government caused perhaps by the existence of major heads described as " Capital Outlay charged to Revenue " in the Government accounts. It ignores the fact that if there have been years of revenue surpluses there have also been years of revenue deficits and that a part of the ordinary National Debt represents borrowings to cover the shortage of revenue receipts as compared with revenue expenditure. The occurrence of a surplus or deficit has not, on the other hand, made any essential difference in the accounts of the Postal and Telegraph Department. For instance, prior to 1921 when it was decided to charge expenditure on telegraph buildings, lines, and apparatus to the head " Capital Outlay not charged to Revenue " all capital expenditure in this department was shown under Revenue regardless of whether there was a surplus or deficit either in the revenue accounts of the department or in the revenue accounts of Government as a whole, the charge to Revenue being conditioned by a financial policy which laid down that certain classes of capital expenditure would always be met from revenue and others from borrowed funds. It may be argued further that to the extent that revenue was utilised in any particular undertaking, to that extent the Exchequer increased borrowings or sacrificed income which could have been obtained by a mere investment of the amount.

15. It has also been urged that during the past 32 years the Postal and Telegraph Department has handed over to the General Exchequer surpluses amounting in the aggregate to approximately ten crores of rupees, but the fact seems to have been overlooked that these surpluses are not commercial surpluses and the reconstruction of the accounts of those years on a commercial basis would most likely give a wholly different result. The reconstruction is now impossible and Government cannot admit an argument based solely on supposition. Government having given due weight to these considerations, have decided that in order to obtain a true account of the department's financial position and a true test of the correctness of the rates charged for its services, interest should be charged to the

department on the entire capital employed in it irrespective of the source from which such capital has been derived. The capital employed in the undertaking will not however be reckoned at the amount shown in the Finance and Revenue accounts of Government as having been sunk in it, but for reasons which are explained subsequently, at a figure very considerably lower.

**Disposal of
Profit or
Loss.**

16. Government have also considered the question of separating Postal and Telegraph from general finances and have come to the conclusion that the separation is not necessary or advisable at present. To provide an incentive for economical working however they have decided to recommend to the Secretary of State that the department should be allowed to utilise any surplus that it may earn, after meeting all the charges required of it under the new scheme, for the reduction of its capital liability, and that on the other hand it should pay interest to General Revenues for the amount of any deficits that might accrue on the working of any year until such time as surpluses become available to cancel this liability.

The Block Account.

**Capital cost
of the
existing
assets.**

17. As an essential preliminary to the actual introduction of the proposals, it was necessary to arrive at an assessment of the value of the property in charge of the department. As it was impossible to obtain from the accounts or from other records reliable information about the exact cost or the age of various properties, the obvious, and perhaps the most satisfactory course would have been to arrange for a commercial valuation by a firm of experts. This however would have been a very costly and lengthy proceeding and in order to economise on the preliminary expenditure, the valuation was made by the application of specially compiled averages to the results of an actual numerical count of existing property. The report on the valuation was prepared by an experienced Telegraph Engineer specially deputed for the purpose and the results were examined in great detail by the Accountant General, Posts and Telegraphs, under the orders of the Auditor General. These two documents, *viz.*, the report on the valuation and the critique of the Accountant General revealed, as was anticipated, a large discrepancy between the total capital cost of the existing assets according to the valuation and as recorded in the Finance and Revenue Accounts. The former amount is actually less than the latter by approximately Rs. 144 lakhs. This shortage is ascribed mainly to two causes. One is that prior to the year 1925-26 no accounts adjustments relieving Capital were made when any asset was abandoned or destroyed. The other and principal source of error is undoubtedly to be found in the incorrect allocation of expenditure between Capital and Revenue under the inadequate and imperfect system of accounts previously maintained. Government have not yet passed final orders on the report but there is little doubt that this shortage will have to be written off the Capital account.

18. In a previous paragraph it has been stated that the department will have to pay interest on the total capital outlay on its property, but Government have decided as a special case and contrary to the decision on the similar case in connection with Railways that the initial amount to be included in the newly started commercial accounts of the department in respect of the capital at charge on the 1st April, 1925, should represent only the depreciated value of existing assets on that date. The depreciated value has been calculated on the usual "straight line" method after a careful estimate of the effective lives and scrap values of different kinds of property. The calculation of depreciated value or its complement, the expired Capital Outlay, on 1st April 1925, has given considerable trouble and was rendered possible only after a number of arbitrary assumptions had been made. The calculations were made by the Accountant General, Posts and Telegraphs, and his results have been provisionally accepted by Government. According to him the depreciated value of assets constructed up to the end of the year 1923-24 on 1st April 1925 was Rs. 8,36,83,308. This together with the expenditure of Rs. 1,05,02,937 incurred in the year 1924-25 on objects of a capital nature forms the initial amount of the Departmental Block Account.

19. The reconstituted Capital account of the department will also include the balances outstanding at debit of Stores and Manufacture accounts, representing respectively the book value of stores and of articles under manufacture, on the 31st March, 1925. These amounts, it will be remembered, used to be included under "Head 18-Capital Outlay charged to Revenue", but have been transferred to "Head 56-Capital Outlay not charged to Revenue" with effect from the 1st April, 1925. Following the existing practice in State Railway accounts, the department will have to pay interest on the average of the opening and closing balances under these accounts for each year. Interest will not however be charged on the portion of these balances that represents the value of material held as part of the Mobilisation Reserve of the Army.

The Depreciation Fund.

20. A Depreciation Fund has been instituted with effect from the 1st April, 1925, to provide for the renewal or replacement of assets as this becomes due. Its amount will be held in deposit with General Revenues and will be entitled to receive interest from the same source. The amount of this interest will be credited to the Fund and not to the revenues of the department so that a smaller annual contribution from working expenses than would be required on the ordinary 'straight line' method will be sufficient to provide against the wasting of assets. The latter method is the one more generally adopted by commercial concerns, but there are some special considerations applicable to the Postal and Telegraph Department that led the Government to prescribe the 'sinking fund' method in this case. It was considered that in the present state of the department's finances the annual contributions necessary in order to

Stores
balances.

Adoption of
the "sinking
fund" in
preference
to the
"straight
line"
method.

provide for the replacement or renewal of assets as this falls due should be reduced to a minimum. It would in fact have been impossible to provide for depreciation on the 'straight line' method without an increase in postal and telegraph rates if the department was not to run at a heavy loss. Moreover in a State commercial undertaking there is not the same necessity for accumulating in the Depreciation Fund amounts that will at every stage of the life of each asset be equal to the accrued depreciation; it is sufficient if the original cost is available in the Fund on the date replacement is expected.

Arrears of Depreciation

21. As a Depreciation Fund is being started at an intermediate stage of the life of the assets of the department it will be required to provide only for such 'depreciation' as occurs after the 1st April, 1925. The balance of the amount required for renewing or reconstructing the assets existing on the 1st April, 1925, or the 'arrears of depreciation', as it may be called for convenience, will be financed from capital advances. This decision was arrived at, after a full consideration of a number of different plans on the analogy of loans to local and municipal bodies for their commercial undertakings. As a rule, if the repayment of the loan *plus* the interest thereon is arranged for within the effective life of the assets created from the loan, it is not incumbent on the local authority to make separate provision for depreciation of the property. Due weight was also given to the fact that a certain indefinite amount of revenue surpluses earned by the department in past years has been appropriated to General Revenues.

Principle of Allocation between Capital and Revenue.

22. The decision (1) to initiate the capital account of the department with the depreciated value of its assets, (2) to finance the arrears of depreciation by means of capital advances and (3) to institute a Depreciation Fund have rendered necessary a radical departure from the rules of allocation between Capital and Revenue hitherto followed in this and other departments. In railway accounts, until recently, the criterion for such allocation was improvement in 'earning capacity', while the consideration of comparative cost was decided subsidiary. The former criterion was not observed as rigidly in the Telegraph Department and greater attention was paid to considerations of cost. With effect from the 1st April, 1925 'comparative cost' has been made the sole criterion for such allocation between Capital and Revenue (*i.e.*, the Depreciation Fund or Arrears of Depreciation as the case may be). It has also been decided that Capital should be relieved of the amount at its charge in respect of any property that may be abandoned or destroyed. It may be mentioned that these were the only two instances in which Messrs. Price, Waterhouse & Co., stated that the rules then in force for allocation of expenditure in this department were not in accordance with commercial practice.

Form of the Accounts.

Capital Accounts.

23. The accounts of the department have been remodelled to comply with the various decisions of policy that have been reported in the previous paragraphs. The main capital account

of the department will be compiled under the major head ' 56-Capital Outlay not charged to Revenue ' with suitable subdivisions to show the expenditure in each branch of the department and on each kind of asset for which a separate effective life and residual value have been fixed, so that the calculation of the amounts required from each branch for depreciation of assets or interest on capital may be made easy. The capital account once started will not be liable to reduction on account of accruing depreciation. This, which corresponds with the double account system of commercial book-keeping, has always been the practice in Government accounts and Government have decided to adhere to it. The contributions for depreciation will be, as already stated, funded with Government and will earn interest.

While the main major head of account will be the one mentioned above, there will be a corresponding major head in the revenue section of the Government accounts entitled ' 18-Capital Outlay charged to Revenue ' to record by a lump sum transfer the total capital outlay on each branch met out of general revenues or the cash balances of Government. At present the only class of capital expenditure dealt with in this way is that on Post Office buildings and railway mail vans (see paragraph 12 above).

24. The entire expenditure on renewals and replacements is, for the present, initially compiled under another subdivision of the major head ' 56-Capital Outlay not charged to Revenue ' entitled ' 56-I (b)-Expenditure on Renewals and Replacements (debitable to Capital until arrears of depreciation are wiped off) '. As this expenditure has to be shared between capital advances from General Revenues and the Depreciation Fund, the portion relating to the latter, as determined by the application of the rules of allocation of expenditure, will be transferred to the Fund leaving only the portion financed from Capital at charge of the capital account. This method is not altogether satisfactory but it has been introduced provisionally pending a decision on the general question of a further splitting up of Postal and Telegraph votes, which is now under examination.

All these heads of accounts, viz., 56-Capital Outlay not charged to Revenue, 18-Capital Outlay charged to Revenue, and the Depreciation Fund are subdivided to show separately the amounts relating to each of the branches—Post Office, Telegraphs (including Radio Telegraphs), and Telephones.

25. The principle governing the design of the Revenue account is that the record of expenditure shall be so arranged that a separate Profit and Loss account may be prepared for each of the branches mentioned above. A separate Profit and Loss account will not be prepared for Wireless Telegraphs as they form and are operated as an integral part of the ordinary telegraph system of the country. The revenue account of the department is compiled under two major heads—' XV-Gross Receipts deduct Working Expenses ' and ' 17-Interest '. Both these major heads have been suitably subdivided to facilitate

the preparation of a Profit and Loss account for each branch. The plan by which the separation has been effected is complicated, because in its organisation the Postal and Telegraphs Department is highly centralised and there is a considerable amount of expenditure that relates to all three branches and not to any one of them. In consequence of the necessity for budgetary and financial control over its operations it is not possible to attempt a distribution of such general or joint expenditure in proper proportions to individual branches in the initial compilation of receipts and working expenses. For this stage it has been considered sufficient to separate the expenditure relating solely to one branch from that relating to all or any two of the branches. This has been achieved by providing 15 Abstracts of receipts and expenditure as detailed below :—

Receipts.

- A.—Postage and Message Revenue.
- B.—Miscellaneous.

Expenditure.

- C.—Direction.
- D.—Account and Audit.
- E.—Traffic Control.
- F.—Engineering Expenses.
- G.—Pensionary charges.
- H.—Stamps and Postcards.
- I.—Stationery and Printing.
- J.—Postal Expenses.
- K.—Telegraph Traffic.
- L.—Radio Expenses.
- M.—Telephone Expenses.
- N.—Provision for Depreciation.
- O.—Credits to Working Expenses.

Each of these abstracts brings together either all expenditure of one kind or all expenditure under the control of one authority. Abstracts N.—Provision for Depreciation, I.—Stationery and Printing, and G.—Pensionary charges, are examples of the first kind, while abstracts C.—Direction and D.—Account and Audit illustrate the second. Within each abstract have been provided a suitable number of subdivisions so as to separate general and joint expenditure from that relating to any particular branch. At the end of the year the expenditure recorded under heads common to two or more branches will be apportioned between the branches to which it relates by methods which have been specially devised to suit the nature of the various classes of expenditure. It would not be possible to give a complete account of these methods without extending this memorandum to an inordinate length. It will thus be seen that at

the time of closing the accounts, the entire expenditure of the department including that incurred in England and the Exchange will have been recorded partly under the heads relating to individual branches, and partly under general and joint heads the total expenditure compiled to which is apportioned between the branches concerned. The preparation of a separate Profit and Loss account for each branch will subsequently consist of a more arithmetical addition of these amounts.

26. It may be mentioned that instances of services performed by one branch of the department for another have not been overlooked. The most important is that of combined Post and Telegraph Offices. A formula to determine the cost to the Post Office of handling telegraph traffic has been evolved after very careful consideration and it has been decided that the Post Office should receive credit for the amount so computed at the expense of the Telegraph branch. A large adjustment too will probably be necessary in respect of the cost of telegrams issued on postal service although this will be offset to some extent by a counteradjustment representing the value of free postal services rendered to the Telegraph branch. An examination of these and other instances of mutual service is in progress. When the investigation is complete, steps will be taken to carry out such adjustments as may be considered necessary for the purpose of drawing up the Profit and Loss account of each branch. There is reason to believe that the ultimate results arrived at may indicate that neither the Post Office nor the Telegraphs is working at an appreciable profit or loss.

APPENDIX XVI.

Proceedings of the first meeting of the Committee appointed to examine the Audit and Appropriation Reports on the Army Accounts for 1924-25 held on the 28th June 1926 at 3 p. m.

PRESENT :

Hon'ble Sir BASIL BLACKETT	<i>Chairman.</i>
Mr. J. E. C. JUKES, Finance Secretary	..	} <i>Members.</i>
Mr. E. BURDON, Army Secretary	
Mr. A. F. L. BRAYNE, Financial Adviser, Military Finance.	..	} <i>were also present.</i>
Colonel G. W. ROSS, Military Accountant General	..	
Sir FREDERIC GAUNTLETT, Auditor-General	..	
Mr. A. G. BARR, Director of Army Audit	

The Committee first took up paragraphs 51 to 65 of the letter from the Auditor General to the Finance Secretary, dated the 4th June 1926 in regard to action taken on the remarks by the special Committee on the Accounts for 1923-24.

2. *Paragraph 52.*—The Director of Army Audit explained that any improvement in local audit was largely a question of staff. The Committee noted that with the abolition or reduction of cost accounting a considerable improvement in local audit could be anticipated. It was decided not to enter into questions connected with the proposal for the abolition of cost accountings.

3. *Paragraph 54.*—The Military Accountant General stated that the question of the preparation of an office manual is in abeyance pending charges connected with the question of cost accounting.

4. *Paragraph 57.*—It was stated that the new Military Engineer Service Account Code and the reorganisation of the Military Engineer Services were leading to considerable improvements in the accounts. The Committee noted the statement with satisfaction, as also the statement of the Auditor General that the administrative authorities welcome the assistance given them by the Military Accounts department and the Test Audit department.

5. *Paragraph 61.*—With a view to minimising the lapse of time which occurs between the commission of an offence and the moment when it is brought to the notice of headquarters, the Committee decided to recommend that the local Controller, as soon as any case of financial irregularity comes to his notice which seems likely to be of a serious character, should send to the financial Adviser, Military Finance, a copy of the letter or Questionnaire addressed by him to the local administrative authorities, and inform them that he has done so. With regard to the question of providing local military authorities with adequate legal advice, the Committee understood that the matter was being actively pursued in consultation with the Government Solicitor.

6. *Paragraph 65.*—The Committee were informed that, apart from the publicity given to the recommendations in this paragraph by its publication together with the Report of the Committee on Public Accounts, special orders have been issued by the Commander-in-Chief emphasising the responsibility of all subordinate military authorities in regard to all financial matters with which they are concerned.

AUDIT REPORT FOR 1924-25.

7. The Committee then turned to the Audit Report for 1924-25.

PART I.—*Preliminary.*

Paragraph 4.—The Committee noted with satisfaction the view expressed by the Director of Army Audit and confirmed by the Financial Adviser, Military Finance, that the co-operation of the two departments was leading to constructive results and the improvement of audit and accounts methods.

PART III.

8. (*Page 3 at bottom*)—The Committee were informed that the proposal to relax the requirements of audit in regard to a large number of outstanding war items awaiting clearance had been approved by the Secretary of State and was being acted upon.

9. (*Page 6 at top*).—It was pointed out that the detection of the various defects and irregularities brought to light in this Report was the outcome of the efforts of both the Military Accounts department and the Test Audit staff. It is intended that in future reports the contribution of each department should be separately stated.

10. (*Page 7, paragraph 2*).—The Committee desired to emphasise the importance of communicating to the Military Accounts department copies of all orders required by them for their work. They were given to understand that the arrangements now in force provide for this. When an accidental omission occurs, Controllers of Military Accounts should be careful to apply for the orders of the Government of India and not for the orders of a branch of Army Headquarters.

11. (*Page 7, paragraph 3*).—The Committee decided in dealing with this Audit report, to concentrate their attention mainly on cases other than those which arose out of war conditions or post-war disturbances.

12. (*Page 11, paragraph 3*).—It was pointed out that an officer before discharge is required to obtain a Clearance Certificate in war time and a No Demand Certificate in peace time. In the case mentioned, a certain sum of money had actually been recovered from the officer's gratuity, so that he did not escape altogether scot-free. The case moreover belongs to the period of confusion attendant upon demobilisation when amongst other things audit and accounting were themselves in arrears, and it would have been impracticable in all cases to detain and continue to pay salary to temporary officers until accounts had been fully rendered and cleared.

13. (*Page 13, paragraph 5*).—The Committee raised the question whether in cases of this kind an expression of the Commander-in-Chief's displeasure was sufficient punishment. It was pointed out that action had been taken locally in accordance with the Army Act, that this precluded higher authority from reopening the matter, save to a very limited extent, and that an expression of the Commander-in-Chief's displeasure was regarded as a very serious thing in the army. It was decided that the Adjutant General should be examined (*vide paragraphs 36–39 infra*) on the point whether measures can be taken to prevent cases from being dealt with summarily, which on their merits require to be dealt with by a weightier procedure.

14. (*Page 21, paragraph 2*).—Overpayments to non-commissioned officers of the kind here described have since been obviated by instructions which require that the men concerned shall be placed upon the India Unattached List rates of pay from the commencement of their employment in Ordnance or Arsenal posts.

15. (*Page 25, paragraph 1*).—The Committee discussed briefly the financial arrangements regarding the Okara Farm, but came to the conclusion that there does not appear to be any need to alter the existing system of utilising receipts.

16. (*Page 25, paragraph 4*).—It was decided to question (*vide paragraph 40 infra*) the Master General of Supply with regard to the loss on mild steel here mentioned, the Auditor General pointing out at the same time that the dates of the various incidents referred to should be given in the report.

17. (*Page 26, paragraph 6*).—The Auditor General stated that this question of accounting in factories is under examination.

18. (*Page 33, paragraph 3*).—It was decided that the Foreign and Political Department should once more be asked to consider the possibility of requiring Indian States to deposit in advance the approximate cost of contribution works carried out on their behalf. It is understood that in certain other analogous cases, information regarding which can be obtained from the Auditor General, the Rulers of Indian States have already consented to such an arrangement.

19. It was pointed out that in practically every case of financial irregularity in which the need for disciplinary action was suggested in the Audit Report, this aspect of the matter had been fully considered by the Government of India, and whatever decision had been arrived at had the general concurrence of the Finance Department, while in certain cases the Director of Army Audit himself was a party to the discussion. It was proposed that for future Audit Reports the Auditor General should be given an opportunity of seeing the original papers containing discussions of this kind in order that mention might not be made unnecessarily of cases in which further disciplinary action was really impracticable or unjustifiable, or both. The Auditor General said that he would welcome the opportunity offered but must retain discretion to decide when such cases should or should not be mentioned.

20. It was also suggested that it might at times be advantageous for the Director of Army Audit to bring prominently to notice at an early stage cases of financial irregularity in which it seemed to him that the process of investigation or remedial action was being carried out inadequately. It was agreed

that the Director of Army Audit should be at liberty to bring such cases to the notice of the Financial Adviser, Military Finance, who should then, if he thought fit, invoke the authority of the Army Secretary. But it was agreed that on such occasions special care must be taken on all hands to ensure that the Audit Department's action does not trench upon, or relieve, the responsibility of the administrative authorities.

21. (*Page 35, paragraph 6*).—The irregular issue of coal here mentioned was noted by the Committee as another example of the delay in the detection of irregularities due in some measure to disorganisation of audit and accounting machinery.

22. The question arose whether any accounts were at present kept of the losses suffered by Government through fire, with reference to the accepted policy of not insuring Government property. The Auditor General thought that the information was probably available, and it might be desirable to keep a regular but simple account of such losses. He undertook to look into the matter.

23. The Committee decided to examine the Adjutant General, the Quartermaster General, the Master General of Supplies, the Financial Commissioner, Railways, and the Financial Adviser, Military Finance, in regard to certain matters dealt with in the Audit and Appropriation Reports (*vide* paragraphs 36—39, 40, 41, 42—47 and 48 *infra*).

Proceedings of the second meeting of the Committee appointed to examine the Appropriation Report on the Army Accounts for 1924-25 held on the 29th June 1926 at 3 p.m.

PRESENT :

The Hon'ble SIR BASIL BLACKETT, *Chairman*.

Mr. J. E. C. JUKES, Finance Secretary.

Mr. E. Burdon, Army Secretary.

Mr. A. F. L. BRAYNE, Financial Adviser, Military Finance.

Colonel W. G. ROSS, Military Accountant General.

SIR FREDERICK GAUNTLETT, Auditor-General.

Mr. A. G. BARR, Director of Army Audit.

24. The Appropriation Report was discussed.

25. (*Page 2, paragraph 8*).—Attention was drawn to the item connected with the railway lay-out at Jamrud, which has now been abandoned as a railhead owing to the construction of the Khyber Railway. Information was desired as to how the dismantled material is to be utilised, what further expenditure is involved, and how this can be adjusted. The Financial Adviser, Military Finance was asked to take the subject up.

26. (*Page 4, paragraph 14*).—With reference to individual transfers from the Indian to the English estimates made in the course of the year and not eventually required, the Committee were informed that no formal re-appropriations from the Indian to the English estimates are made, and that savings are merely ear-marked in India against expenditure in England. The Financial Adviser, Military Finance, was asked to examine the subject and to make definite recommendations to the Government as to future procedure.

27. (*Page 5, paragraph 18*).—The Committee noted with satisfaction that the arrangements for watching the progress of expenditure have become more effective. Referring, however, to paragraph 50 of the Auditor General's letter dealing with the Appropriation Report, and to numerous pieces of evidence of a very significant character derived from their own examination of the Appropriation Report, the Committee expressed the opinion that the present system of accounts is not only too complicated to enable the progress of expenditure to be readily watched from the accounts, but also the accounts contain so many "book" and conventional items, and are in so many respects divorced from actual facts that, as a means of watching and regulating expenditure, they are of little, if any, practical value. It is admitted that the fairly good working results of the past two years have been derived from a check confined to certain items of the Budget only and one based on the monthly statements of Treasury issues.

28. (*Page 11, paragraphs 31 and 32*).—The Committee noted that the lump cut of 45 lakhs of rupees from the Budget as a whole had been justified, but commented upon the fact that it had not been possible accurately to allocate the cut among the different army grants. The explanation is to be found in what has been said in paragraph 27 preceding.

29. (*Page 13, paragraph 39*).—The excess of 52 lakhs of rupees under 'Working expenses of Depots' should have been explained in greater detail. The loss was due partly to re-pricing and partly to actual losses. Similarly, in the case of a loss of over a crore of rupees under the same head, the Committee would have been glad to know in detail if these were real money losses or merely book-keeping adjustments.

(*Page 19, paragraph 61*).—Gross expenditure and gross receipts are swollen by departmental charges on the one side and the adjustment of the same charges as recoveries of departmental expenditure on the receipt side. This result is objectionable and even absurd. It would be interesting to know to what extent accounts are swollen by this procedure. It was stated that the figure probably exceeded 2 crores. But in view of their general observations in regard to the present system of accounts and to the fact that a radical alteration of the system is now under discussion, the Committee decided not to comment further on the matters mentioned in this paragraph.

30. (*Paragraph 29 of the Auditor General's letter*).—The Army Secretary explained that in the case of army expenditure there are certain special principles governing the matter of reappropriation. In certain fairly well defined classes of cases, money, which had been correctly provided in the estimates on the basis of information then available, but which, owing to unforeseen circumstances, was subsequently found not to be required for the

purpose for which it had been entered, was not regarded as at the disposal of the administrative authority controlling the Army Department, i.e., His Excellency the Army Member and Commander-in-Chief. The provision in such cases reverted to the Government of India, and it was for them to decide whether the money should lapse or should be diverted to some other purpose, as in the case mentioned in the Auditor General's letter. The Committee were referred to correspondence with the Secretary of State on the subject of the abolition of the schedule system, in the course of which the principles regarding reappropriation were discussed. The Committee agreed that while reappropriations to new and optional expenditure, such as that mentioned in the Auditor General's letter, may be made with due authority, and for a desirable purpose, it would be convenient for such reappropriations to be mentioned in the annual Appropriation Report, notwithstanding also the fact that in the strictest sense appropriation audit must be directed primarily to the grant for military services as a whole. The Committee considered that a distinction should certainly be observed between reappropriations made to cover excesses in normal expenditure elsewhere and cases in which savings were reappropriated to cover the cost of new measures which were not provided for in the estimates.

31. As a further example of the disadvantages of the present system of accounts, the Financial Adviser, Military Finance explained that the loss of Rs. 31 lakhs referred to in paragraph 40 of the Auditor General's letter was due to repricing and book adjustments. The additional 20 lakhs was also due to book adjustments. The reduction of Rs. 35,94,000 was not due to savings in the purchase grant but represented a minus adjustment in the stock account due to repricing of the stock of animals in the Remount Depot.

32. The Home Accounts were then examined. It was noted that the aviation charges in the High Commissioner's accounts were under scrutiny, the Financial Adviser, Military Finance, having protested against the overhead charges.

33. In the report on the Secretary of State's accounts the case of the British Service officer, remaining at the Quetta Staff College after his unit had left the Indian establishment, elicited from the Military Accountant General the comment that the Staff College auditor could not be expected automatically to link up with his audit of the officer's pay the fact that his battalion, situated in some other part of India, had been transferred to the Home establishment. It was admitted, however, that the necessary information was actually available, and the Military Accountant General undertook to issue instructions with the object of preventing similar lapses in the future.

34. The Committee considered that the question of the incidence of charge of Royal Indian Marine pensions brought to notice in paragraphs 22 and 23 of section II of the Home Auditor's Report on the accounts of the Secretary of State required to be specially examined by the Financial Adviser, Military Finance, who undertook to ascertain what arrangements are now in force and whether anything further is necessary in order to secure correct adjustments.

35. (*Paragraph 36, Section II, of the Home Auditor's Report on the Secretary of State's Accounts*).—The transaction connected with the replacement of the Royal Indian Marine steamer 'Elphinstone' appears to have been in order up to the point at which payment was made by the India Office, but an irregularity appears to have occurred later when the sum of £10,000 paid by the India Office, was placed to the credit of a Suspense Account by the Admiralty and subsequently refunded. It may be desirable for the Public Accounts Committee to comment definitely upon the matter, but in the first instance a further and more detailed statement of the facts should be obtained from the Marine Department by the Financial Adviser, Military Finance.

Proceedings of the third meeting of the Committee appointed to examine the Audit and Appropriation Reports on the Army Accounts for 1924-25 held on the 30th June 1926.

PRESENT :

Hon'ble Sir BASIL BLACKETT, *Chairman*.

Mr J. E. C. JUKES, Finance Secretary

Mr. E. BURDON, Army Secretary

} *Members.*

Mr. A. F. L. BRAYNE, Financial Adviser, Military Finance,

Colonel G. W. ROSS, Military Accountant General

Sir FREDERICK GAUNTLETT, Auditor General

MR. A. G. BARR, Director of Army Audit

} were also present.

36. The Committee examined Major General Sir Walter Leslie, K.B.E., C.B., C.M.G., D.S.O., Officiating Adjutant General in India with reference to certain cases brought to notice in the Audit Report.

37. (*Page 13, paragraph 5*).—The Adjutant General corroborated the Army Secretary's statement that action had been taken locally in accordance with the Army Act, and that this precluded higher authority from reopening the matter, save to a very limited extent. The Adjutant General further explained that a severe reprimand was a statutory punishment which is entered in an officer's record of service, and carries with it serious consequences. It was further explained that if a case were dealt with summarily which, on its merits, ought to have been dealt with by a weightier procedure, the only action which higher military authority could take was to censure the local military authority responsible for applying the summary procedure; and this action would undoubtedly be taken if justified by circumstances. An expression of the Commander-in-Chief's displeasure is an executive punishment additional to the severe reprimand awarded under the Act, and such expression is certainly regarded in the army as a serious thing.

38. (*Page 28, paragraph 1*).—The Adjutant General explained that transfers of family pensions from another heir to the widow were sanctioned under regulations by the Army Commander. All other cases of transfers were decided by the Government of India, who had power to make such transfers at their discretion. It was further explained that the primary

intention of Government was that family pension should be drawn by the widow, but that, for a variety of special reasons, soldiers were often reluctant to nominate the widow as the heir. Transfer of pension to the widow was therefore a normal proceeding, and for this reason the power of sanction had been delegated. Cases in which doubt exists whether death is attributable to military service, and in which consequently there is a doubt whether family pension is admissible or not, are, it was explained, decided by the Government of India and by no lower authority. In each case the concurrence of the Finance Department is obtained before the pension is granted. It was pointed out that in such cases, when the doubt is resolved, the logical course would be to grant the pension with effect from the date of the death of the person from whom the claim to pension is derived, and not from any later date. Recently a practice had arisen of adopting the less favourable date, the grant of the pension being treated more or less as an act of grace. The question has been raised whether this is a justifiable practice, and the matter is under consideration.

39. The Committee accepted the foregoing explanations as sufficient and elicited generally from the Adjutant General the fact that, since the confusion of war had been cleared up, a very much higher standard of financial discipline had been imposed and that irregularities involving fraud and misappropriation have greatly diminished in frequency.

40. Major-General Sir Edwin Atkinson, K.B.E., C.B., C.M.G., C.I.E., Master General of Supply, was then examined with reference to the loss by deterioration of mild steel brought to notice on page 25, paragraph 4 of the Audit Report. The Master General of Supply explained that the case occurred before he assumed his present office, that the mistakes which had been made must be accounted for largely by the state of confusion in which not unnaturally the factories were found to be after the conclusion of the war, and that owing to numerous changes of personnel it was impossible to fix the responsibility upon any individual officer. General Atkinson further explained in considerable detail the remedial action which has since been taken under his orders. In the first instance a scientific examination of the problem of war reserves and arrangements with the trade had rendered it possible to reduce the maintenance of reserves of steel to a minimum, and such steel as is now stocked is stored in such a way as to eliminate the risk of serious loss by deterioration and to facilitate periodical examination of the stocks in hand and their protection against injurious climatic influences.

41. The Financial Adviser, Military Finance, was then examined with reference to certain cases, and the Committee ascertained to their satisfaction that steps had been taken to prevent similar lapses in the future.

Proceedings of the fourth meeting of the Committee appointed to examine the Audit and Appropriation Reports on the Army Accounts for 1924-25 held on the 1st July 1926.

PRESENT :

Hon'ble Sir BASIL BLACKETT, *Chairman.*

Mr. J. E. C. JUKES, Finance Secretary

Mr. E. BURDON, Army Secretary

Mr. A. F. L. BRAYNE, Financial Adviser,
Military Finance

Colonel G. W. ROSS, Military Accountant
General

Sir FREDERIC GAUNTLETT, Auditor General

Mr. A. G. BARR, Director of Army Audit

} *Members.*

} were also present.

42. The Committee examined Mr. A. A. L. Parsons, C.I.E., I.C.S., Financial Commissioner, Railways, with reference to cases in which it had been reported that claims against railways preferred by the Army authorities had been unsuccessful owing to delay in preliminary discussion, and the claims then becoming time-barred. Mr. Parsons explained the legal position of railways in regard to this matter, and it was agreed that the following action should be taken :—

- (a) A form should be drawn up for use by all Army authorities in presenting claims against railways.
- (ii) A list should be drawn up of the appropriate officers on the various railways to whom claims must be presented, if they are to be valid.

It was further explained that the claims need not be precisely valued in the first instance. The important point is that a formal claim should be presented in all cases without any delay. A claim valued approximately and presented on the approved form to the appropriate officer of the railway would not become time-barred as the result of discussion taking place after the first presentation of the claim. Mr. Parsons kindly undertook to assist in drawing up the required form and list.

43. Major General C. N. Macmullen, C.B., C.M.G., C.I.E., D.S.O., officiating Quartermaster General in India who had assisted in the discussion regarding railway claims, was then examined with reference to the cases reported on pages 13 to 17 of the Audit Report relating to losses sustained in connection with the hire of transport. General Macmullen explained very fully the action which had been taken in order to put the whole matter upon a proper footing. This action consisted of :—

- (i) The control of the hire of transport has been placed in the hands of the local transport officer whose primary duty is to see that Government transport is fully utilised before private transport is hired.

- (ii) A revised form of contract has been drawn up in consultation with the Government Solicitor.
- (iii) Rates are settled by competitive tender in consultation with the local Controller of Military Accounts.
- (iv) Special forms and procedure have been devised with a view to obviating loss and fraud in regard to the presentation of bills, indents, etc.

The matter was dealt with in India Army Order No. 119 of 1926 and Indian Army Service Corps Orders Nos. 26 and 51 of 1926 (Appendix), in which not only were full instructions regarding the revised procedure given, but also cases of loss which had occurred in the past (some of these being the cases mentioned in the Audit Report) were given as examples with the object of putting the local military authorities on their guard against the occurrence of similar losses or frauds in the future.

44. (*Page 21, paragraph 5*).—The Quartermaster General explained that during the war much inferior clothing was of necessity purchased and he acknowledged that during the war inspection had been inadequate. In the post-war system this has been remedied. Every garment is now inspected at the factory before it is issued to the store-holding department and periodical examinations take place in respect of all garments except a few categories which have a small turn over, for example, blue hospital coats.

45. (*Page 23, paragraphs 8 and 9*).—The Quartermaster General admitted that these cases, which took place before he assumed his present office, were unsatisfactory. He, on the other hand, emphasised that the quality of the wines and spirits in question was exceedingly bad, and that they were probably not worth more than the price obtained.

46. (*Page 27, paragraph 4*).—The Quartermaster General strongly deprecated the introduction of the system of cash payment for repayment issues made from arsenals and supply depots, as in his opinion it was undesirable that the subordinate and other officials concerned should be called upon to handle cash unnecessarily. He suggested that payments should be made by deduction from the purchaser's pay bill, and that the voucher on which the repayment issue is made should contain among other things a formula to the effect that the purchaser agrees to the price being deducted from his pay. There should be no limit to the amount which may be recovered from an officer's pay on this account. That an officer should be allowed to purchase articles from Government stores is in itself a concession, and Government are entitled to lay down the necessary conditions with the object of preventing the concession from being abused and the taxpayer suffering loss.

47. With reference to fires which had recently occurred the question was raised that while it is no doubt economical and justifiable for Government not to insure their property, there is a fallacy in this proceeding unless at the same time Government buildings, etc., are provided with such arrangements for protection as would be insisted upon by an insurance company in the case of private buildings which it was desired to insure. The Quartermaster General acknowledged the correctness of this proposition and stated

that very many army buildings were so ill-equipped in this particular respect that no insurance company would agree to insure them. He further pointed out that to make the buildings insurable, in the technical sense, would cost large sums of money. The Committee were of opinion that the subject here discussed should be more precisely examined by the administrative and financial authorities.

48. The Financial Adviser, Military Finance, was then examined on the question of the frequent transfers of senior officers of the Military Accounts Department. His answer was that the existing cadre is small and that owing to deputations, etc., frequent transfers were almost inevitable. Certain remedial steps had already been taken. It was, however, hoped to reduce the difficulties by a reorganisation which aimed at the abolition of District audit offices and the concentration of audit and budget control in the Commands. This scheme of reorganization is at the present moment being considered.

49. In paragraph 30 of Section I of the Home Auditor's report on the Secretary of State's accounts, attention is drawn to the fact that the cost of a certain voyage performed by the R. I. M. S. 'Dufferin' had not been claimed by the accounting department in India for credit to Indian revenues. The Military Accountant General stated that the matter is now being investigated.

APPENDIX.

India Army Order No. 119, dated the 2nd March 1926.—Revision of the existing I. A. F. Z.-2150 "Transport Indent" and introduction of a standard "Transport Register."—1. The present I. A. Fs. Z.-2150 and Z.-2150-A. will be revised and amalgamated into one form to be called "Transport Indent" and numbered I. A. F. Z.-2150, and the Transport Indent Register will be standardised and numbered I. A. F. Z.-2152.

2. On receipt the forms will be taken into use immediately and the old forms abolished. The following will be the procedure in the working of the new forms :—

- (a) The indenting party will send transport indents in duplicate to the Officer in charge of Transport.
- (b) The Officer in charge, Transport, will enter up details in the Transport Register and, based by reference to duty states of Transport units, will allocate the duty to a transport unit or a hired transport contractor, filling up the portion marked II of I. A. F. Z.-2150 in the original and duplicate indents.
- (c) The Officer in charge, Transport, will then return the duplicate indent to the indenting unit.
- (d) The Officer in charge, Transport, will send the original indent with the order filled in, as at (b), above, to the supplying unit or contractor; or possibly both, if the duty is split up. In the latter case a second indent form will be prepared by the Officer in charge, Transport. This latter procedure should however be exceptional and the duties will not be split up unless absolutely unavoidable.
- (e) The transport detailed will be entered up by the Officer in charge, Transport, in his Transport Indent Register.
- (f) On completion of the duty, the transport unit, or contractor's representative, who carries the indent will have the completion certificate—Portion III filled up by the indenting party, and will then return the original indent to the Officer in charge, Transport, who will complete the portion marked IV after checking the "Completion Certificate" (portion III) of the duplicate indent—see (g) below.
- (g) The indenting party will fill up the Completion Certificate on the duplicate indent to tally with that which he endorses on the original, and without fail will send the duplicate copy independently to the Officer in charge, Transport within 24 hours of the duty having been completed.
- (h) The original indents after completion of Certificate IV will then be returned by the Officer in charge, Transport, to the transport units or hired transport contractor concerned. The Officer in charge, Transport, will file the duplicate indents in his office under lock and key.

- (i) At the end of each month the hired transport contractor will submit to the Officer in charge, Transport, his bill on I. A. F. A.-68. This bill will be supported by the original indents endorsed "duty completed" as above. After check with the transport register and duplicate indents, the Officer in charge, Transport, will endorse the bill "correct according to the transport indent register and vouchers attached and passed to the C. M. A. for payment." The Officer in charge, Transport, will complete portion marked V of each original indent only and will send I. A. F. A.-68 supported by the original indents to the C. M. A. for payment, under a covering memo. I. A. F. Z.-2011 in duplicate showing the numbers of the bills forwarded and the amounts.
- (j) The hired transport contractor will be informed that his bill has been passed to the C. M. A. for payment.
- (k) The C. M. A. will return the duplicate covering memo. to the Officer in charge, Transport, with intimation of payment of each bill and the latter will complete his transport indent register accordingly.

3. A contractor must submit, by the 5th of the month, to the Officer in charge, Transport, his bill for all his hired transport service during the previous month. It is the duty of indenting parties to ensure that there is no delay in signing the completion certificates.

4. In the event of the contractor losing an indent completed for voucher purposes, a fresh indent will be issued endorsed "*Duplicate Original Indent* No....., stated to have been lost. (Sd.), Officer in charge, Transport", and passed by the Officer in charge, Transport, to the C. M. A., who after verification that no previous payment has been made will endorse it as follows :—

"I certify that payment for the original of this voucher has not previously been made."

5. By the adoption of the above procedure Supply Order Forms, I.A.F. Z.-2135 will be abolished in so far as Hired Transport contracts are concerned.

INDIAN ARMY SERVICE CORPS ORDERS, PART I, No. 26, DATED THE 23RD
MARCH 1926.

26. *Hired Transport.*

The Director of S. and T. regrets to notice inadequate knowledge generally of the prevailing conditions on which hired transport contracts are based:

In future each A. D. S. and T. will keep for each station a Hired Transport Diary, in which, apart from other points he wishes to record, the following must be noted :—

- (1) Distances from the Supply Depot to the Railway Station, various units, the Bakery and the Butchery.
- (2) Distances from the Railway Station to ditto.

- (3) The descriptions of the local transport usually employed, their carrying capacity, and rate of movement.
- (4) Any special notes about work for Arsenals.
- (5) Ditto for the M. E. Service.
- (6) „ „ „ Hospitals.
- (7) „ „ „ Butchery.
- (8) „ „ „ Bakery.
- (9) „ „ „ Grass farms.
- (10) „ „ „ Civil or Political.
- (11) Full description of the work on which the bulk of the hired transport is employed noting nature, distance, and time, and any special notes thereon.
- (12) Notes as to when a full cart should be used in lieu of the pie per maund per mile system.

This diary must be started on practical lines and not by reference to the civil or by nerrick rates which often mislead. For instance the load usually carried by local carts can be easily found by counting the loads usually seen on the road. Distances should be taken off the map preferably a large scale one, or measured by a motor car and should be certified by the Garrison Engineer.

These diaries are to be in the personal keeping of A. D. S. and Ts. and are to be handed over on relief to the incoming A. D. S. and T., so that the new comer will be rapidly in touch with local conditions.

Some instances are given below to show the mistakes that have been made in the past owing to hired transport conditions not being properly known :—

- (a) Five times as much as was necessary was paid for stores carried partly without and within cantonments, when they could have been carried within cantonments the whole way.
- (b) Four hours work was paid for when the work was finished easily within two hours.
- (c) Carts were paid for at 10 maunds carrying power when the local custom was to carry 15 maunds.
- (d) A contract was made for coolies to carry 40 lbs. when they had been accustomed to carry 56 lbs. and still continued to do so, though there was no reduction in the rate per cooly and the State lost accordingly.
- (e) The carrying power of lorries, thelas, and reras being unknown and taken as the same as carts though usually double or treble.
- (f) Full carts being used on the pie per maund per mile system in lieu of a cart in the ordinary way and 80 per cent. extra paid thereon.
- (g) Contract made for 8 hours well work and the contractor only giving 6 and stating that the remaining 2 was for rest and food, and then claiming overtime when the full 8 hours was insisted on.

- (h) Increase of 40 per cent. given by an incorrect statement of last year's conditions being given in the comparative statement of tenders.
- (i) The system of allowing 3 pie per maund for coolies at a railway station. When this system is not followed coolies have worked satisfactorily and unloaded from the train and loaded up carts at 7 annas per 100 maunds which on the other system would have cost Rs. 1-9-0.

INDIAN ARMY SERVICE CORPS, ORDERS, PART I, No. 51, DATED THE 12TH
MAY 1926.

51. Hired Transport.

In continuation of I. A. S. C. Order No. 26, Part I, dated 23rd March 1926, the following further cases of mistakes over hired transport contracts have come to light :

(1) It was stated in the form that a day consisted of 8 hours. Certain carts used on the line of march were billed for at the rate of 3 days for every 24 hours. This shows the necessity of not giving arbitrary meanings to words with well known meanings.

(2) A contractor supplied 130 carts in a month. Some worked one day, others 2 or 3 days, making a total of 221 cart days. The Transport Officer filled in the Supply Order as under :—Already supplied during March 1921.†

Number or quantity.—130 carts country.

When required.—Already supplied for 221 days.

Rates.—Hire to be paid at daily rates for 221 days.

The amount payable Rs. 1,167-2-6 was shown correctly. The contractor, though as the wording showed it was impossible for March to have 221 days, billed for 130 carts at 221 days each, and obtained the money but was subsequently made to refund it and was otherwise punished.

(3) A contractor had two rates—

(1) At 6 pies per maund per mile.

(2) At 12 annas per cart for 5 hours.

The carts employed in the Medical Store Depot were employed under rate (1) but were very often kept all day and never used and therefore not paid for. An arrangement was then made for a cart carrying 10 maunds for the whole day at Rs. 4-8-0 for the Medical Store Depot, but in the supplementary rate list no mention was made that these carts were only for the Medical Store Depot. The contract was then transferred to another contractor without the I. A. S. C. being informed, though the C. M. A. was, and no fresh contract was drawn up as required by A. R. I., Volume III, para. 144. The new contractor in collusion with a supervisor in the M. A. D. then charged for all carts on the 10 maunds basis, i.e., if he had 30 maunds to lift he would do it with 1 cart in 3 trips, but charge for 3 carts on one trip.

Disciplinary action was taken in this case. •