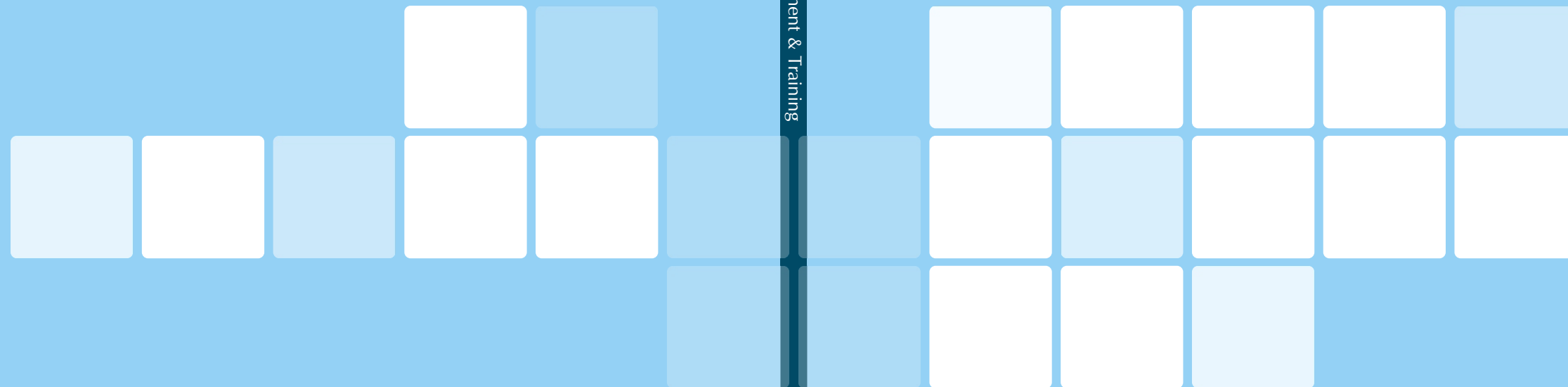


Journal of Management & Training

JUNE - 2008

Journal of Management & Training



Edited and published by Shri B. B. Pandit, Director General (Audit)
Office of the Comptroller & Auditor General of India,
10-Bahadur Shah Zafar Marg, New Delhi-110 124

Comptroller & Auditor General of India
New Delhi

Journal of Management & Training

JUNE - 2008

Comptroller & Auditor General of India
New Delhi

CONTENTS*

Sl. No.	Title	Page
	Editorial	
	Addresses	
1	Excerpts from the Address by the Comptroller and Auditor General of India at SCOPE, New Delhi	1
2	Address by Dr. A. P. J. Abdul Kalam, Former President of India Meeting of the Audit Advisory Board	3
3	Address by Shri V. N. Kaul, Former Comptroller and Auditor General of India Meeting of the Audit Advisory Board	8
	Articles	
1	Countdown to IFRS By Shri A. K. Awasthi	9
2	Audit of Toll collection Contracts By Ms. Sangita Choure	13
3	Legislative Financial Control, Uttar Pradesh By Shri Birendra Kumar	20
4	Unified Tax System By Shri N. Nagarajan	27
5	Statistical Sampling in Audit- A critique By Shri. P. Phookun	32

Editorial

I am happy to once again place in your hands the Journal of Management and Training after a gap of four years and leave behind the factors that resulted in its temporary discontinuance. We look to the future with the resolve to carry on publication of this journal and to enhance its value of the readers. In this endeavour I earnestly seek your suggestions and contribution.

In the interregnum the IA&AD has been a change of guard. Shri V N Kaul demitted office in January 2008 after successfully completing his tenure as the 10th Comptroller and Auditor General of India. The new CAG Shri Vinod Rai took office on 7 January 2008. His appointment to this august position is culmination of a distinguished civil service career spanning 36 years. It is only apt that we feature in this issue of JMT excerpts from addresses by the two dignitaries, one by Shri Kaul before the Audit Advisory Board on 2 April 2007 and another by Shri Rai at the Interactive Seminar on Corporate Governance and audit of PSUs on 13 March 2008. We are also privileged to carry a very thought provoking address by Dr. A P J Kalam, the former President of India delivered to the members of Audit Advisory Board on 2 April 2007.

The other distinguished contributors of this issue are S/Shri A K Awasthi, Director General Commercial Audit, Birendra Kumar, Member Audit Board, New Delhi, N. Nagarajan, Accountant General (A/E), Meghalaya, P Phookun, fellow at INTOSAI at Oslo and Ms. Sangeeta Choure, Accountant General (Commercial Audit), Maharashtra, who have shared their views and experiences on various aspects of public sector auditing. It is our hope that the readers will find the contents of this issue beneficial in discharging their professional responsibilities. I hope the readers will reward our endeavour by providing their feedback candidly.

Finally, I wish to place on record my deep appreciation of the initiative taken by my predecessor Ms. Ajanta Dayalan in reviving this publication and the hard work put in by her in understanding most of the editorial work.

Editor

**Excerpts from Address by the Comptroller and Auditor General of India
at Interactive Seminar on Corporate Governance and audit of PSUs
at SCOPE¹, New Delhi**

13 March 2008

Governance in Public sector enterprises goes beyond the stated principles of corporate governance as Public Sector Undertakings are after all instruments for implementing Government policies. Unique governance principles arise from the unique nature of government and are especially important in PSUs. Because governments hold coercive (taxation and regulatory) powers over citizens and economic enterprises, they must enact protections to ensure accountability in the use of those powers. The absence of good governance structures and lack of adherence to basic governance principles increases the risk of public corruption which is defined as the misuse of entrusted power for private gain. Therefore, the basic governance principles of transparency, equity and probity, are essential in the public sector.

Audit Roles

As an essential element of a strong public sector governance structure, government auditing adds value through its roles of oversight, insight, and foresight.

There is tremendous scope for synergy between the objectives of Corporate Governance and Audits by CAG. In fact the credibility and relevance of CAG's audit will be enhanced if we are able to align the objectives and outcomes of our audit to the objectives of corporate governance.

There are certain issues which concern us and I would like to bring them to your attention:

- The Financial reporting system is intended to converge with the International Financial Reporting Standards (IFRS) by 2011. I urge the PSUs to review their accounting policies, prepare gap analysis and strategy to tide the gap to ensure compliance. As such convergence may necessitate measurement of assets at fair value as distinct from historical cost; preparation of consolidated accounts of holding company and its subsidiaries and greater reporting of joint ventures. I would suggest that SCOPE take the initiative to form a special group to study all these aspects and facilitate the PSUs in meeting the challenge.
- We have started indicating areas where there is scope for improvement in the quality of accounts through Management letters. We expect PSUs and their Audit Committees to take the necessary rectificatory measures. The Audit Committees and the Managements may also like to review their accounts at regular intervals to make them simpler and streamline the accounting policies, notes to accounts and various other disclosures. I strongly feel that Audit Committee should proactively assess risk areas in the working environment of the PSU and suggest ways and means to manage the perceived risks. The Audit Committee should also conduct an effective examination of the internal and external auditors observations/findings and recommendations to facilitate the Management in taking appropriate and timely action for the improvement in its financial reporting.

¹ Standing Conference on Public Enterprises

- The IT systems in Corporates are proliferating and the Managements are increasingly and rightly so, relying on these systems to generate financial reports and to take day to day operational decisions. In such a scenario the soundness of the systems and the robustness of the controls are of utmost importance to ensure reliability of information generated. CAG has been conducting audit of IT systems to test them and to assess the internal control environment. However, it remains the Management s primary responsibility to obtain assurances on the quality and reliability of the IT systems and their outputs. Therefore I, urge the Managements to systematically seek assurances on the systems whether through internal resources or through outsourcing to stabilize the initiatives taken in establishing these IT systems.
- Every public undertaking has a social and developmental role to play apart from ensuring its commercial success. I would like to impress upon PSUs that all efforts should be made by the PSUs to discharge Corporate Social Responsibilities for the betterment of the employees in particular and community at large whether it is in terms of facilities for safely, health, protection of environment or promoting ethical and value based work culture. In fact, CAGs report does contain a chapter acknowledging the measures taken by various PSUs in adopting socially responsible practices. However, the areas of focus for such activities should be carefully and systematically selected keeping in view their social merit and the implementation of the activities well planned rather than making occasional arbitrary and ad hoc gestures towards Corporate Social Responsibilities.

Address by Dr. A. P. J. Abdul Kalam, Former President of India
To the
Members of the CAG's Audit Advisory Board and the Senior Officers at
New Delhi
2 April 2007

Evolution of on-line non-intrusive e-Audit

*“Audit is a partner in the
Mission of National Development*

I am delighted to address the members of the CAG s Audit Advisory Board and the Officers of the CAG organized by the Comptroller and Auditor General of India. My greetings to all of you friends. I would like to discuss with you today on the topic **Evolution of on-line non-intrusive e-Audit”**.

I had made certain suggestions during my address to the **All India Conference of the Accountants General, New Delhi”** on 20 September 2005 and my address to the members of the CAG s office while Laying of Foundation Stone for the New Building of the CAG in New Delhi on 19 October 2006. Let us discuss some of these suggestions which will make the CAG a partner in national development:

Suggestions to the members of the office of the CAG

1. The audit teams can work with Programme Chiefs or Executives of national programmes or projects from the inception of the project and participate in the evolution of the PERT of the Project. You will find that there may be ten to fifteen critical paths for a ten year programme and for five year projects it may be more. The Critical paths in the project PERT will be the CAG s Audit area and points.
2. The aim of the audit should be to detect the deviations in near real time when the project is in progress and provide constructive solutions so that the objective of the project is met well in time.
3. CAG may consider incorporating a mutually agreed online audit system for high value schemes of national importance such as rural employment scheme, golden quadrilateral, large power plants so that maximum value for money is realized in a time bound manner.
4. Audit should be sensitive to the fact that E-commerce and a borderless world (Internet) would soon be a reality. You have to evolve a policy statement for e-Audit based on the e-Commerce and e-Governance standards.
5. e-Audit is essential to be proactive enabler of missions facilitating the programme or project outcome as envisaged.
6. Forecasting of challenges for effective fiscal utilization and providing useful inputs for maintaining the momentum of the project should also become a part of the audit.

7. Reengineering systems and procedures to avoid mistakes. Audit can provide do's and don'ts to the executives based on past experience and the practicability of field level implementation.
8. Continuous training of audit personnel on modern trends of audit for carrying out specialized audit on development projects with a clear understanding of projects and programmes.
9. The CAG in partnership with organizations can periodically conduct courses for scientific technological and managerial teams of the programme on the audit philosophy with case studies how audit queries can transform into audit para, audit para into oral evidence by PAC and PAC recommendation. This will alert both audit community and technological community on the right audit path, right project management path and right technological path.
10. CAG may consider creation and maintenance of a centralized national asset register. The salient features of the asset can be put on the website for public awareness. Periodically the status of the asset may be reviewed and updated since CAG is the custodian of national wealth. This is indeed a big mission and challenge.

I would suggest the Audit Advisory committee to analyze these suggestions and see how many of these suggestions have been put into practice. Also they may like to provide advice on further implementing these suggestions with suitable modification if considered necessary.

Role of Advisory Board to the CAG of India

As you are aware, the Comptroller & Auditor General of India, is, de-facto, our nation's chief accountability officer. The CAG's mission is not only to oversee conformance to rules and regulations, but on the basis of the unique experience and database acquired by CAG over the years, to help improve performance, transparency and assure the accountability of government for the benefit of our people.

The CAG over the years has earned a reputation for professional, objectivity; fact-based non-partisan, non-ideological, fair and balanced reviews of government programs and operations. The CAG's Reports help Parliament review and reconsider the base of government spending and taxation policies. I believe that the CAG also has an obligation to provide policymakers with support in identifying issues and options that could help to address fiscal pressures. Such advice could enable Parliament and governments consider significant changes on the spending and or revenue side of the government budget, and mitigate the effects of long-term deficits.

The Audit Advisory Board constituted with persons of such high eminence and great experience in their fields may advise the CAG on audit matters far beyond the present limited perspective of adherence and conformance to rules and regulations. The main thrust has to be how to make audit as partners in reaching the benefits of public funded programmes to the people.

In the present context, the Advisory Board may examine and make suggestions to help improve performance, transparency and assure the accountability of government re-examination in all areas of government spending, namely, defence, external affairs, education and employment,

rural and urban development, health care, internal security, natural resources, energy and environment, science & technology, transportation and other relevant areas of significant public interest.

Non Utilization of Allotted Budget

One of the general report comes out the audit is the unspent money in many of the vital programmes. Why? For example, when I studied the utilization profile of budget allotment for the Scientific Ministries before I addressed the 94th Indian Science Congress, to my surprise I found that approximately 20% of the funds allotted to Science and Technology Departments had remained unutilized during the year 2005-2006, and in certain ministries it was found that more than 50% of the amount allotted had not been utilized. Recent report on healthcare spending by the state governments, it says Most of the states failed to spend central funds on health and it shows clearly that around 6 to 8 states have spent ranging from 0% to 28% only till the end of Jan 2007. This indeed is a serious matter. Audit should find out the reason and the bottlenecks for the non-utilization of funds, since it is happening in number of states and ministries. They may also like to suggest the systemic changes required to improve the situation.

Share your experience

While studying the CAG reports in 2005, I had found that CAG had conducted audit of rural employment generation programme. The performance audit of Jawahar Rojghar Yojana disclosed that the scheme suffered from shortcomings in the critical areas of targeting, inadequacy of provision of funds, fictitious reporting and lack of evidence of employment generated. Based on this experience, I had suggested to the members of the CAG to provide e-governance based audit support system to the Central and State Governments for implementing provisions of employment guarantee bill 2005, so that the shortcomings which were noticed in the earlier scheme of rural employment generation does not get repeated. However, I find that based on the survey conducted by an NGO, recently on the implementation of the Rural Employment Guarantee Scheme in different States following problems have again come to light as per the press report: rampant corruption, widespread irregularities, delay in payment, fewer working days and lack of awareness. I would suggest the Audit Advisory Committee to consider this issue and provide suggestions which can enable CAG to participate in this programme and offer methods for smooth and transparent implementation of the scheme with the focus on the objectives of the programme and realization of the district development goals.

When to audit ?

Constitutionally, CAG is the only central government organization, which has got a jurisdiction to access the budget and programme information from the Central and State Governments and their implementing agencies. Also Constitution doesn't specify at what juncture of the programme or the project CAG should audit. When you audit after the function is over, it becomes historical, very few people will appreciate the suggestions to incorporate in the next projects. With the availability of technological tools, now I would like to give a scenario, how e-governance can be supported through e-Audit for enhancing the performance of Governance.

E-Governance, E-Commerce and E-Audit – is it possible ?

I have a suggestion for the consideration of the Audit Advisory Board of the CAG for enhancing the overall performance effectiveness of the Government expenditure using the technologies for E-Governance. This proposal may be called On-line, non-intrusive E-Audit. I shall now give my visualization of such an E-Audit system taking Ministry of Health as an example:

1. 1-APR-2007: Ministry of Health gets allotted Rs. 15291 Crores with the planned outcome and with quarterly and annual targets (Both Physical and Financial).
2. The budget approval in detail in each section wise, unit wise expenditure are made available as a webservice.
 - a. 15 APR 2007: Units under the ministry are, communicated and orders passed regarding the budget allotment.
 - b. 30-APR-2007: Each of these institutions publishes the details of the budget allotted programme wise such as Malayria Eradication, Support to HIV/AIDS Patients, Infrastructure Development, Primary Secondary and Tertiary Healthcare against the task and schedule as a web service. Project Implementation commences at the Ground level.
3. 1-JUL-2007: First quarter performance review to be taken up by the automatic webservice agents of the CAG e-Audit system.
 - a. Each programme unit updates the progress of the projects both physical and fiscal and its parameters against each budget head allotted, which are published in their own e-Governance portal as a web service. The critical path analyses are also provided as a supplementary data.
 - b. CAG e-Governance Webservice agent which crawls through the Ministry of Health Webservices and collects the data from the individual budget webservices.
 - c. CAG e-Audit system analyzes the actual expenditure against plan expenditure and records the deviations.
 - d. Deviations are categorized as those within the control of the project managers/ Institutions and those outside the direct control of the project managers. Special focus is given to progress on the critical path.
 - e. Based on the performance and deviation analyses the CAG E-Audit system puts into operation an alert mechanism to the concerned programme units of the health departments within the project network (Responsible for the deviation) as well as the health ministry.
 - f. CAG E-Audit Ticker Monitor (Like Stock market Ticker) makes the project and all the stakeholders of the project aware of the project progress and its deviations from the original plan and its targets. This helps the project Managers as well as the supporting institutions in the project network to take corrective actions autonomously

in a time bound manner.

- g. The above steps are repeated every quarter of the financial year and the CAG webservices updates the data from the programme units webservice agents automatically and non-intrusively through the secured e-Governance Grid.
- h. From the third quarter onwards and with special focus on critical path, CAG webservice would identify those expenditure centers whose performance is in constant deviation against the plan. This alert would be transmitted as a special report to the superior authorities of the project in the hierarchy by the webservice. Also CAG can give suggestions to the project about the improvement in procedure which can enable the project to make up the lost time.
- i. On 31st Mar 2008, a consolidated report on project performance of the health ministry and its constituents is made available as the webservice data leading to public awareness of the performance as a ministry as a whole.
- j. In the final report of the CAG to Parliament the dynamic data with analysis and comments shall be provided with the specific recommendations as to the centers which have to take the responsibility for cost and time over run of the project, and recommend measures to prevent recurrence of such events in the future.

The above system of CAG E-audit and its E-audit ticker has to be built based on the e-Governance Web service system of the concerned ministries and departments through the Smart and secured E-Governance GRID which includes the e-procurement and e-Commerce. The Audit Advisory Board may like to debate and improve on the system for implementation by CAG and the other departments of the Government including Centre and States. To start with it can be initiated as a project in any one ministry which is implementing multiple inter-departmental and inter-institutional project.

If we implement e-Audit as described above through webservices, it will lead to firstly, programmes will progress as per planned schedule; secondly, projects will be completed with in time and cost; thirdly transparency will be enhanced and finally corruption will be reduced.

Conclusion

You need creative leaders for implementing such systems for managing complex and large projects and delivering the fruits of performance to the people. For success in all missions we need creative leaders. Creative leadership means exercising the vision to change the traditional role from the commander to the coach, manager to mentor, from director to delegator and from one who demands respect to one who facilitates self-respect.

This will be greatest service which the Audit Advisory Board of CAG can create for injecting a new vibrancy in the whole system of Governance.

May God Bless you

Address by Shri V. N. Kaul
Former Comptroller and Auditor General of India
at CAG's Audit Advisory Board Meeting
2 April 2007

Hon ble President, Distinguished Members of the Audit Advisory Board, officers of the Organization, ladies and gentlemen.

It gives me great pleasure to welcome the Hon ble President to address the first meeting of the newly formed Audit Advisory Board and the senior officers of this department. The President has been a great source of inspiration and guidance to our Organisation on many occasions in the past but we have not had the opportunity of having him at our headquarters before. It is, therefore, the rarest of rare occasions for us and for the CAG s Audit Advisory Board.

I would like to take this opportunity to also welcome once again members of the new Audit Advisory Board: Shri N.R. Narayana Murthy, Shri Naresh Chandra, Shri TS Krishna Murthy, Prof. Deepak Nayyar, Shri Dharam Vir, Shri CP Jain, Shri C.L. Kaw, Vice Admiral (Retd.) Dr. A.R. Tandon, Ms. Sunita Narain and Shri Sunil Talati of ICAI Two members Shri Pratyush Sinha, and Dr. R.A. Mashelkar are unable to attend due to unavoidable circumstances.

This Board has been constituted to make the audit effort more responsive and to canvass views of persons of eminence from various disciplines about their perception of audit and their expectations from it. I always take advice from the Board on all issues relating to public audit very seriously.

In the meeting preceding the President s address today, the topic for discussion was Identification of Critical Issues for Performance Audit . Performance audit as a discipline has acquired a new significance over the last few years and so the current focus on performance auditing is pertinent. The suggestions made by our members will be taken into account while planning future audits.

The President s address is a unique privilege and we are indeed very grateful to him for his time. In the past his views have greatly influenced our work and our ethos. He has been one of the foremost proponents of fact based, non-partisan, objective, fair and balanced approach in public audit and a champion of modernisation and computerisation of audit techniques. We are look forward to his address and advice with great anticipation. I thank him once again for finding time to address us.

Ladies and gentlemen, the President of India.

COUNTDOWN TO IFRS

By Shri A. K. Awasthi*

With the proposed move by the Institute of Chartered Accountants of India (ICAI) to harmonise the national accounting standards with the International Financial Reporting Standards (IFRS) by April 2011, government regulators, company directors, investors, financial analysts, auditors and tax advisors are set to experience a roller coaster ride, the likes of which our economic and financial system has not previously experienced.

The use of different accounting frameworks in different countries, which require divergent treatments and presentation of the same underlying economic transactions, creates confusion for both the presenters and users of financial statements. A number of Indian Companies are establishing their business in various countries and vice-versa. This entails reformatting of Annual Accounts based on Indian GAAP (Generally accepted Accounting Practices) to the financial reporting framework of the host country. The two major financial reporting frameworks in the world are the US GAAP and IFRS. While the IFRS are considered primarily a principles-based set of standards the US GAAP requires specific rule based accounting treatment which generally varies across different business sectors. The same transactions and performance very often lead to different bottom lines in different financial reporting frameworks, thereby creating uncertainty in the minds of investors and other stakeholders. A single suite of high quality accounting standards acceptable globally is therefore considered a sine qua non for promoting efficiency in capital markets.

IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IASs were issued between 1973 and 2001 by the board of the International Accounting Standards Committee (IASC). In April 2001 the IASB adopted all IAS and continued their development, calling the new standards IFRS². There are 41 issued standards under IAS (1 to 41) of which 34 are in effect. This set of standards together with IFRS 1 to 8 form the complete suite of IFRS.

Adoption of IFRS

IFRS came into prominence when the EU (European Union) decided to adopt it for the listed companies in all its member states starting 2005. Since then IFRS has spread rapidly across the world. IFRS are used in many parts of the world, including the European Union, Hong Kong, Australia, Pakistan, Russia, South Africa and Singapore. Nearly 100 countries currently require or permit the use of, or have a policy of convergence with IFRS. Financial Accounting Standard Board (FASB) of USA and IASB are also working towards convergence of US GAAP and IFRS. FASB has issued several standards that eliminate differences with IFRS. The latest IFRS 8 on operating segments aligns the segment reporting requirements with those prescribed in US GAAP. Securities and Exchange Commission (SEC) in USA has announced in June 2007 that it is proposing to allow IFRS based statements of foreign companies to be filed without

* Presently Director General (Commercial), at Headquarters office

² IFRS comprises of International Financial Reporting Standards (IFRS) - standards issued after 2001, International Accounting Standards (IAS) - standards issued before 2001, Interpretations originating from the International Financial Reporting Interpretations Committee (IFRIC)-issued after 2001 and Standing Interpretations Committee (SIC) - issued before 2001

any reconciliation requirement.

In India, though the national standards are aligned with IAS, there are significant differences between our standards and IFRS. For one, there is a major paradigm shift in favor of fair values as compared to historical transaction cost values. On elimination of these differences by adopting IFRS, there would be a substantial impact on bottom lines or reported profits for corporate India. ICAI has formed an IFRS convergence task force to look into various convergence issues and prepare a road map for full convergence with IFRS. In July 2007, it was resolved to bring Indian accounting standards fully in line with IFRS by April 2011. According to Accounting Standard Board of ICAI, public interest entities³ in India will first be required to prepare their financial statements in accordance with IFRS. Other entities will be brought under the IFRS regime in a phased manner. The road map and time schedule envisaged by ICAI has to receive formal assent from the National Advisory Committee on Accounting Standards (NACAS) and the Government. ICAI has categorized the national Accounting Standards in five distinct categories requiring progressively greater effort on the part of the national system to secure compliance. Some standards involve conceptual issues and would constitute a significant departure from the existing understanding of accounting definitions and concepts. ICAI perceives that 7 standards could be made applicable with relatively little effort while the remaining would require significant effort on the part of the industry (to achieve expected levels of technical preparedness), further dialogue with IASB and concomitant changes in the national regulatory system. Some standards involve conceptual differences in which a decision may have to be taken to scrap the Indian standard and to adopt the corresponding IFRS straightaway. All said and done the road to final adoption of IFRS has several impediments and would require creative synergy on the part of the separate components of the national regulatory regime.

Impact of adoption of IFRS

As a result of uniform accounting standards the financial statements of Indian companies would be acceptable by stock market regulators worldwide. This will facilitate better access to the international financial/capital markets and Indian companies would be able to raise capital at relatively lower cost. For companies having international presence, this would avoid duplication of effort in preparing accounts on Indian accounting standards and then in conformity with US GAAP/IFRS. There may be large one time costs on training the board members, other staff, cost of modifying IT systems, increased audit costs, cost of educating the users of the financial statements like, investors, analysts, financial institutions and regulators. After adoption of IFRS, role of ICAI and regulators like Government, IRDA, RBI, SEBI etc. in fixing depreciation rates, prudential norms etc. would also change.

Since markets in India do not possess the necessary depth and breadth to enable generation of reliable fair value estimates, there would be an opportunity to play on fair values to achieve target bottom lines. This would entail significant extension in the scope of work done by independent valuers and actuaries; the corresponding need to regulate the profession by

³ Companies whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India; or which is a bank, financial institutions or an insurance entity; or whose turnover exceeds Rs. 100 crore in immediately preceding accounting year; or which has public deposit and/or borrowings from banks and financial institutions in excess of rupees five crore at any time during the immediately preceding accounting year; or which is a holding or a subsidiary of any entity which is covered above.

prescribing standards and agreed procedures for auditing fair values of assets and investments. Recognition of impairments and fair values on an annual basis is likely to generate a demand for powerful IT hardware and software. Preparation of Annual Accounts would require increasing refinement and as a result users would also be expected to enhance their financial literacy to commensurate levels.

Full convergence is intrinsically desirable as complete harmony in accounting standards around the world would facilitate maximization of benefits from the common reporting regime. With a view to make the transition process smooth several regulatory regimes particularly in economically developed regions like EU, Australia and Canada are initially adopting the modified national version of IFRS before moving to full convergence. Even a modified IFRS would require an effective regulatory regime, as well as an adequate audit system and appropriate professional education requirements, for proper implementation. It has been recognised that small and medium-sized enterprises (SME) need a less burdensome set of standards. Therefore, in February, 2008, IASB has issued an exposure draft of IFRS for SMEs, with the intention to provide a simplified, self-contained set of accounting principles that are appropriate for smaller, non-listed companies.

Lessons learnt

Case studies of the countries where IFRS has been implemented confirm that IFRS is perceived as an important means of integrating enterprises in national jurisdictions to the international economic system and also as a useful method for attracting foreign direct investment. Implementation of IFRS is a complex process that requires extensive preparations, including staff training and changes in information systems. The impact of transitioning to IFRS on financial reporting should be communicated to important stakeholders as early as possible to avoid any potential surprises.

Change management in Public Sector Enterprises

Listed and big PSUs should gear up for preparing their accounts in conformity with IFRS and take timely and appropriate steps including training their manpower and amending their Information Systems and prepare a road map for implementation of IFRS. PSUs should also start working out the impact of implementation of IFRS on their financial position and bottom-lines so that the top management and policy makers and users of the financial statements are kept properly informed. The first set of IFRS accounts are likely to look very different and companies may seek exemption for restatement of comparatives for application of IFRS 7, IAS 32 and 39 on financial instruments which could radically alter the picture presented. Earnings measures like EPS and P/E ratios which are considered key performance indicators, may be adversely impacted by the volatility in the income statement. IFRS bring in new concepts of accounting and disclosure for embedded derivatives in existing contracts, which would need to be identified and a suitable policy developed for concluding such type of contracts in the future. Sources of volatility like share based payments, financial derivatives, revaluation of available-for-sale assets and deferral of cash flow hedging gains or losses etc are not one-off transition issues as performance under IFRS is likely to be quite volatile from one period to the next. Systems and controls would need revision in consultation with both internal and external auditors.

To sum up, IFRS transition is a serious and complex issue and merits matching level of efforts from all the stakeholders to ensure its success. A long term implication of convergence is that depending on the scale of operations of an enterprise, all accounting systems in corporate as well as not-for-profit and government sectors would move towards IFRS and IFRS for small and medium enterprises. International public sector accounting standards (IPSAS) are IFRS compliant. These standards have been adopted in the UN and several major countries. India may also decide in favor of IPSAS when it decides to move towards accrual accounting in government. IPSAS Board is reportedly working on developing standards for government budgets. Standards based reporting regimes invariably involve a stipulation for independent audits. This throws up a big window of opportunity for us auditors in the government sector and it is in our interest to acquire knowledge of IFRS in a systematic way so that the impending roller coaster ride remains a pleasant diversion.

Audit of Toll collection Contracts

By Ms. Sangita Choure *

Introduction

With the Indian Economy growing at a rate of 8%, it is estimated that over Rs 20,00,0000 crore (2006-07 prices) would be required for investment in the Infrastructure Sector during the next five years. Public Private Partnerships (PPPs) present the most suitable option of meeting these targets, not only in attracting private capital in creation of infrastructure but also in enhancing the standards of deliveries through greater efficiency.

The Government of India has acknowledged PPP as a suitable model for accelerated growth in creation of Infrastructure and have introduced several innovative Schemes in promoting PPPs. Whereas to attract the private sector, commercially viable projects would be on offer and to inculcate discipline of user pay principle, the provision of these services would be based on payment of tariff. However at the same time Government has to ensure that the tariffs fixed are based on the capacity of the common man to pay for these services. In order to address the constraints of policy and regulatory gaps; availability of long term finance for funding of the projects; inadequate capacities in the private sector, the GOI has taken several initiatives to create an enabling framework for PPPs.

Progressively more sectors have been opened for private and foreign investments, levy of user charges is being promoted, regulatory institutions are being set up and strengthened, fiscal incentives are being given to Infrastructure projects, standardized contractual documents including Model Concession Agreements have been notified, approval mechanisms for Central Sector PPPs have been streamlined with the setting up of the PPP Advisory Committee and a website devoted exclusively for PPPs have been launched to serve as a virtual market place for PPP projects.

In 2007-08 the Govt of India, set up a corpus fund titled India Infrastructure Project Development Fund -IIPDF in the Ministry of Finance with an initial corpus of Rs 100 crore for supporting the development of credible PPPs that can be offered to the private sector. It is a mechanism through which the Sponsoring Authority will be able to source funding to cover a portion of the PPP costs-the project development costs in respect of feasibility studies, environment impact studies, financial restructuring, documentation etc.

The private sector as mentioned above is now involved routinely as a matter of Government policy in financing the construction, operation and maintenance of the projects which are implemented on Build Operate and Transfer (BOT) basis. The expected toll revenues from the project form the life line of the project as the major source of revenue for recovering the capital cost of the project.

This paper discusses the parameters essential for fixing toll contracts, methods toll collection and case studies from Maharashtra featuring in Audit Reports of the C&AG,

* Presently Accountant General (Commercial Audit), Maharashtra, Mumbai

Essential features of Toll Contracts

(a) Cash flow planning

Cash flow is the lifeblood of any business entity. If cash flows are not correctly planned the problems could threaten the very existence of the entity. The detailed annual cash inflows by way of toll for the collection period is required to be worked out which will help in repayment of loans raised to finance the project. The time schedule for repayment of loans should match with the cash flow pattern of the project. The synchronisation of the cash inflows and outflows by proper tie up with the lending institutions would obviate the need for going in for fresh financing to repay the existing debt.

(b) Fixation of concession period

The main aim of the toll collection is to recover the cost of the project constructed. The concession period is the period which enables the project manager to recover the cost of the project. The basic criteria which determine the fixation of the concession period are the cost of the project, maintenance cost of the project, cost of toll collection and rate of the toll. The concession period should not be longer than the required one otherwise it would result in unnecessary and an avoidable burden on the toll paying public.

(c) Legal requirement

According to the Bombay Motor Vehicle Act, Section 20 Toll can be levied and collected in respect of a bridge, tunnel including approach roads, or section of roads on by passes, declared by the State Government in the *Official Gazette*. The bridge road etc. may have been constructed at the expense of the State Govt, or at the expense of any private person or agent appointed by the State Govt. or a State Public Enterprise authorized by the Govt. in this behalf by entering into an Agreement with such entrepreneur or agent under the Build, Operate and Transfer basis (BOT). For the purposes of Section 20 of the Act CAPITAL OUTLAY of a project has been defined as shall include the anticipated cost of certain essential on goings or imminent works like improvements, strengthening, widening, structural repairs, maintenance, management, operation, reasonable returns and interest on such outlay, at such rates as the State Govt. may fix, until the full amount of such outlay is recovered . Therefore the important point to be noted is that toll collection cannot exceed the capital outlay of the project which includes interest capitalized and or rate of return if any determined for the project at the initial stages. It is possible that implementing agencies in their zest to collect more toll for meeting the costs, may overlook this important legal restriction and pass on unnecessary toll burden to the public. As auditors, we would fail in our duties if we would not examine this and point out excess toll collection, if any.

Toll collection methods

(a) Appointment of toll collection contractor

As the project implementing authorities may not have required staff strength for collection of toll on the project, the work is usually outsourced to the toll collecting contractor/agent by inviting competitive bids. Under such an arrangement, the contractor has to remit the toll

collected at periodical intervals to the authority and toll collection expenses are repaid to the contractor. In this method the project authorities have full control on actual toll collected by the contractor and are only required to ensure the correctness of the toll collected. The authenticity of data on number of vehicles traveled can be checked by fixing vehicle counting machines etc. The normal procedure followed is that the selection of the party for toll collection is decided on the basis of maximum toll revenue agreed to be remitted compared to the expected toll revenue and minimum collection charges. Penalty and rescission of the contract in case of failure in remission of the collected toll are included in the contract conditions.

(b) Award of contract on upfront payment basis

Under this method the rights of collecting the toll for a definite period of time (not exceeding the concession period of the project) are sold to the contractor and he may be asked to maintain the asset also during the period. The contractor has to quote the expected revenue during the period and the amount they are ready to offer on upfront basis. The project Managers then calculate the lump sum amount for future period on upfront basis, at discounted rate of return. This method is resorted to when huge debt has been incurred by the project agency for creation of the Assets. and they decide to reduce the debt by repayment through the toll revenue collected in advance This is also called as Securitisation of Debt in the jargon of financial world. The advantage of this method is that the project agency collects the toll revenue upfront and does not have to suffer any financial losses arising out of future defaults of the toll Contractor. Under this method, the fixation of Reserve Price of the toll collection is an important aspect because the contractor's financial quote is in comparison with the Reserve Price fixed. The manner of fixation of reserve price is a point for a detailed audit check. The authenticity of the data regarding vehicular traffic, projected increase in the traffic, discounted rate of return etc. and the source of all this data needs to be verified carefully by the audit. It is possible that the agencies totally rely on workings of an appointed consultant for fixing the Reserve Price and accept the same without any independent check. Incorrect fixation of the Reserve Price may prove extremely detrimental to the financial interest of the project and consequently that of the Company/State Govt.

Cases of toll collection contracts audit-Maharashtra.

1. Fixation of lower reserve price

- i) In fixation of reserve price of the Toll contract in case of the Mumbai/Pune Express Highway the Net Present Value (NPV) of revenues from toll collection and expenditure on maintenance of the project was Rs.4,104 crore as per the projections made in the Agreement between the State Government and the Maharashtra State Road Development Corporation (implementing project agency). The upfront payment by the eventual awardee assumed a discounting factor of 8.5 percent. Even if only 60 per cent of the projected toll revenue were to be considered and the bidder was to obtain a clear profit of 11 % the reserve price would have worked out to Rs.2, 236 crore at a discounting factor of 8.5 percent. However, the Company fixed reserve price for Rs.900 crore only based on a fresh vehicular study done by a traffic Consultant and the contract was awarded (August 2004) for an upfront payment of Rs.918 crore. Thus, due to fixation of lower reserve price the contract resulted in loss of revenue of Rs.1318 crore. The Company defended

the Reserve Price fixed by them; stating that the projections in the earlier study were estimates whereas the later study and projections made by the Consultant were more realistic taking into account actual toll collections made till then. The Company's reply was rebutted by audit stating that even at 60% of the expected toll revenue as per the study done by the Company for the Agreement with the State Govt, the expected toll was much more than the Reserve Price fixed subsequently and the reserve price fixed at Rs 900 crore was based on the remittances made by the toll contractor, which was unreliable. Further the Mumbai-Pune route was a very popularly used route and the vehicular traffic was assured and was bound to increase and hence fixation of a lower reserve price than the earlier agreed one was not warranted. The Company admitted that wiping off the debt incurred for the project at least partially, was the main consideration in fixation of the lower upfront toll price .

- ii) In another project (Thane-Ghodbunder Road Project), based on a consultant's study, the Company fixed the reserve price of the toll contract at Rs.115 crore (net of toll revenues and expenditure on maintenance of road). The reserve price fixed failed to take in to account the revenue realisation based on the last toll contract awarded. Based on the previous contract price, the reserve price worked out to Rs.146.33 crore instead of Rs.115 crore fixed. In fact, as traffic was bound to increase, the reserve price should have been fixed on the higher side.. Due to fixation of lower reserve price there was loss of revenue to the Company to the extent of Rs.31.33 crore.

2. Non consideration of Revenue projections given by bidders

The Company had asked the bidders to furnish their revenue and expenditure details along with the composite bid for toll collection and maintenance of the road and upfront payment of toll. The Net Present Value (NPV) of net revenue (revenue less expenditure) was more as per the toll projections furnished by the bidder. However, the contract was awarded on the basis of higher upfront payment quote. The Company did not invite other bidders for negotiations though their NPV projections were higher. This method of awarding the contract based on the highest upfront payment, ignoring the toll projections given by the bidders and the NPV of the future earnings, reduces the process of calling for financial bids to a farce. Auditors will have to compare the final award with the details of the bids received with reference to the toll projections to conclude whether the awarded price was the best price.

3. Restrictive clause relating to upfront payment

The normal procedure in toll collection contracts is that the party is asked to quote the amount that it would remit on a weekly/monthly basis. In a major departure from this practice, the bidders were asked to make upfront payment of toll for 15 years period ostensibly to reduce the debt, incurred for loans borrowed for the project. Weekly payments would have attracted more participants as requirement of financial capability of parties would have been lower. Clause relating to upfront payment in lump sum was highly restrictive in nature. Such a provision acted as a serious deterrent in ensuring wider participation and benefit of competitive bids was not available. Consistent practice of awarding toll contracts based on upfront payments also creates monopoly of contractors and unhealthy practices as it enables only cash rich agencies to bid for such contracts, The C & AG's Audit Report of Maharashtra Government Commercial

Undertakings, has brought to notice, the manner in which only one private Company has managed to bag the toll contracts of all the major road projects, due to award of toll contracts on upfront basis by the Maharashtra State Road Development Corporation.

4. Clubbing of major expenditure work and toll collection

Toll collection contract being a revenue contract is required to be awarded to the highest bidder and expenditure contract for maintenance of the asset is awarded to the lower bidder. When the two contracts are clubbed the highest bidder in toll collection contract may not be executing the work at the lowest cost. Besides the expertise of the contractor to carry out the maintenance works as per quality standards may not be ensured by such clubbing of contracts. Toll collection does not require any expertise whereas maintenance works of public assets calls for requisite technical expertise. Hence to get full benefits, the expenditure and revenue contracts should be separated for obtaining the bids. Due to netting of both the contractors the Company may not receive the best bid for the maintenance of the asset and this practice also results in payment of the entire maintenance expenditure upfront to the Contractors. As per prevailing manuals and financial procedures, works expenditure is required to be incurred based on progress of the work. Netting of the two contracts results in advance payment to the contracting agency of the entire contract value and is irregular as payment has been given for work to be done in future.

The Company's practice of awarding the toll collection and maintenance contracts to the same contractor is not backed by any Financial Rules, and hence it is open for the audit to examine such contracts to see whether they were financially detrimental to the organisation.

5. Fixation of excess concession period

In the project of Thane Ghodbunder Road, while deciding the toll collection contract though the balance expenditure on the project to be recovered through toll from the public was Rs.44.84 crore, the Company (MSRDC) awarded the toll contract for 15 years for Rs.140.40 crore. Thus an avoidable burden of Rs.95.56 crore was passed on to the toll paying public which was against the public interest.

6. Irregular extension of contract period

The Company awarded (December 2002) toll collection contract at five entry points to Mumbai City, to the contractor on upfront payment of Rs.225 crore for three years. Immediately after one month, the contract was extended for further period of three years by accepting additional upfront payment of Rs.201.50 crore without calling for tenders. The upfront payment, which should have been increased considering the traffic increase, was actually reduced by Rs. 23.50 crore compared to the original contract value.

The extension in contract period of three years immediately after one month of award of contract on the same terms and condition without calling for the competitive bids or checking performance or any recorded justification of volume of traffic was irregular and lacked

transparency also resulting in total loss of Rs 23.50 crore

7. Contingency Plans for Toll Collection

It is seen that very often the toll contractors do not remit the toll collections or delay the remission of the receipts. The Company may not have put any alternative contingency plans in place to continue with the toll collection in event of such defaults. They, therefore, continue with the same agency and delay the finalisation of the new contract, which is not only an undue benefit to the contractor but also results in financial loss to the Company.

8. Delays in collection of Toll Revenues

As mentioned in the beginning the toll rates are approved by Government for which a gazette notification has to be issued to make the toll collection legal. Very often Governments delay the issue of the notification resulting in delays in collection of the toll revenues. The project implementing agencies also delay the handing over of sites, non finalisation of the site for the toll plaza resulting in loss of toll revenue. Such instances have been pointed out in the CAG's Audit Report in the Performance Appraisal of the National Highways Development Project. There are occasions where the public oppose the toll collection and unless the dispute is settled amicably the agencies cannot go ahead with the toll collection and at times the project may have to be abandoned as a pay and use one, throwing the entire financial economics of the project out of gear.

9. Internal Checks and Controls

In cases of periodical remission of toll by the toll collecting agency it would be necessary to see what systems have been put in place to ensure the correctness of the toll and its regular remission to the Company's Account. In order to have a check on the vehicular data, some Companies have installed vehicle counting machines at some toll centres. It is seen that the machines are deliberately kept out of use stating some repairs and maintenance problems and hence there is no independent check by the Company on the number of vehicles passing through the toll centres. The numbers given by the toll contractor are accepted. Therefore auditors will have to see whether vehicle counting machines are installed, whether they are being put to use and otherwise what other systems are in place to check the authenticity of the vehicle data and toll collected.

To Summarise following are the checks in audit of Toll Contracts :

- Government resolution authorising toll collection and the rate as required under the Motor Vehicles Act and delays if any in issue of the Notification
- Fixation of the Concession period with reference to the project cost and toll notified
- Method adopted for toll collection and its suitability for the project

- Evaluation of the bids process
- Fixation of the Reserve Price
- Fixation of the upfront payment in case of such toll contracts
- Creation of monopolies due to restrictive conditions
- Financial Impact due to Clubbing of revenue contracts with Maintenance works
- Excess toll collected/awarded with reference to concession period
- Non renewal /delays in renewal or finalising toll collection sites and irregular extension of Toll Contracts
- Contingency Plans for Toll Collection
- Internal Checks and Controls for toll revenue

Legislative Financial Control, Uttar Pradesh

By Shri Birendra Kumar*

In a democratic polity, public fund is controlled by the peoples elected representatives. As India is a parliamentary democratic polity, the public fund is controlled by the Parliament/State Legislature in respect of Union and States respectively. Parliamentary legislative control over public purse is central point in public financial administration and key to the public accountability system. As per the provisions of the Constitution of India, the Parliament/State Legislature exercises financial control by exercising the power of authorisation of money, taxation and supervision of expenditure and collection of revenue. This is done in order to improve the efficiency of the financial administration for good governance of the Country/State, strengthening anti-corruption measures as well as to enforce accountability on the inefficient/poor performer executives. While authorisation of money and taxation are exercised through passing of Budget and Finance Act, the supervision of expenditure and collection of revenue is done through the Appropriation Accounts, Finance Accounts and Audit Reports (Civil, Commercial and Revenue Receipts) submitted by the Comptroller and Auditor General of India to the State Legislature. The State Legislature sets goals of public financial managements and watches performance of Government in these areas. Before discussing the dynamics of legislative financial control, it is important to briefly explain first the concept of source of Public Fund, Budget, Finance bill and Demand for Grants.

1. Source of public funds of State

(i) Consolidated Fund

As per Article 266 (1) of the Indian Constitution, all revenues received by the Government, all loans raised by the Government by issue of treasury bills, loans or ways and means advances and all moneys received by the Government in repayment of loans shall form one consolidated fund called Consolidated Fund of State.

(ii) Public Accounts Fund

As per Article 266 (1) of the Indian Constitution, all other public moneys received by or on behalf of the Government of India/State shall be credited to the Public Account of the India/State called Public Account Fund of the India/State as the case may be

(iii) Contingency Fund

As per Article 267 (2), the legislature of a State may by law establish a Contingency Fund in the nature of an imprest to be entitled, Contingency Fund of the State into which shall be paid from time to time such sum as may be determined by such law and said fund shall be placed at the disposal of the Governor of the State to enable him to meet unforeseen expenditure pending authorization of such expenditure by the Legislature of the State under Article 205 or 206 of Indian Constitution (Article 205 related to supplementary, additional or excess grants and article 206 related to vote on account, vote of credit and exceptional grants).

* Presently Principal Director of Audit & ex-officio Member Audit Board-I, New Delhi

2. Budget

Article 202 of the Indian Constitution: Planned expenditure and accurate foresight of earnings are essential features of the Government finance. Therefore, it has been made constitutionally mandatory that Governments in India (Central and State) should present Budget or Annual Financial Statements before the respective legislature giving an estimate of the receipts and expenditure for the ensuing financial year which runs from 1 April to 31 March. Budget is the basis of accounts which are maintained on cash basis.

The estimates of the expenditure shows separately the sum required to meet expenditure charged upon the Consolidated Fund of the State and sum required to meet other expenditure proposed to be made from Consolidated Fund of State. As per Article 203 (1) of the Constitution, estimates as relating to expenditure charged upon the Consolidated Funds of State should not be submitted to the vote of legislature and as per Article 203 (2) of the Constitution, estimates relating to other expenditure shall be submitted in the form of demands for grants to the legislature and legislatures shall have the power to assent to or refuse to assent to any demand. As per Article 204 (i) of the Constitution as soon as Grants under Article 203 have been made by the legislature, a bill shall be introduced to provide for appropriation out of Consolidated Fund of the State for all moneys required to meet the grant so made by the legislatures and expenditure charged upon the Government. As per Article 204 (3) of the Constitution (subject to provisions of Article 205 and 206) no money shall be withdrawn from the Consolidated Fund except under Appropriation passed in accordance with the provision of this Article.

(i) Preparation of Budget

The Departmental estimates are transmitted to the Finance Department who examines and checks the estimates. The Finance Department has the ultimate say in regard to all estimates. Estimates of outlays on plan schemes are prepared by the Planning Commission. Budgeting is done on gross basis and not on net basis. The gross transactions in the case of both receipts and expenditure of each department should be shown separately. It is not permissible to deduct the receipts from charges and frame the budget for net expenditure only. This principle has been laid down because if the Government has considerable receipts available for meeting expenditure and comes to the legislature for authorisation of only that part of expenditure which cannot be met from such receipts, the legislative control over governmental expenditure would lose its meaning.

(ii) Finance Bill

As per Article 265 of the Constitution no tax shall be levied or collected except under the authority of law i.e. an Act of the legislature. Accordingly proposals of Government for the levy of new taxes, modification of the existing tax structure or continuance of the existing rates of taxation for a further period are presented to the legislature through the Finance Bill.

(iii) Demands for Grants

The estimates of expenditure for various departments which are required to be voted by the legislature are submitted in the form of demands for grants. Each demand includes the total amount required for a service during a year including revenue expenditure. Each demand also

indicates separately voted and charged items of expenditure. The demands for grants are presented in gross amount of expenditure in each demand for grants, plan and non-plan expenditure are also shown distinctly.

3. Legislative Financial (Budgetary) Control

The elements of legislative Financial Control consists of authorisation of money and supervision of expenditure and collection of revenue. These are discussed as follows:

(A) Authorisation of Money

As per Article 266 (3) of Indian Constitution, no moneys out of Consolidated Fund of State shall be appropriated except in accordance with law and for the purposes and in manner provided in the Constitution. For the appropriation of any money out of Consolidated Fund of the State, the procedure laid down in Article 202, 203, 204, 205 and 206 has to be followed. For withdrawing money out of the Public Account, it is not necessary to follow that procedure. The Contingency Fund of the State is placed at the disposal of the Governor of the State to enable him to make advances out of such fund for meeting unforeseen expenditure pending authorisation under Article 205 or 206.

The other issues relating to end use of the authorized money i.e. execution of Budget, Accounts and Audit are explained below:

(i) Execution of Budget

The passing of the Finance and Appropriation Acts by the legislature gives the green signal to the executives/administrative departments to collect revenue and spend money on approved projects and schemes.

The financial control of expenditure is undertaken by each Department through the systems of Controlling Officers who controls a group of Drawing and Disbursing officers (DDOs). The Head of Department is normally the controlling officer. The grants voted by the legislature for the Departments are place at the disposal of the concerned Controlling Officers who are entrusted with the responsibility of keeping a watch on the expenditure in order to ensure that the amounts placed at their disposal are not exceeded by the expenditure incurred by subordinate DDOs. Controlling officers normally distribute their grants in detail among their Disbursing Officers restricting their expenditure to the amounts allotted to them. The payments are made through treasuries and sub-treasuries. DDOs are required to submit to their Controlling Officers monthly accounts of their expenditure which Controlling Officers compile and consolidate in their offices. The Controlling Officers reconcile their departmental accounts with the Accounts kept by the Accountant General. Each department is required to evolve a system of Internal Control and Internal Audit. Internal Control is required to provide a reasonable assurance for efficiency of operation, reliability of financial reporting and compliance with applicable laws and statutes. The Internal Audit is a system designed to ensure proper functioning as well as an effectiveness of the Internal Control System and detection of errors and frauds.

(ii) Accounts: Appropriation and Finance Accounts

The primary responsibility for maintaining the Accounts and incurring and controlling

expenditure under the various grants rests with Departmental Officers while the accounts are compiled by the Indian Audit and Accounts Department (AG) from the initial accounting records submitted by the treasuries and other departmental offices like Public Works Divisions, Forest Divisions etc. The Appropriation Accounts (showing saving and excess expenditure over budgetary grants) and Finance Accounts (showing major headwise receipts and payments) are prepared by the Accountant General (A&E). The C&AG of India submits these accounts to the Government of the State to be laid before legislature.

(iii) Audit: Comptroller and Auditor General of India's Audit

The Constitution of India (Article 148 and 151) provides for CAG of India as an independent constitutional Authority for audit of the accounts of the Union and State Governments. He is required to submit his Audit Reports (Civil, Commercial and Revenue Receipts containing instances of wastages and failures in financial administration) to the President of India (Article 151 (1) or to the Governor of the State (Article 151 (2) of the Constitution of India) as the case may be, who will cause them to be laid before the Parliament/State legislature from where these reports are transmitted to the Public Accounts Committee/Committee on Public Undertakings for their detailed scrutiny. His duties, powers and conditions of service are governed through an Act passed by the Parliament in 1971, known as the Comptroller and Auditor General s (Duties, Power and Conditions of Service) Act, 1971.

The main function of the C&AG of India is to ascertain that various Government authorities and bodies act on all financial matters in accordance with constitution and rules and laws framed there under and bring to the notice of the legislature the cases of financial irregularities i.e. waste, loss and extravagant expenditure incurred out of the public fund and irregularities in collection of revenues noticed during the audit through its Audit Reports. The Reports serve a dual purpose. To the Government concerned, the Report will indicate the extent to which its rules and orders are adhered to by its subordinates; it will also often suggest the directions in which the rules and order can, with advantage, be amplified or modified. Simultaneously, the Reports will apprise the Legislature, through its Financial Committees, how far the Government have complied with the rules and orders and in particular how far the money placed at its disposal were regularly and wisely spent. Similarly, the Report on Revenue Receipts will highlight the lapses on the part of assessing officers in complying with the revenue laws and the rules and order issued there under by the Revenue Department. The legislature will also be kept informed, *inter-alia*, of instances of Government conveying decision or directions not in conformity with the revenue laws passed by it. The Report is thus an important instrument in ensuring accountability of the Executive to the Legislature in matters concerning financial management.

(B) Supervision of expenditure and collection of revenues

The supervision of expenditure and collection of revenue is carried out through the questions raised by the Hon ble Members of the House, passing of Supplementary grants and Re-appropriation grants through the examination of the Appropriation Accounts, Finance Accounts and Audit Reports of the C&AG of India. These are discussed below:

(i) Through Questions raised by the Hon'ble Members in the Assembly

There is no formal control of legislature over the execution of budget. However, the mechanism of questions raised by the Members of the House to obtain information on the ongoing activities provides opportunity for the legislature to intervene, if necessary, in any matter including financial and fiscal administration.

(ii) Passing of Supplementary grants and Re-appropriation (under Article 205 of the Constitution)

Other mechanism which legislature uses to ensure that money granted are not spent on the purpose not approved, are passing of Supplementary grants and re-appropriation. The power of the executive to appropriate funds from revenue to capital or charged to voted or vice-versa is also restricted and fresh approval of legislature is necessary when appropriation are needed.

(iii) Through the examination of the Appropriation Accounts/Finance Accounts

The budget discipline requires the executives to incur expenditure for various activities provided for in the budget within the allocations approved by the legislature. Any expenditure incurred in excess of these allocations has to be approved by the legislature. In accordance with Article 205 of the Indian Constitution, Appropriation Accounts prepared every year show excesses and savings against approved budget grants and provide a tool to the legislature to examine the executive on the excesses incurred for regularising the same. Further, Finance Accounts also provide legislature with information on actual expenditure and receipts compared with the budgeted amounts and enable them (legislatures) to assess the efficiency of budget preparation.

(iv) Through the examination of the Audit Reports of the C&AG of India

The Audit Reports (Civil, Commercial and Revenue Receipts) contain comments on the extent to which Government rules and orders have been adhered to and how far money placed at the disposal of the Government were regularly and wisely spent by the executives, whether accounts of the public sector undertakings represents true and fair view and whether there is any deficiency in the functioning of the tax administration. It also brings out the cases of waste, loss and extravagant expenditure. These Reports incorporate not only important audit findings but also performance reviews of systems, projects and programmes and comprehensive appraisals of public enterprises and other bodies and authorities. Thus, C&AGs Audit Report is a vital tool for supervising control over expenditure and collection of revenue as well a enforcing financial accountability of executives to legislature.

Genesis of the Public Accounts Committee

As the State Legislature remains extremely busy with other important Legislative works, the operation of its financial control is exercised through committees established by the Legislative Rules. The important committees are Public Accounts Committee (PAC) and Committee on Public Undertakings (COPU). The Audit Reports of the C&AG of India and Appropriation Accounts and Finance Accounts are submitted to the legislature and transmitted to the PAC/COPU for their detailed scrutiny. COPU deals matter relating to PSUs. They examine the C&AGs Reports and make recommendations to the legislature for taking corrective measures for improving the efficiency of the administration.

PAC is the most important Financial Committee of the State Legislature. It consists of 22 members including Chairman. The Chairman and Members are appointed by the Speaker of the Legislative Assembly. Its terms of office is one year.

Functions of the PAC

The PAC :

- Examines the Appropriation and Finance Accounts.
- Examines the Reports of C&AG of India on these Accounts and other matters.
- Examines the expenditure by various departments and accounts of autonomous bodies.
- Examines various aspects of Tax administration.
- Ascertain that Government spends money within the scope of the demand.
- Functions of Committee extends beyond the formality of expenditure to its wisdom, faithfulness and economy.
- Examines and reports on money spent in excess of the amount granted by the House for regularisation.
- Can take up suo-moto subjects not covered in C&AG s Report.
- Ministers are not called before the Committee. However, the Head of the Departments or the Secretary of the Department is called by the PAC for oral examination based on the matters contained in the Audit Reports to ascertain the correct facts to arrive at a decision.
- PAC discusses only executive actions and not policies on the basis of which executive actions are based.
- PAC examines in details the Appropriation Accounts, Finance Accounts and Audit Reports of the C&AG of India and orally examines the Heads of the Departments to assess the performance of the Government. It submits the recommendations to the State Legislature and also reports on the action taken by the Government on these recommendations.

Areas of Concern

- By convention, the recommendations of the PAC are considered as the recommendations of the entire House. Still recommendation of the PAC is not binding upon the Government.
- Over the years, the budgetary controls have been bypassed by parking of budgeted fund to Deposit head in the Public Account in the State while the amounts are shown as expended. Once the amount is transferred to a deposit account, there is no urgency to spend it. Expenditure out of Public Account does not need legislative approval and executive can spend the funds at its convenience. Such transfers are made even though these heads of accounts such a Personal Ledger Accounts, Personal Deposit Accounts,

Revenue Deposits etc. are not meant to take on transactions of this type.

- The system of control over exchequer does not exist in India and so in the state. Consequently, the instances of excess expenditure over voted grants are higher. The vital exercise of regularisation of excess expenditure incurred by the executive has virtually been stand still as Rs.32395.42 crore incurred as excess expenditure since 1990-91 to 2004-05 is pending for regularisation by the PAC under Article 205 of the Constitution of India.
- Large pendency of C&AG s Audit Reports for discussion by the PAC/COPU: As on 30.6.06, the C&AG s Audit Reports (Civil, Revenue and Commercial) are pending for discussion by the PAC/COPU since 1983-84 to 2005-06 (Civil: 1016 paragraphs), 1984-85 to 2004-05 (Revenue Receipts: 934 paragraphs) and 1982-83 to 2004-05 (Commercial: 394 paragraphs) respectively. The pendency of C&AG s Audit Reports has not only affected legislative financial control but also diluted the enforcement of accountability on executives.
- As on 31.3.2006, there are 98 (56 working and 42 non-working) Public Sector Undertakings of the Government of UP (Government Companies, 87, Deemed Government Companies 4 and Corporations 7). They are required to prepare Annual Accounts to ensure financial accountability of the Management. However, as on 31.3.2006 accounts of 77 PSUs are in arrears ranging from 1 year to 16 years in respect of working PSUs and 1 year to 29 years in respect of non-working PSUs.
- As on 31.3.2006, Rs.8850.14 crore is outstanding for collection towards Revenue receipts since 1984 to 31 March 2006.

Unified Tax System

By Shri N. Nagarajan*

The establishment of a centralised government bureaucracy to collect taxes is regarded as one of the essential features of a modern economy. Britain has long been regarded as a pioneer, creating an efficient tax-collecting bureaucracy over the seventeenth and eighteenth centuries. On the other hand, France at the time was regarded as a laggard, continuing to rely heavily on tax farming. Focusing on the largest of the tax farms, the French Crown's slow transition from privatised tax collection to government administered tax collection is explained as a consequence of its inability to adequately monitor employees and absorb the risk of fluctuating revenues and absence of ready access to the capital markets.

A tax system and tax administration are mutually dependent. Every tax administration is based on the existing tax system, which is composed of a number of tax laws, its basic task being to collect revenue by way of taxes as specified by the laws. The tax administration contributes to more efficient collection of tax revenues at the central and other levels of fiscal authority. Before the taxes are determined and collected or allocated to certain functional expenditure, the state should establish a tax administration that is capable of collecting all revenues adequate to satisfy the defined needs of tax policy. The efficiency of tax administration is affected by :

- the structure of its organisation, the legislative framework,
- the attitude of taxpayers towards compliance and paying taxes,
- the degree of tolerance towards tax evasion, and
- the ability of the administration itself to organise and efficiently use its resources.

The existing dual system of taxation (by Centre and State) adds to the cost of taxation management and to taxpayer's burden thus raising tax paying cost. In addition, contradictions between State administration and local bureaus also lead to tax loopholes and make it possible for some taxpayers to evade tax (Of course one may say that Constitution provides for levy of tax both by the Centre and by the State).

This compounding of the problem and the increase in the cost of collection has set the agenda for serious thinking in rationalising tax structure and increasing the efficiency of collection, monitoring and management of tax system.

Of course incorporation of a new tax system and over all strengthening of tax management would be an ideal solution. Considering the repercussions and the problems involved in amending the laws, however where states may have different viewpoints it would be more appropriate to tackle the problem independently.

First, an attempt should be made at the state level to have a single mechanism to collect tax. Obvious question would be how. Though it may not be as simple as one might imagine, it is not difficult either. An appropriate example could be the Single Window system that operates in Banks and Railway reservations. If it can operate well in these organisations, why not in the Government.

* Presently Accountant General (A&E), Meghalaya, Shillong.

The main objectives of the proposed system should be to

- i) increase tax base
- ii) reduce the tax rate
- iii) ensure cost effective collection
- iv) avoid the problems in collection and distribution
- v) ensure strict taxation management and compliance
- vi) deter (by way of severe punishment).

Broadening the tax base :

If the taxpayers including corporates pay all their tax dues and taxable income is taxed under tax authorities control, taxable income as well as tax revenue will increase. Broad tax base and low tax rates are interconnected. The basic requirement for broad tax base is bringing of legitimate tax payers within the net of tax management system.

If we have a broad tax base, taxation management system can reach as many taxpayers as possible and tax collection would increase, lower tax rate does not necessarily mean less revenue.

Enquiry/ observation show that the number of staff (meagre) actually supposed to perform the monitoring operations (Audit/Vigilance/Enforcement) exist only on record but most of the time are redeployed to perform the regular activities of the department. The usual reason given by the departments is lack of sufficient manpower. This can easily be tackled by redeploying the excess manpower available by merger of different tax/ revenue departments. Single department would help in increased collection by having better monitoring and control mechanism and availability of more persons for the job. By this method, availability of tax men per 1000 population would increase. This will increase the coverage/scope and would result in higher compliance and tax collection besides reducing the cost of collection.

Lowering cost of collection involves many factors, including institutional setup, regional layout, various regulations and other taxation expenditure.

The strong and weak points of a country s tax system are mainly decided by

- i) Whether this system including the tax structure, fits in the country s current social and economic structure as well as national income distribution.
- ii) Whether the system including tax structure, fits in the country s current macroeconomic control system and management level.
- iii) Whether the system including the tax structure is such that revenue due can be collected in full.
- iv) Whether the system, including the tax structure, is conducive to promotion of economic growth, economic development and social stability.

- v) Most developed countries in the West currently adopt a tax system and taxation structure mainly based on income tax, which focuses on individual income tax.
- vi) The economies of most developed countries in the West are dominated by private ownership, with their national income and national wealth mainly distributed to individuals. Therefore, the main focus is on individual income tax whereas in developing countries whose economy is not dominated by Private ownership, it is impossible to establish a taxation system based on individual income tax. It is this taxation which needs to be reviewed to help taxation management.

As mentioned in the background we have different departments for revenue collection and the taxes collected by them are credited to Government account. This involves a huge investment in terms of human resources, internal controls and other related management to administer the taxation system. This is bound to increase the cost of collection besides resulting in serious problems for the tax payer because of the number of departments involved, its location and its efficiency to collect taxes.

In order to avoid all these problems it is better to have a single department which is responsible for collection of tax which may be called as Revenue Department. Later an attempt could be made to merge all the taxes and levy only one tax.

The basic recommendations for a successful reform of tax administration relate mainly to simplification of the tax system by a reduction in the number of taxes. The organisational structure should be redefined at the operative levels so that the central level of the organisation is left with only planning, control and support functions and taxpayers should not have direct connection with the central level of the tax administration.

The organisations of tax administrations differ because of the differences in the laws and features of the tax systems in individual countries, mostly with respect to the two basic kinds of organisation, vertical or horizontal. The general recommendation of the International Monetary Fund is that the organisation of a tax administration should be adjusted to harmonise with the existing strategy about computerisation and information technology, with the degree of autonomy of the operational units of the tax administration itself in their dealings with taxpayers and responsibility among the various levels of the administration be divided according to the individual functions it performs.

The major administrative reforms undertaken in different countries in the world provide encouraging examples. These improvements resulted in the successful implementation of the tax reform program and in a dramatic improvement in tax collection. Such successes show that under the right conditions, the efficiency of tax administration can be increased in a relatively short period. Moreover, as these countries have demonstrated, with the higher efficiency of tax administration, revenues can be maintained and even increased, while at the same time reducing excessively high tax rates and diminishing inequalities through more adequate enforcement of taxes across different taxpaying groups.

Reform of tax administration clearly reflect the importance of tax structure, because tax administration and tax structure are interrelated and have to be improved simultaneously in tax reforms. Badly organised or unnecessary complicated tax structure hardens very much the

operating function of the tax administration, while simple and transparent tax structure could make it much easier. The removal of exemptions, loopholes and concessions can simplify administration and reduce evasion. Taking a systematic view of the tax system, rationalisation, simplification, and the removal of anomalies should have the effect of reducing the administrative costs of identification, assessment, auditing and enforcement.

The administrative simplicity of tax handles, however, while influencing tax polity, should not be allowed to dictate it. Concentration on just a few handles can lead to high distortion in structure. These administrative improvements could result in successful implementation of the tax reform program and in dramatic improvement in tax collection.

It does not mean that the improvement in the working and increase in the efficiency of tax administration is a simple and easy task. In the work of tax administration are reflected whole range of social and economic conditions and factors like education and skillfulness of employees, the distribution of income, relationship regarding the authority of government and similar other factors. It is therefore not possible to expect the change overnight.

One of the preconditions for reforms in tax administration and improvement is the efficiency in reaching the necessary institutional and financial autonomy. Skillful employees that have adequate knowledge could be found only if their jobs have required social valuation. That is reflected in their position, wage etc. It is not possible to believe that only money would be an incentive to the employees for better and efficient performance of their duties. For the improvement of the system, the quality of work of the staff in tax administration is very important. This could be achieved by objective public and professional recognition and awards, entrusting more complicated and more responsible tasks, professional training and education, professional advancement. More skilled and professional staff would be required in the future. Extremely highly skilled and professional multidiscipline knowledge may even become the norm if we have to compete in the world. In the additional training and retraining it would be necessary to take care and create conditions of self-discipline, skillfulness and establishing better relations with the taxpayer.

Problems :

In the scope of the reform of the whole taxation system

- we may have to reform the bodies that are in charge of levy of tax, assessment, collection and control of budget revenues.
- an organised united tax administration with regional offices and branches on the whole territory of our country may have to be formed.
- assuming these are created we may have to face the organisational and functional problems which may limit the activities of Tax Administration bodies and increase their costs.

- changes may be required in staff with adequate education and incentive for more efficient work in accordance with the better system for valuation of working results.
- we may have to solve existing problems and malfunctions in Tax Administration.
- due to the observed defects, malfunctions, it would be necessary to accept measures that would increase the efficiency of tax administration.
- one can not deny that use of information technology will produce good results.

Further education, training and broader use of information technology are the goals in the near future. It is necessary to eliminate the defects as soon as possible. The priority is to conform to effective Tax administration to all taxpayers and more efficient collection of budget revenues.

Advantages of Unified Tax System & Centralised tax administration

An integrated tax system would be economically efficient and would enhance the collection of revenues while reducing administrative duplication and costs, simplify compliance for business and promote federal-provincial fiscal co-operation and harmonisation.

Pooling of federal and provincial expertise regarding tax administration would have a positive impact on the system.

Ensure efficient and effective administration of the harmonised tax to maximise the compliance under such taxes.

One can not underestimate the benefit to the common man in terms of saving man days and convenience as a result of unified tax system.

Unless a proper, efficient and effective control mechanism is in place any amount of simplification may not help to get the desired result of increasing revenue.

Statistical Sampling in Audit- A critique

By Shri. P. Phookun *

Sampling is an internationally accepted practice in audit. Besides the fact that it is practically impossible in most audit situations to conduct a 100% check, sampling has, in fact, certain advantage over 100% check e.g., given limited resources, sampling allows a more in-depth examination than check of the entire population.

Broadly, there are two categories of sampling: statistical and non statistical. Within each category are different types of sampling procedures. Some examples are indicated below :-

Statistical sampling	Non statistical sampling
1. Simple random sampling	1. Quota sampling
2. Fixed interval or systematic sampling	2. Volunteer sampling
3. Stratified or cell sampling	3. Purposive sampling
4. Cluster sampling	
5. Multi-stage sampling	
6. Probability Proportionate to Size (PPS) sampling	

In IAAD as of now, most sampling procedures followed are almost completely non statistical. While non statistical sampling procedure have the advantages of simplicity and low cost, they have significant disadvantages such as high probability of bias in selection of sampling units and inability to calculate sampling risk. Bias prevents non samples from being representatives of the population from which the samples drawn; consequently, global conclusions based on non-statistical sampling are not professionally defensible. Inability to calculate sampling risk prevents the auditor using non-statistical sampling procedures from providing any definitive level of assurance regarding the correctness of his opinion; consequently his audit opinions have less credibility.

In view of the above, professional standards emphasis the need for statistical sampling.

A common misconception is that random selection of sampling units is the only condition required to be satisfied in conducting statistical sampling. But the reality is different. Statistical sampling is based on the "*Statistical law of regularity*" formulated in the mathematical theory of probability. As per this law A moderately large number of items chosen at random from a very large group are almost sure, on an average, to have the characteristic of the large group. From this law, it may be seen that three conditions have to be satisfied for sampling to be statistical: (i) the sample size must be moderately large, (ii) the sampling units must be chosen at random, and (iii) the sampling must be performed on a large population.

In statistical sampling, moderately large is not a matter of arbitrary/ personalised determination of sample size; what would be the appropriate moderately large sample size depends on specified

* Presently on deputation in INTOSAI at OSLO, Norway.

sample size calculation procedure based on statistical formulae; in addition, the procedure for calculating sample size varies from one method of sampling to another. Therefore, an a priori decision that the sample size should be say 12% of the total voucher of a given type, as done in our Central Audit, or 30% of the total expenditure, as done in many of our Performance Audits, has no statistical basis and, therefore, does not fulfill the statistical requirement that the sample size should be moderately large. Of course, such non-statistical determination of sample size may be based on sound judgment following from a good knowledge of the population, but that still makes the decision arbitrary from a statistical point of view and so would vitiate the statistical sampling process.

Choosing the sampling units at random means that there should be no bias in the selection; in other words, every items in the relevant population should have an equal chance of being picked up. Statistically, this will be valid only if the identification of the sampling units is based on the generation of random numbers (say, by using a random number table or the random number generator in Winidea software). Therefore, for example, putting all the vouchers together in one place and then picking up the required number of vouchers after closing one's eyes does not constitute random selection. Moreover, if a voucher corresponding to a randomly generated number is not traceable, merely replacing it with the next available voucher would vitiate random selection and cause bias. Therefore, population units (vouchers in this example) would have to be stored in such a systematic manner as to facilitate each retrieval of an identified unit.

As per the third condition of statistical sampling, the population on which sampling is to be applied must be very large; as a thumb rule, at least 5000 units constitute a large population. This condition is based on the statistical observation that units of a large population generally tend to be distributed in an even way called a normal distribution, wherein the majority of the units get distributed within a certain maximum deviation from the mean (average) of the population. If this condition is not satisfied, statistical sampling would not be reliable and therefore not recommended. For example, during a performance audit, randomly selecting say 15 (30%) districts out of say 50 districts in an Indian state by generating 15 random numbers would not meet the requirement of large population since the population in this case (50 districts) is nowhere near a large population.

Hence, it can be seen that statistical sampling requires the satisfaction of more rigorous conditions than just a matter of random selection. For example, sampling facility in VLC application enables random selection of vouchers, but the sample size is determined non-statistically; hence the facility cannot be termed statistical sampling. This is not to say that this facility in VLC is useless; it is just that we need to be clear whether it does really constitute statistical sampling and whether, therefore, the audit observations from such samples can be extrapolated to the population.

The statistical sampling process in audit has certain distinct stages to be followed in a logical sequence. In view of the statistical rigour and specialised knowledge involved in statistical sampling, expert guidance becomes necessary to avoid material errors at different stages of the sampling process. In our department, it would perhaps be unrealistic to expect that any audit team would be able to conduct statistical sampling with little or no guidance.

Indicated below are the stages in statistical sampling and the kinds of expert guidance that might be required. Examples here focus on sampling in Performance Auditing, but that is not to mean that statistical sampling is free of complications in Financial Auditing.

Stage in Statistical sampling

Kinds of Expert Guidance that may be required

1. Identify relevant population
What are the guidelines for determining the most appropriate population: Should the population be total expenditure? Or number of persons/beneficiaries? Or geographical area?
2. Decide statistical sampling method
There are several statistical sampling methods as stated above. What are the relative advantages and disadvantages of each? What is the degree of sampling risk associated with each? How is the audit team to be reasonably sure that it has selected the sampling method appropriate to the situation?
3. Calculate sample size
Method for calculating sample size varies from one method to another, involving rigorous statistical formulae. If the sample size were smaller than statistically required, the final conclusions would not be reliable; on the other hand, if the sample size is too large, the very purpose of sampling would be defeated. As stated in the law of statistical regularity (see above), the appropriate sample size is the first condition of statistical sampling. Sample size calculation requires quantitative data relating to such parameters as *confidence levels, materiality level, tolerable error, most likely error, coefficient of reliability, basic precision factor, etc.*, none of which are currently in use, or even documented in IAAD. Therefore, in order to avoid errors, ready reckoners and other tools for calculating sample size would perhaps be required for use by field office personnel who cannot be expected to be statistical experts.
4. Draw sampling units from the population
There are different methods for drawing samples; e.g. with or without replacement of units drawn in simple random sampling, proportionate or disproportionate to the size of strata in stratified sampling, fixed interval or stratified in PPS, etc.. Each method has its corresponding level of sampling risk, which must be borne in mind in deciding the sample unit selection method. How should the audit team select the best method for

the given situation? In addition, what happens if an identified sampling unit(s) is physically not traceable? Simply picking up just any other unit from the population cannot compensate such non-availability, because that would introduce bias in the selection. How is the audit team to make the appropriate decisions in such situations?

5. Examine/audit the sampling units

No comments

6. Formulate audit conclusion for the population as a whole

The method of extrapolation varies from one method of sampling to another. How are general conclusions to be drawn from the results of audit examination of samples? For example, if during inspection of a sample of rural primary schools in Assam, 5 instances of missing black boards are detected, what general conclusion can be reliably made about availability of black boards in rural primary schools in Assam as a whole? From such sample results, can we, for example, conclude with 90% confidence, that 20% to 25% of the rural primary schools are likely to be without black boards? The final aim of statistical sampling is to enable such quantitative, global conclusions with specified level of confidence; else it may not be worthwhile to undertake statistical sampling procedures, which are more rigorous and costlier than non-statistical sampling methods.

The statistical sampling is, therefore, much more than just a matter of random sampling, it also requires detailed procedures which may help the field audit parties, at different stages of the process, decision making which is more rigorous. The statistical sampling is, therefore, not an approach that field offices can simply be asked to adopt without supporting them with detailed documented guidance or a sort of ready reckoners on how to respond to the various decision-making questions that will invariably arise at each stage of the sampling process. Insisting on adoption of statistical sampling without providing clear cut, approved guidance could very easily lead to a situation where audits makes global conclusions that are statistically erroneous. Needless to say, this could seriously tarnish the credibility of audit.

The purpose of this paper is not to decry adoption of statistical sampling. In fact, the author believes that adoption of statistical sampling could not only make audit conclusions more defensible, but also enhance their impact by providing more quantitative global conclusions. However, this paper intends to persuade the readers of the need for a systematic adoption of the new approach based on (i) sound understanding of the principles underlying the statistical sampling and (ii) the corresponding infrastructure support essential. Else our good intentions could easily deteriorate to a situation of fatal compliance to directions from above .