

---

## Audit Reports (Civil)

Audit Reports (Civil)<sup>1</sup> of the Comptroller and Auditor General include the audit findings and observations on the accounts of Central Government Ministries, Departments and their attached and subordinate offices. In the case of State Governments including Union Territory Governments having Legislature similar findings and observations will find place in the Audit Reports (Civil) of each State/UT. Civil Audit constitutes the largest segment of C&AG's Audit Reports. Out of 91 Audit Reports generally prepared and approved every year by C&AG for submission to Parliament, State Legislature or Union Territory Legislature, on an average 41 relate to Civil Audit. There were exceptional years like 1992-93 when the number of Civil Audit Reports was very high viz. 58 (50 State Audit Reports and 8 Union Audit Reports). In terms of manpower deployed, civil audit accounts for about 75 per cent of the total number of audit office personnel.

C&AG's Audit Reports contain findings on government business transacted during the preceding financial year (and earlier years too). Instructions of C&AG stipulate that a matter reported in the Audit Report of a particular year should not be more than 5 years old. Generally, most of the transaction audit paras in the Audit Reports relate to the financial year covered by the Audit Report. While no specific date is prescribed in the Statutes for the submission of the reports to the President/ Governor, it is always the endeavour of the C&AG to present them soon after the finalization of the annual accounts of government i.e. in the ensuing Budget Session. Performance Audit Reports are, however, spaced out and generally submitted in all the sessions of the Parliament. C&AG's Report (Civil) on the accounts of Union Government is considered to be the primary report of C&AG on the Finance Accounts and Appropriation Accounts of the Government and no efforts are spared to get this

Report laid in the Budget Session. The trend in the dates of laying of the Report in the Parliament is given in the Annex—I to Section 'A'.

It will be correct to describe C&AG's Audit Reports as joint efforts of a vertically integrated team beginning at the base level with Auditors and Section Officers and culminating at the top level with the C&AG, who approves the final output (called Bond Copy) that goes into the formal printed Audit Report before he countersigns the same for submission to President for laying in Parliament/ State /UT Legislature after which these reports get transmitted to PAC/ COPU as the case may be. In such a highly interactive system, as can be expected, every level contributes; and the Headquarters, where a meticulous analysis of all draft paragraphs/ reviews is carried out, contributes significantly through very fruitful interactions between the Report Group, DAI/ ADAI and field Accountants General. The end product is a much improved version of the original draft audit reports submitted by the field offices. Also, the systems and procedures are constantly reviewed to cope with new challenges and changes.

This chapter contains 3 sections namely: Section 'A' dealing with Audit Reports (Union), Section 'B' dealing with Audit Reports (States) and Union Territories and Section 'C' dealing with C&AG and Public Accounts Committee/ Committee on Public Undertakings. A separate Chapter details the growth and developments in Performance Audit system in IA&AD.

#### SECTION 'A'—AUDIT REPORTS (UNION)

In terms of Article 151 of the Constitution of India, Comptroller & Auditor General of India submits annually Reports relating to the accounts of the Union to the President who shall causes them to be laid before each House of Parliament. In respect of the States, a similar provision exists in the Constitution for the C&AG of India to submit his reports on the accounts of the State to the Governor of the State who shall causes them to be laid before the Legislature of the State. In the case of the Union Territories, the Union Territories Act provides that the C&AG's Reports relating to the accounts of the Union Territories having a Legislature shall be submitted by him to the Administrator who shall cause them to be laid before the Legislature of the Union Territory.

C&AG's Audit Reports (Civil) can be classified broadly into three categories:

- (i) Audit Reports that contain observations and comments arising from audit of annual Finance and Appropriation Accounts of the government;

- (ii) Audit Reports containing results of transactions audit and compliance audit; and
- (iii) Audit Reports containing results of performance audit.

As brought out elsewhere in this Chapter, from Audit Report 2004–05 onwards, C&AG's Audit Reports on transactions audit and performance audit are printed separately. His report on the audit of Finance and Appropriation Accounts is now presented as a separate volume (as C&AG's Audit Report on Accounts of the Union Government). Presentation of this separate volume started from the Audit Report for the year ending 1995–96. Prior to that, observations in Chapter-I contained points arising from analysis of Finance Accounts whereas those on Appropriation Accounts were included in Chapter-II.

Even prior to the year 2004–05 separate volumes of Audit Reports on Performance Audit (which was more often referred to as Performance Review or Appraisal) were brought out, though there was no formal categorization as such. At present, stand alone volumes are brought out in the Union Reports for Performance Audit while on the State Report side, mostly a single volume of Report of each category i.e. Audit Report (Civil), Audit Report (Commercial) and Audit Report (State Receipts) carry both transaction audit observations and Performance Audit reviews.

C&AG's Audit Reports on Union Government can be grouped under eight categories and the table below shows the changing

#### UNION GOVERNMENT: AUDIT REPORTS

	2005–06*	1999–2000	1994–95	1989–90
Civil, Scientific & P&T	10	5	5	4
Autonomous Bodies	2	1	1	2
Direct Taxes	2	2	1	1
Indirect Taxes	2	2	2	1
Defence Audit :				
Army & Ordnance Factories	3	1	1	3
Air Force & Navy	2	2	1	1
Railways	3	1	1	1
Commercial	7	8	14	13
National Capital Territory Delhi Administration	3	1	1	2
<b>Total</b>	<b>34</b>	<b>23</b>	<b>27</b>	<b>28</b>

\* upto Monsoon Session of Parliament for the year 2007.

profile of each category over a period of 16 years spread out in an interval of every 4–5 years.

This section mainly deals with developments in C&AG's Reports on Expenditure Audit called Audit Report (Civil). This also contains developments common to all categories. Post and Telecommunications Audit and Science and Technology Audit are covered in separate chapters.

Audit Reports come into the public domain, after their tabling in the Parliament or the State Legislature. Some other reports like the inspection reports, factual statements and draft audit paragraphs do not have any public interface as they are exchanged between the audit office and the concerned Department(s). This distinction is often not understood. While inspection reports contain the findings in the audit of any entity or an activity or a programme, only those findings out of these, which are considered very important are taken out by the Directors General/Pr. Directors of Audit for the C&AG's Audit Report and separately processed for the Audit Reports. The intermediate stages in this process are issue of factual Statement to the government and subsequently, issue of draft paragraph. Upto the factual statement stage, such document is issued on the authority of the DAG/ Sr. DAG (Group Officer). When the reply to the factual statement is received, after an assessment of the facts and figures, if it is considered to be of merit for inclusion in the Audit Report, a decision is taken by the DG/PD concerned to float it as a draft paragraph (DP). At this stage, the DP is sent to the Secretary of the concerned Ministry/Department for verification of facts and comments, and simultaneously a copy is endorsed to the C&AG office for the approval of concerned Dy. Comptroller and Auditor General/ Addl. Dy. Comptroller and Auditor General (DAI/ADAI). These DPs are generally sent in convenient batches of 5 or more (in each batch). Unless a DP is rejected outright by the Headquarters—a rather rare thing—the first journey of DP is for eliciting Headquarters' comments, etc. which may need further working by the DGA/ PDA office. On receipt of these comments/ observations from Headquarters and if the reply of the Department is also available by that time, a revised DP is sent to Headquarters. It may also happen that based on the reply of the Department, the DP is suggested for dropping by the Headquarters. Generally all the DPs are formally discussed between the concerned DAI/ ADAI and the PD/DG involved. A final draft of the para is sent again to Headquarters for inclusion

in the Audit Report. After the entire material is approved by the concerned DAI/ADAI, a draft Audit Report is prepared and sent to Headquarters for C&AG's approval. This draft Audit Report popularly called 'Bond Copy' is put up by DAI/ADAI for C&AG's approval. As the C&AG, Narhari Rao in his statement made at the meeting of the Public Accounts Committee dated 22 May 1951 clarified,<sup>2</sup> any intermediate correspondence between the Audit officers or the Auditor General on the one hand, and the Administrative officers or even the government, on the other, can not be regarded as Audit Reports. Audit Reports are formal documents bearing the C&AG's certificate saying that this is the Report under Article 151(1) of the Constitution being presented to Parliament through the President. Nothing else is on Audit Report.

Sometimes, due to lack of clarity about these stages to the outside world, certain peculiar situations arise. For example, in the Madhya Pradesh High Court, Jabalpur, the then Leader of the Opposition filed a case in 1989-90 on the basis of a factual statement issued by the Accountant General, Madhya Pradesh alleging that a lottery scheme involved serious irregularities and violated rules and regulations with substantial financial loss to the exchequer. During the evidence before the Hon'ble Judge of the Commission of Enquiry appointed to hear this case, the factual Statement was treated as an exhibit and the author, who was the concerned AG who signed the Audit Report, was called to give evidence before the Commission. The Advocate General of the State Government briefed the author on the previous evening to the hearing and insisted that he must depose on the facts and figures included in the factual statement before the Hon'ble Commission. However, the Audit Report of C&AG on this subject incorporated material changes that took place subsequently and the loss to the exchequer reported in the C&AG's Audit Report was lesser than that reported in the factual statement. The Accountant General informed the Advocate General that the factual statement was an intermediate process of finalization of the Audit Report and the authentic version was the relevant Audit Report, which was signed by him as AG and countersigned by the C&AG. The Advocate General insisted that he was duty bound, as a State Government employee, to follow the legal advice given by him, but on being reminded by the author that he (AG) was actually a Central Government (C&AG's) employee, and would abide by the Audit Report, the Advocate General, after some reluctance, asked him not to appear before the Hon'ble Commission to give evidence.

On being told by the AG that he had received summons from the Commission to appear before it, the Advocate General agreed to request the Commission to exempt the AG from appearing as a witness. (He did appear later as an official witness to depose on the facts as per the Audit Report).

### CONTENTS OF THE AUDIT REPORTS

If we take a sector wise analysis to ascertain the sectors that have dominated C&AG's Audit Reports in so far as programme reviews are concerned, it would be seen that the most prominent places are occupied by three sectors namely Health, Poverty Alleviation and Education. The programmes, activities, and schemes relating to the first were reviewed in 23 paragraphs of C&AG's Reports from 1990 to 2005. Poverty alleviation and Education sectors were covered in 15 and 13 Audit Reports respectively between the period 1990–2003 as Audit Reviews (subjects relating to the Ministry of Human Resource Development mostly pertained to Education). 10 Audit Reports included reviews on subjects pertaining to Ministry of Agriculture. Employment programmes were analysed by Audit in as many as 8 Reports during this period.

Audit Reports analyse the performance of the Government in implementing major programmes and schemes, many of which are designed towards socio-economic developments and general well-being of the masses and reflect concerns about issues that are topical and material. Successive C&AGs, therefore, have paid special attention to the selection of subjects or themes for Performance Audit of Government programmes, activities, schemes, etc. Keeping these factors in mind, a look at the Audit Reports presented to the Parliament/ State Legislatures from 1990 onwards will reflect the preferences of the incumbent C&AGs in the matter of reporting results of his audit of the important schemes of the Government for the socio-economic development of the country.

*Audit of Technology Missions:* C&AG Somiah's emphasis on Centrally Sponsored Programmes is reflected in the themes he selected for All India Reviews and other Performance Audit Reviews. Some of the first themes he got audited included two Technology Missions, viz. Technology Mission on Immunization (Paragraph 1—Report No.6 of 1993) and Technology Mission on Drinking Water (Paragraph 4—Report No.1 of 1991). Technology Missions were launched with great hope in 1986 'to lend a sense of urgency and commitment' towards achieving the goals within the specified time

frame. The Technology Mission on Drinking Water was to assure supply of required quantity of potable water within a reasonable distance of about 1.6 km. and within a depth of 15 meters in 1,37,155 villages. The achievements against this were satisfactory at first look since 1,28,823 problem villages were covered but these figures included partially covered villages also which numbered 1,18,163 (these also included those villages that pertained to pre mission period). Mission was lacking in information about the quantity of potable water available per capita per day. Shortfalls in reaching targets on several other parameters were also in abundance like testing quality of water laboratories (33 set up out of target of 100), tackling excess fluoride (against the target of 1825 villages only 796 were covered) and likewise there were significant shortfalls in achievement of other targets. One of the big drawbacks brought out in audit was that the agencies for evaluating the progress of the individual projects annually and suggesting methodology and approach for rectification of deficiencies were not identified and deployed as envisaged in the project report. Resultantly, no evaluation of implementation of mini mission/ sub-mission projects was done. Even though monitoring of the programme at district and State level was attempted, it was grossly deficient.

*On Immunization Programme*, where the object was to cover 85 per cent infant population and 100 per cent pregnant women by 1989–90 and reduce neo-natal mortality rates and poliomyelitis incidence rates, 7 States reported achievement of targets for immunization of infants but regarding pregnant women only 5 States could reportedly achieve the targets by 1989–90. Position was no better in 1991–92 when only one more State was added for achievement of target for infants and another one for pregnant women. Audit also noted that performance reports were not reliable and achievements reported were higher in most of the States. There were points regarding vaccines not being administered to children at the prescribed age. There were delays in installation and non-functioning of deep freezers. Quite a high percentage of samples drawn for potency test were found unsatisfactory.

*Environmental issues in Audit Report*: Environmental concerns which had just started, influenced Audit also. C&AG took up several studies on environmental themes. His concern for environment issues finds its echo in his revisiting Ganga Action Plan<sup>3</sup> (the first review was in C&AG's Report of 1988–89) that drew the attention of the Parliament and the policy makers upon the very unsatisfactory progress made in the implementation of critical components of the project resulting

in huge cost and time escalation. Audit also brought out the considerable variation in the data collected by Ganga Project Directorate which was the executing authority for Ganga Action Plan and results of the Central Pollution Control Board regarding water quality. In his Report for the year ended March 1992 (No. 1 of 1993), the C&AG took up the theme of Grants-in-Aid to Voluntary Agencies for Environmental Orientation<sup>4</sup> to School Education for his review. This is one of the first audit studies of a school programme aiming at environmental concerns. This centrally sponsored scheme conceived in 1987-88 provided financial assistance to voluntary agencies for taking up experimental and innovative programmes to promote environmental consciousness among students. Payment of grants-in-aid was made directly to the voluntary agencies by the Department of Education. The scheme provided grants to voluntary agencies on all India basis and yet Audit discovered that nearly 91 per cent of the total grants paid during 1988-89 to 1991-92 (Rs. 182.75 lakh) was released to just four agencies and of these, one received a grant of Rs. 117.96 lakh and was working only in two districts of Uttar Pradesh. Worse, the activities of this organization for which assistance was given were not connected with environmental orientation to school education. The Department also nominated two organizations to act as lead organizations creating another grant disbursing agency thereby shifting all its responsibilities in the matter. This was in contravention of government directions. No evaluation was conducted to ensure/ ascertain what was done with the funds.

*Review on Central Rural Sanitation Programme (Paragraph 6.2—Report No.2 of 1994):* This review was also in some ways concerned with environmental issues. Another audit review that shows C&AG's attention to the environment related issues was audit of Central Pollution Control Board (CPCB) which is the nodal agency to lay down standards for quality of water and air and along with State Boards is responsible for regulating the quality of pollutants discharged with reference to the above standards. Audit Report No.2 of 1993 brought out certain glaring deficiencies in CPCB performance. This review would rank remarkable because it was first of its kind on the Central Pollution Control Board—the principal standards setting and regulatory body for pollution control.

*Review of National Museum:* Audit Review on National Museum<sup>5</sup> reflects the wide range of themes/ subjects/ institutions on which performance reviews are brought out. This Review on country's premier museum engaged in collection, preservation and display of

exhibits, documentation and securing custody of art objects, revealed interesting findings. Out of 4883 objects of art purchased during 1985–1992, only 52 were registered antiquities whereas 496 were unregistered antiquities and 4335 were non-antiquities. Similarly, out of 3550 objects, 115 art objects were not found genuine art objects. The Museum did not have any system of recording the art objects at the time of acquisition and as a result, historical importance of 4132 objects had not been recorded. Out of 244 items of sculpture purchased by the National Museum, only 49 were fit for the collection of the museum. The apathy of Advisory Board of Museum can be gauged from the fact that it did not hold any meeting during the entire year 1989–90 and Standing Committee met only once during 1987–1990.

*Vertically Integrated Audit:* Another landmark review in C&AG Somiah's time that appeared in the Audit Report for the year ending March 1992 related to an integrated audit of the working of the Department of Power. It was the first of its kind which reviewed in totality the functioning of the Department of Power of the Central Government. The review brought out very significant findings on the Power Sector Reforms as envisaged and as achieved during the 7<sup>th</sup> Plan period. It highlighted and brought to attention the shortfall in the power availability. Audit view was that investment efforts were focused on maximizing the installed capacity only while other important areas like transmission and distribution, renovation and modernization of plants and power conservation were not given due importance. Hydropower tapping was low in its view, whopping cost and time overruns in commissioning of some of the projects and excessive transmission and distribution losses were also noticed. Also, it viewed seriously the decline in plant load factor of Central Sector Thermal units from 65 per cent in 1986–87 to 58.1 per cent in 1990–91.

Such integrated reviews on the working of a Ministry/ Department of Union Government was rather an unusual feature although on State Reports side, such integrated reviews on a Department functioning became a regular feature in C&AG Shunglu's period, a few years later.

*Fisheries Development etc.:* A Review in the Audit Report for the year ended March 1993 (Paragraph 3.1 of Report No.1 of 1994) featured development of fisheries conducted across 19 States and 4 Union Territories. This year also saw a spate of reviews on Centrally Sponsored Schemes which included Family Welfare Programme, Operation Black Board, two programmes of Department of Rural Development viz. Integrated Rural Development Programme and

Central Rural Sanitation Programme. A review on Nehru Rojgar Yojna was also conducted. There was a mini review on Ahmedabad—Vadodara Express Way. Audit Report No.1 for the year ended 1993–94 contained important reviews like National Cancer Control Programme, Improvement of Science Education in schools, Government Medical Stores Depot, Kolkata, Building for permanent mission in New York and National Bhartiya 1989. In the last mentioned review, the C&AG depicted several disturbing features like organization of the programme by a Committee which had no legal status and keeping the entire grant of about Rs.5 crore outside the Government account and irregularities in the construction of modular houses without inviting tenders.

*Review on Public Debt:* A landmark Review which appeared as a stand alone report of C&AG in 1994 (for the year ended March 1993) was on 'Public Debt'. This Review highlighted the difficult situation the Government faced due to mounting Public Debt, where 86 per cent of the internal borrowings was used towards debt service obligations. It analysed the reason for this as the gap between revenue and expenditure caused by a combination of factors like declining growth in tax revenues, sharp increase in tax arrears, poor returns from public enterprises and growing expenditure. This Audit Report received wide publicity in the press and Economic Times even carried an editorial on this Review<sup>6</sup>.

*Review of Disinvestment:* One of the most talked about reviews in Audit Reports brought out during that time was Disinvestment of Government shareholding in selected Public Sector Enterprises during 1991–92<sup>7</sup>. This Audit Report was remarkable for a number of reasons. It was the first ever 'Disinvestment audit' done by the Department and that too immediately after the event of disinvestment; it depicted the disinvestment exercise of the government as an inept handling done in a hasty manner without adequate safeguards for Government's interest and finally concluded that it resulted in underrealization of value to the tune of Rs. 3,442 crore. The PAC also, while agreeing with the report, came down heavily on the Government handling of the first Disinvestment exercise<sup>8</sup>.

*Wide reach of Reviews selected:* C&AG's Report for the year ending March 1994 (No.2 of 1995) depicts the variety in selection of themes. It contained reviews on Jawahar Rojgar Yojna, Shipping arrangements for Government cargos, Setting up and functioning of FM Radio Stations and Staff Selection Commission.

In the Report for the year ending March 1995 (No.1 of 1996) amongst the reviews projected in Audit Report were National Watershed Development Project for Rainfed Areas, Scheme for excise relief for weak Industrial units, Recovery of Government loans advanced to Shipping and Fishing Industries and another Report of the same year (No. 2 of 1996) carried Reviews on Vocationalisation of Secondary Education, Border Security Force and National Highways in Tamil Nadu.

#### FOCUS DURING C&AG SHUNGLU'S PERIOD

C&AG Shunglu's period (1996–2002) saw maximum number of Audit Reviews on Poverty Alleviation (12) and Employment Generation Programmes (4). Amongst the more prominent of these were Public Distribution System, Jawahar Rojgar Yojna, Urban Employment Generation Programme and National Drinking Water Mission. This was followed by themes on Health and Family Welfare (7), Agriculture (5) and Education (4). In his Report No. 3 of 1999, C&AG brought out an appraisal/review on National Malaria Eradication Programme. In his Report No. 3 of 2000, C&AG reviewed 4 schemes—all of these related to food security and nutritional support. These were Public Distribution System, Rural Employment Generation Programme, Integrated Child Development Services Scheme and Nutritional Support to Primary Education. The conclusions drawn in these four Audit Reports which were mutually not exclusive but had common thread of provision of food security, nutritional support and income transfer to weaker sections, were that these schemes had serious flaws in design, execution and monitoring. As the Brochure<sup>9</sup> specially brought out by the C&AG on these four reviews says 'most of these flaws could be traced to the inherent unworkability of central control and monitoring of the programme throughout the country by concerned Ministries of the Union Government and indifference of State Governments/ executing agencies due to lack of a sense of ownership of the programmes. The programme design did not provide for effective accountability procedures and execution mechanism did not afford opportunity for determining accountability and/ or for taking corrective measures. As a result, the objectives of the programmes remained largely unfulfilled'<sup>10</sup> (a detailed summary is contained in Appendix 'B').

The emphasis on environmental issues in audit continued with C&AG Shunglu also. He brought out a review (third time by Audit) on Ganga Action Plan Part-II—Audit Review showed what a colossal waste of public funds it was with no fruitful results (a detailed

account of the review is given in chapter 11 on Audit of Scientific Departments). This was brought out as a stand alone report in the year 2000. The C&AG for the first time brought out a compliance audit report on 'Implementation of Environmental Acts relating to Water Pollution'. Another first of its kind was the Review on 'Administration of the Prevention of Food Adulteration Act' both of them in his Report No.3B of 2001.

Another remarkable review done during his period was on 'Members of Parliament Local Area Development Scheme'—first time this review appeared in the Report No.3 of 1998 and again in Report No.3 A of 2001 it was brought out as a stand alone report. Incidentally around this time, there was a debate in the Parliament about increasing the quantum of funds to the MPs for this scheme. Another interesting review was on 'Issuance of photo identity card to electors' which was captioned under Election Commission of India. Apart from other things this review created a piquant situation about its ownership because, when it came to furnishing reply to this draft review, Election Commission took the stand that as a Constitutional body they were not responsible for the implementation of this scheme and, therefore, the paragraph should be correctly replied to by the Ministry of Home Affairs. However, audit was able to impress upon the Election Commission that the review was in no way against the Election Commission but has merely pointed out deficiencies in its implementation by the executing agencies but the ownership would remain with Election Commission for the reason that it was on their direction that this scheme was implemented. Eventually, Election Commission did furnish replies to the review.

The highlight of the Performance Appraisal Report No. 3 of 2002 was Review of National Disease Control Programme covering two major diseases namely National Programme for Control of Blindness and National Tuberculosis Control Programme. All these programmes were audited across the States and, therefore, gave a comparative picture of their implementation across various States in the country. Some of the techniques used by Audit in these Audit Reviews gave much more accurate data than the official figures.

#### REVIEWS DURING C&AG KAUL'S PERIOD

C&AG Kaul (March 2002–till date) has made significant changes both in the audit reporting format and system and in the auditing practices in the Department. Soon after he took over, he set about the task of converging the Indian auditing systems, as best as possible, with internationally acclaimed best practices. He was to some extent helped

in this by the Report of the NAO, UK who were engaged as consultant for the modernization and capacity building office of the Comptroller and Auditor General of India under an IDF Grant (we have discussed the NAO Report elsewhere). In the process, he nearly overhauled and revamped the Performance Audit System and brought out new Performance Auditing Guidelines that contains the best global practices in this field of audit. These were formulated keeping in mind international best practices including ASOSAI Research Project on the subject and Exposure Draft of INTOSAI implementation guidelines for Performance Audit. A detailed write-up on performance audit in Chapter-12 describes new performance audit system.

Along with overhauling Performance Audit system, C&AG divided the Audit into two distinct streams, namely Transaction Audit or Compliance Audit and Performance Audit. A number of other organizational changes were also made in this regard (these are explained elsewhere). As a result, Performance Audit has taken centre-stage today in Indian auditing system. Vastly improved techniques have ensured that the performance audit output is oriented more towards measuring the outcome of the programmes and schemes rather than the output as reflected in targets and achievements. Incidentally, this is also in line with the shift that has taken place in government budgeting system which has started producing outcome budgets from the year 2004–05. A review of the performance audit reports during this period, as far as Civil Audit Reports, are concerned indicates that the C&AG has paid attention to the most important programmes and schemes of government which have a very wide reach affecting masses and the subjects are selected after a very thorough analysis of the plan documents and the budgets. Resultantly, a shelf of programmes and schemes over a longer time frame was prepared corresponding to the objectives of Strategic Plan and Perspective Plan. Some of the more prominent of performance audit reports brought out during his period are:

*Disinvestment Audit:* Two scintillating Performance Reviews on Disinvestment of Government Shareholding in selected PSUs (Report No.17 of 2006) and a long paragraph on sale of Centaur Hotel were brought out (Paragraph 7.1—Report No.2 of 2005). Both of these, as was to be expected, generated wide media coverage and also evoked defensive remarks by the previous Minister as also his party colleagues (these audit paragraphs are discussed in chapter 15).

*Other Performance Audit Reports:* There are a number of Performance Audit Reviews of the period prior to introduction of new

Performance Auditing Guidelines. Of these, mention can be made of National Scheme of Liberation and Rehabilitation of Scavengers and their dependents. In Audit appraisal of the scheme reported in Report No.3 of 2003, Audit came to the conclusion that the scheme failed miserably to achieve its intended objectives even after a decade of implementation and an investment of more than Rs. 600 crore (a detailed account is contained in Appendix 'B').

A Performance Review on Swarn Jayanti Gram Swarojgar Yojna (SGSY) was brought out in Audit Report No.3 of 2003. As C&AG pointed out to Dy. Chairman Planning Commission in September 2005, while enclosing highlights of this review, this was the eighth Performance Audit since 1990 on various rural employment programmes; and all of them revealed that the major weaknesses lie in their implementation. Apparently, no lessons were learnt from the past programmes (and reviews) of this nature. The letter was in the context of the government launching yet another programme, namely, National Rural Employment Guarantee Act holding out 100 days employment to one person from each rural household in 200 districts of the country. As far as the SGSY was concerned, the audit review pointed out that despite sustained intervention by government, nearly 260 million people continued to live below poverty line. It also revealed that the Central releases were actually only 65 per cent of funds budgeted during 1999–02 and of the funds made available, only 92 per cent were reported to have been spent—with an unspent balance of Rs. 265 crore. The extent of diversion, mis-utilisation and mis-reporting, etc. would be revealed by the fact that as much as Rs. 529 crore out of an expenditure of Rs. 988 crore test checked (54 per cent) represented such aberrations. Moreover, all key performance parameters indicated that the programme had failed to make the desired impact (a detailed account is contained in Appendix 'B').

Another performance review of great merit was the Accelerated Irrigation Benefit Programme included in Report No. 15 of 2004. C&AG highlighted in this review, among other things, that various State Governments had diverted Rs. 741.34 crore from the central funds given for this scheme. C&AG, in a letter to the Finance Minister<sup>11</sup> on his findings also pointed out that the laxity in control mechanism and the lack of adequate monitoring of expenditure were the main reasons for these diversions. Another important feature of Audit Report on this subject was that as much as Rs. 2,854.06 crore (35.03 per cent) out of the total expenditure of Rs. 8,146.80 crore test-checked was not actually spent on the programme; but retained in various deposit accounts or diverted to activities not connected

with the programme or simply mis-utilized or mis-reported. This reflected a poor financial management system.

As a sequel to the big push given to Performance Audit by C&AG, Kaul the number of standalone Performance Audit Reports has gone up; an idea of this can be had from the list provided below:

*Audit Report 2005*

- (i) Performance Audit of Internal Control Systems in India Security Press Nashik (14 of 2005)
- (ii) Performance Audit of Department of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homeopathy (AYUSH) (16 of 2005)
- (iii) Performance Audit of Property Management by Ministry of External Affairs (17 of 2005)

*Audit Report 2006*

- (i) Internal Control in selected Central Ministries (12 of 2006)
- (ii) Performance Audit of Pradhan Mantri Gram Sadak Yojna (13 of 2006)
- (iii) Implementation of Consumer Protection Act and Rules (14 of 2006)
- (iv) Sarva Siksha Abhiyan (15 of 2006)
- (v) Management of Food Grains (16 of 2006)
- (vi) Disinvestment of Government shareholding in selected Public Sector Undertakings during 1999–03 (17 of 2006)
- (vii) Conservation and Protection of Tigers in Tiger Reserves (18 of 2006)
- (viii) System of revenue generation by Doordarshan and All India Radio (19 of 2006)
- (ix) Tsunami Relief and Rehabilitation (20 of 2006)

*Audit Report 2007*

C&AG has planned 9 (standalone) Performance Audit Reports and of these 7 were laid in Parliament during the Budget and Monsoon Session of 2007.

It also needs to be said that C&AG Kaul has introduced additional transparency in the audit methodologies. For example, Performance Auditing guidelines as well as Guidelines on Audit of Privatization and Audit of Regulatory Bodies were shared with the stakeholders so that they are aware of the standards and benchmarks through which such audits will be conducted.

### TRANSACTION AUDIT OUTPUT

The number and monetary effect of transaction audit (now called Compliance Audit) paragraphs in Union Audit Reports are comparatively lesser than what appear in State Audit Reports because bulk of the funds from the Centre on schemes/ projects, programmes, etc. are transmitted to States by the respective Ministries/Departments as part of the centrally assisted schemes. Direct expenditure on such programmes and schemes by Central Ministries/ Departments and their field offices would, therefore, be small. It is against this background that transaction audit output in Central Audit Reports is to be viewed.

A scrutiny of the contents of Audit Reports over the years from 1990 onwards indicate that certain selected Ministries were generally the focus of audit observations in so far as transaction audit paragraphs was concerned. Among these, the Ministry of External Affairs appeared to have a prominent place, with a number of such paragraphs relating to it getting included every year. These paragraphs related to wastages of public funds and a casual approach of embassies and missions in protecting the interest of government funds. For instance, Audit Report No.1 of 1991 brought out typical instances of mismanagement and lapses in property management, wasteful expenditure by the External Publicity Division, and uneconomical purchase operations of the supply wings of both Indian Embassy, Washington and High Commission of India, London, both of whom came in for criticism for their inefficient handling of purchase operations. C&AG's Report No.1 of 1993 contained 11 paragraphs on transaction audit that included imprudent purchase of property resulting in an investment of about Rs.6.28 crore remaining unfruitful for about three years due to non-utilization of the property purchased without adequate care and consideration. Another case of bad handling of purchase of property caused significant amount being spent on repairs of the building and purchase and repair of furniture and all this when the Ministry had told the embassy not to go ahead with the purchase. There was a very good paragraph on the inefficient and outdated heating system at India House, London housing the offices of the Indian High Commission. There were several cases of non-adherence to the norms on payment of garden maintenance grant which resulted in extra expenditure of Rs.11.54 lakh. (These amounts may look small but they reflect the misuse of allowance by employees and in that context become material). In addition, cases reported included

fraudulent medical reimbursement, overpayment of municipal taxes, negligence in attending to a legal case and construction of additional floor to the chancery building. In Report No.1 of 1994, 13 paragraphs were reported on the Ministry's irregularities and wasteful expenditure and financial mismanagement. One of the paragraphs highlighted a loss of Rs. 51 lakh due to failure to invest surplus funds in interest bearing deposit. 1998 Report had 8 paragraphs mostly pertaining to unauthorized expenditure on establishment totalling Rs.1.77 crore approximately including Rs. 55 lakh as clear overpayment and Rs. 45 lakh as an entirely avoidable expenditure. The Report of 1999 contained 9 paragraphs on transaction related matters. In the new millennium, things were no better. The Audit Report of 2001 had 11 paragraphs of various types including a paragraph on avoidable expenditure of Rs. 26.27 crore on hiring of buildings, avoidable payment of Rs. 11.23 crore on rent of leased buildings while occupying a plot received as a gift from host government for three decades and Rs. 10.83 crore as infructuous expenditure on the redundant telex system. Just two years back, in the report of 2005, things were no better—there were 13 paragraphs of various kinds involving a financial implication of Rs.19.20 crore. One of these paragraphs related to creation of the post of Ambassador-at-large without assigning any mandate. The office was wound up after incurring an expenditure of Rs.15.95 crore.

Another Ministry which was constantly at default due to irregularities, wastages, avoidable expenses, etc. was the Information and Broadcasting. Even after formation of Prasar Bharti, things, instead of improving, became worse as several high value paragraphs on Prasar Bharti would indicate. There were 14 paragraphs pertaining to this Ministry in the Audit Report No.2 of 1997.

Yet another Ministry which has a high tally of transaction audit paragraphs is the Ministry of Communications and Information Technology, mostly relating to the Department of Posts and Department of Telecommunications. C&AG's report for the year ended March 2002, had 9 transaction audit paragraphs relating to this Ministry involving money value of Rs.15 crore on account of delay in land utilization, irregular payment of commission (Rs.59.02 lakh), excess payment of service charges (Rs. 54.11 lakh), irregular payment of interest (Rs. 52.28 lakh, of which Rs. 24.07 lakh was recovered at the instance of audit), Rs. 49.95 lakh on unfruitful investments on land acquisition, etc. Omission in deducting tax at source from commission paid to authorized agents resulted in non-realization of revenue of Rs. 2.43 crore and Rs. 2.56 crore was lost

by way of avoidable rent by District Telecom Training Centre. In the Report of 2006, this Ministry had 7 major transaction audit paragraphs including 5 of Department of Posts and 2 of Department of Telecommunications. The Postal Department continued to slip on due deduction of commission (Rs. 3.85 crore), overpayment on life insurance policies (Rs. 1.01 crore), grant of concessional tariff to ineligible publications (Rs. 31.58 lakh), irregular payment of interest, bonus and commission (Rs. 21 lakh), non-deduction of service charges on interest accounts (Rs. 15.74 lakh), non-recovery of interest on delayed payment of pension contribution (Rs. 55.32 lakh) and excess payment of relief (Rs. 31.80 lakh).

If there was one comparative weak area in Central Civil Audit Reports under transactions audit, it was works contracts. This may be due to both small volume of expenditure on works contracts and also on account of lack of ability to penetrate deep into works contract cases.

While the foregoing sums up in general the status of transaction audit paragraphs in Central Audit Reports of the Ministries which were mostly the focus of attention, some of the more interesting transaction audit paragraphs that depict not only executive failures but their utter disregard for rules and regulations as reflected in the evidence before the PAC are discussed at the end of the chapter. These cases reveal that even the secretary level officers failed to appreciate some times the grave misdemeanour on the part of their subordinate offices. In totality, the picture which comes out confirms the widely prevailing view that in relation to paragraphs in the audit report of the C&AG, the attempt of administration, both during evidence before the PAC and in their written submissions, is to defend the action of subordinates. This tendency, perhaps, is an outcome of the perceived fear of some kind of penal action against the concerned officials on the basis of audit reports in case such defence for the officials and for their action is not offered before the PAC. In summary, therefore, a relationship of mutual trust and respect between audit and administration is perhaps called for towards a better accountability regime.

#### CHANGE IN AUDIT REPORT FORMAT

The format of Audit Report, Union Government (Civil) in 1989-90 had 11 Chapters of which Chapter-I & II were on 'Accounts of the Union Government' and 'Appropriation Audit and Control over Expenditure' respectively. The rest of the chapters except Chapter-XI dealt with audit findings on the C&AG's audit of individual

Ministries and Departments. From the Audit Reports of Financial Year 1990–91 Chapter-II heading was changed to 'Appropriation Accounts' and a paragraph on 'Follow up on Audit Reports' was added in the Report for 1991–92 under each Ministry. From next year, a summarized position of Follow up of Audit Reports was included in Chapter 'General'.

Traditionally (at least upto 1994–95) Audit Reports on a particular stream included both Transactions Audit finding and Performance Audit finding. A major change in Audit Report format (in the Report of Financial Year 1995–96—No.1 of 1997) was the introduction of a separate volume on Accounts of the Union Government replacing old Chapters-I & II. All Transaction Audit paragraphs and local reviews/ mini reviews were included in Report No.2. From 1997, all India Reviews, which were horizontal reviews done across the States and Union Government, on important centrally sponsored schemes were brought out in a separate volume. Generally, the volume would contain three to four such reviews, which were conducted during preceding year of the report. These reviews would be presented in any session of the Parliament, as appropriate. Occasionally, standalone report on a programme/ scheme was also brought out as a separate volume. Examples of such reports are C&AG's Audit Report on Public Debt (Audit Report 1994), Report on MPLADs<sup>12</sup> (once as a separate volume in 2001 and earlier in 1998 as a review in the composite volume of Audit Report No.3 of 1998). As a matter of fact, standalone review reports were more common on Commercial Audit side when comprehensive appraisals conducted through Audit Board Mechanism were brought out as separate volumes.

Consequent upon the introduction of the revamped Performance Auditing System effective from the year 2004–05, Audit Reports on performance audit were brought out in separate volumes. This was in consonance with the changes made in the system of audit introduced by the C&AG V.N. Kaul who clearly demarcated audit function into two streams i.e. Transactions Audit and Performance Audit.

The Audit Reviews on schemes/ programmes, and what is now called Performance Audit Reports, open with an Overview, which is a kind of Executive Summary of the Report.

DEVELOPMENTS IN AUDIT OF FINANCE ACCOUNTS AND  
APPROPRIATION ACCOUNTS OF THE UNION  
GOVERNMENT

A Committee<sup>13</sup> was set up by C&AG, Somiah, in March 1990 to review and make recommendations on quality improvements in Chapters-I & II of Central Civil Audit Reports. The Committee gave several recommendations, most of which were equally applicable to State (Civil) Reports also.

A major recommendation was that analysis and presentation of Finance Accounts that form the basis of the Chapter-I can be re-oriented by providing an economic content to the chapter. This recommendation, however, after discussion in the AG's Conference of March 1991, was not favoured and the decision was that no such comment be made in the State Audit Reports. It was also agreed that expenditure trend study should be done by co-relating the same with five year plan period (trend analysis) with a mid-term appraisal at the end of the third year.

The Committee further recommended that:

- (i) The then existing 'Statement of financial position' be renamed as 'Summarized financial position';
- (ii) Figures of internal debt could be separately exhibited for treasury bills, treasury bills converted into securities and other internal debt;
- (iii) Information in the Statement could be supplemented by an analysis of relative growth of assets (comprising capital investments and loans advanced) and the total liabilities of the Government;
- (iv) Overall deficit may be analysed with reference to the amounts estimated at the stages of budget and revised estimates while reasons for variations can be analysed under the broad headings. A five year trend analysis may also be given;
- (v) Analysis of revenue deficit be done by co-relating it to GDP and a five year trend analysis of the growth of revenue deficit may be given;
- (vi) Revenue expenditure growth be analysed separately for plan and non plan expenditure;
- (vii) On subsidies, the trend of expenditure could be analysed with reference to total revenue receipts and the total non-plan revenue expenditure. The amount of subsidies could also be given as a percentage of GDP;

- (viii) Interest payments be analysed over a period of 5 years to bring out if there was any significant shift in the borrowing towards less softer loans;
- (ix) Capital expenditure should be analysed with reference to the budget estimates figures and revised estimate and actual expenditure;
- (x) A detailed analysis of the tax revenue growth was recommended with reference to previous year, as well as percentage of Gross Domestic Product as well as share of tax receipts in total receipts;
- (xi) The state of growth of non tax revenue be analysed over a five year period;
- (xii) Investments and returns could be broken up into separate segments e.g. dividends and profits in respect of RBI, nationalized banks, LIC, GIC, IDBI and public enterprises and other investments;
- (xiii) An analysis of Public Debt was being done already. The Committee made some recommendations on strengthening the same.

The Committee also made recommendations regarding suitable inclusion of information and material on utilization of foreign aid, guarantees for external loans, loans and advances and assistance to foreign governments.

The Report of the Committee was discussed in the AG's conference in 1991 and based on the recommendations of AG's Conference, the new format of Chapter-I and II was introduced for the Audit Report (Civil) 1990-91. It was also decided in the Conference that Audit should also comment on the positive aspects of financial management 'such of those statistics which depict the financial management in a positive manner could be mentioned'.

#### SEPARATE VOLUME ON ACCOUNTS OF UNION GOVERNMENT

A decision was taken by C&AG Shunglu to bring out a separate volume of Audit Report on Finance and Appropriation Accounts (Civil), which will also have a brief overview of comments on Finance and Appropriation Accounts from Postal and Telecommunications and Railways as well. This significant change that occurred from the Audit Report for the year ended 31st March 1996 (No.1 of 1997) was that the entire volume was devoted to comments and observations arising from the audit scrutiny of Finance Account and Appropriation Accounts *per se*. C&AG's observations generated from

Transaction Audit and Performance Audit were shifted to Report No.2 and Report No.3 respectively. Part-I of the Report contained 9 Chapters that dealt with Finance Account and Part-II, also containing 9 Chapters, dealt with Appropriation Accounts. This meant that the Report contained exclusively C&AG's comments on the two main accounts and a systemic review of various important components of these accounts, namely, receipts, expenditure, revenue expenditure, capital expenditure, deficit and debt position of Union Government and other observations on accounts like reconciliation of accounts, suspense balance, adverse balance/ review of balances, etc. Similarly, in the analysis of Appropriation Accounts, C&AG, apart from commenting on excess expenditure and savings, examined exhaustively in separate chapters on injudicious re-appropriations, new service, utilization of supplementary grants/ appropriation and comments on financial management of few select Ministries. These comments were based on an analysis of the grants, expenditure management, quality of estimation of budget, supplementary grants, savings, and irregular appropriation of funds.

The next major development in the presentation of this Report was the introduction of a new format of Audit Report No.1 (Civil) from the Fiscal 1999–2000 that redefined audit analysis of Government finances and accounts. The analysis focused on critical changes in major fiscal aggregates in 1999–2000 'in the context of prevalent trends over the decade of the nineties, in a macroeconomic perspective, using some broad indicators concerning outputs, prices, savings and investment'. This was introduced by C&AG Shunglu from the year ending March 2000 and reflected in Audit Report No. 1 of 2001—Union Government (Civil) Accounts of the Union Government. In preparing this Report, C&AG took the assistance of the NIPFP Consultant, Dr. D.K. Srivastava, an Economist, who did an excellent job in developing a structured document; the then PD (Report Central)<sup>14</sup> ably assisted him. The Report not only analyzed the financial performance of the Central Govt. in macro economic terms on the basis of selected benchmarks but also contained a time series data on various parameters used in the analysis. 36 appendices attached to the Report contained a wealth of data and information on several key aspects of the National Economy, Finance and Accounts. In that sense, it was really a source book for various stakeholders including scholars of public finance, credit rating agencies, and public policy analysts apart from the government.

The merit of this revamped Vol. I of the Central (Civil) Report is that it gives an in—depth analytical account of the major trends in

Government finances in a manner that enables the reader to form an opinion about the financial well being of the economy. Additionally, the Report also presents trend analysis for major financial sub-themes, which are of great use in policy formulation analysis. The fact that the analysis is based on the Finance and Appropriation Accounts figures makes the Report an authentic document for research and policy formulation. For instance, the Report for 1999–2000 reviewed the quality of government accounts and carried an intelligent analysis of Appropriation Accounts. It also discussed overall performance of central taxes, where, for example, it had the following summary comments:

‘The tax—GDP ratio improved marginally in 1999–2000, rising from 8.18 per cent in 1998–99 to 8.78 per cent. But this still was well below the 10.12 per cent level in 1990–91. The course that different Union taxes took during the nineties largely determined why the deficits defied correction. The central failure was persistent erosion of the Union Excise Duties relative to the GDP. While income and corporation taxes rose relative to the GDP, the Union excise and customs duties fell. The fall in the Customs duties may have explanations in external liberalization and the WTO considerations. For the customs duties, there were perhaps the WTO compulsions that brought the tax rates and revenues down. Reforms, on the other hand, that recast the Union Excise duties under the Value Added Tax principle into MODVAT and later CENVAT, proved to be revenue depleting relative to the GDP. The fall in the indirect taxes could not be overcome by a rise in revenues from the direct taxes, and a small increase in the non-tax revenues. Consequently, the overall revenue receipts of the Centre fell relative to the GDP. The tax base remained focused on a narrow portion of the GDP. The industrial sector, which constitutes the core of the tax base of important central taxes like the corporation tax and the Union excise duties accounted for only 21–22 per cent of output throughout the nineties. There is enough potential for widening the direct taxes revenue base. The service sector potential for tax revenue still remains largely untapped’.

Further, there was a general evaluation of the management of government finances in a separate chapter.

From the subsequent year, C&AG took on deputation basis, an Economist from Indian Economic Service (IES) from the Ministry of Industrial Policy and Development who was henceforth the main person responsible for finalizing Vol.-I of the C&AG’s Report based on the material received from the office of the DGACR.

One of the issues that came to light recently concerned the differences between the figures of fiscal deficit computed by C&AG on the basis of data in the Finance Account 2004–05 and the figures given in the Document 'Budget at a Glance' 2006–07. The matter was taken up with the Ministry in June 2006 and subsequently with the Secretary, Ministry of Finance in May 2007. The letter of ADAI on the subject conveyed that figures of revenue and fiscal deficit as depicted in the 'Budget at a Glance' differed from those derived from Annual Finance Account placed before Parliament. The figures in the Annual Financial Statement, however, agreed with the deficit figures derived from audited Finance Account of the Union Government. The letter pointed out that such differences were also noticed in the previous years. The letter gave audit analysis of the differences in the two sets of figures and advocated that in view of the need for greater transparency in fiscal operations of the Central Government as emphasized by FRBM Act 2003, the rationale behind according different treatment to certain transactions (which are the cause of this disparity) and between the two sets of figures 'may be clarified by the Government and necessary disclosure made in the document 'Budget at a Glance' for better fiscal transparency'.

The letter also pointed out the anomalous situation that arose in various years in the figures of subsidy (actuals) reported in the expenditure budget, which had to be changed in the following year on the basis of correct figures. These situations had arisen because the Government did not adopt certified Finance Accounts figures in the budget of the relevant years even though such figures (of actual expenditure) were available with the CGA and concerned Ministries much before presentation of the budget. The letter desired that this anomaly be corrected and necessary instructions issued accordingly.

#### OTHER DEVELOPMENTS

During the period covered by this volume, several steps were taken to improve Audit Report's presentation and drafting. These are briefly narrated below:

*Suggestions for Improving Audit Report Presentation-Style Guide:* A decision was taken in Headquarters that there would be a uniform format for all Audit Reports from the Audit Reports 1997–98 onwards. The format prescribed in January 1999 was to be followed for all Reports for the Union Government except P&T and Autonomous Bodies Reports. It was decided with the approval of concerned Additional Dy. C&AG that State Audit Reports would also follow the same format from 1998-99.

The necessity of a uniform formatting for Audit Reports was felt on three grounds:

- (i) The advantage of such a system at the time of printing of the Reports where Camera Ready Copy of the draft report was given to the printer, would ensure the quality, colour choice, background of the graphs and charts, etc.;
- (ii) It would appear odd if C&AG's various Reports did not conform to some standard formatting in presentation and style; and
- (iii) Finally, common formatting would ensure that minor mistakes that happened sometimes do not occur. Standardization of format also became necessary due to decision to put Audit Reports on the internet.

The format gave detailed directions about colour, font size to be used, chapter names and headings, caption and title. It was also suggested that a marginal gist should also be given. There were instructions about how to go for graphs and charts, table, overview, etc.

The Audit Reports are not reader friendly in language and presentation to a large extent. Headquarters, being conscious of these things, issued from time to time instructions on how to make the presentation and drafting more reader friendly and attractive. In 1997, for example, it was emphasized that the drafting should be 'accountability centered' rather than indirect narration. It was suggested that the reporting style should be based on the instructions contained in the Auditing Standards, which could prove as excellent guide for the purpose. It was emphasized that the Audit Reports should include some well thought out recommendations to make it a good constructive audit document. The letter strongly emphasized that all the reviews and important paragraphs should be backed by discussion with the Secretary of the Ministry concerned or an officer not below the rank of Joint Secretary.

The instructions also brought out the following:

- (i) With a view to advancing the finalization of Audit Reports so that they could be presented in the Budget Session, Bond Copy of the Audit Report could be finally approved by C&AG by the end of January 1998 in respect of the reports of 1996-97.
- (ii) The letter also gave stage-wise schedule for the preparation and finalization of Audit Reports (Union Government).

- (iii) The field offices should forward to the Headquarters draft paragraphs/ reviews of good quality and not unduly bother about the number of such DPs or reviews.

It also emphasized that Audit Reviews must be thematic so that it could bring out deficiencies in design, execution, achievements and value for money realized from the programme or the scheme.

Subsequently, in the year 2003, a detailed booklet by the name 'Style Guide' was brought out which contained elaborate instructions on drafting and presentation of the Audit Reports. Style Guide has since been revised in the year 2005.

*Audit Findings in Annual Reports of the Ministries/Departments:* While inaugurating the 21<sup>st</sup> Conference of Accountants General in April 2001, the Prime Minister suggested that in future the Annual Reports of every Department and Ministry must carry summary of audit findings of the C&AG's Report for that Department or Ministry, even if it is for the previous year.

As a follow up of this direction, the Annual Report of the Ministry of Civil Aviation started carrying details of response to audit paragraphs and action taken notes. C&AG suggested to the Cabinet Secretary in May 2002 in this context that the proforma used by that Ministry could be adopted by other Ministries also if the Government so desired. C&AG also suggested that a summary of important audit observations on the Ministry's working, if contained in the Annual Reports would add to the value of the Annual Report—he offered to send a summary of audit findings relating to each Ministry/ Department for incorporation in their annual report. In the absence of a response, the new Cabinet Secretary was informed in March 2003 that the Prime Minister would inaugurate the subsequent session of Accountants General Conference on 28 July 2003 and that C&AG would like to inform him of the progress in the implementation of the suggestion. As a result, the Government agreed that a summary of audit findings be reported in the Annual Reports of the Ministry/ Department. This is followed from 2003–04.

*Brochure on Important Audit Findings of Audit Reports:* In November 1996, C&AG, decided to bring out a Brochure containing a gist of all the Audit Reports (Union Government) submitted by the C&AG. The Brochure was to be not more than 40 pages. The idea behind the issue of a Brochure was to give the reader a gist of all the important observations in C&AG's Reports to the Parliament (numbering about 20 each year). The language of the Brochure was to be user friendly and drafting was to be in journalistic style to catch the interest and

attention of the user. However, the facts and the conclusions should, in no way be different than what the audit report said. The Brochure called 'WHAT DO THE REPORTS OF C&AG SAY', containing a bird's eye view of the Audit Reports of the Comptroller and Auditor General of India (Union Government) February–July 1997 was published. Since then, it is being published each year.

#### IMPORTANT TRANSACTION AUDIT PARAGRAPHS

*Premature Procurement of Equipment and Delay in Construction:* All India Radio(AIR), Bombay entrusted construction of additional studio for Doordarshan Kendra, Worli, Bombay in March 1989 to a firm at a cost of Rs. 443.64 lakh. The scheduled date of completion was November 1991. Since the firm could complete only 16.47 per cent work by November 1991, the contract was rescinded. The remaining work was entrusted to another contractor at a cost of Rs. 523.53 lakh in November 1992 with stipulated date of completion as June 1995. Only 37 percent of work had been completed as of February 1995. The progress was slow mainly on account of frequent hindrances due to delay in clearance of design, lack of co-ordination between electrical and civil wings of AIR and suspension of work with a view to examining the possibility of change in the design of the building. While an expenditure of Rs. 127.45 lakh was incurred against the first contract, the second contractor was paid Rs. 206.85 lakh. Doordarshan procured equipment worth Rs. 965.30 lakh prematurely during April 1990 to March 1994 for installation in additional studio for Doordarshan, Mumbai. While equipment valued at Rs. 585.44 lakh had to be diverted as loan to other Kendras, those worth Rs. 379.86 lakh remained unutilized. The warranty period of one year for equipment was already over. Thus, inability of Doordarshan to construct the building more than six years after the initial award of work, resulted in non-fulfillment of the objective of providing the additional studio facility besides accumulation of idle equipment.

In their 12<sup>th</sup> Report (13<sup>th</sup> Lok Sabha) the Public Accounts Committee brought out (December 2000) that when the matter was taken up by the Department through the Arbitrator to obtain the claim in favour of the Government, the contractor moved the Mumbai High Court in March, 1992. The Committee was distressed to find that the case was still pending before the High Court and took a serious note of the inaction and apathy displayed by the Ministry in this matter. The Committee desired that a status report

on the recovery of extra cost be placed before them within a period of three months. Despite the recommendations of the Committee in their earlier report that appropriate action should be taken against the second contractor, the Superintending Engineer proceeded post haste and granted extension to the contractor upto February 1997 without levy of compensation for no plausible reasons. The Committee desired that the circumstances under which Superintending Engineer decided against levying compensation be looked into and the Committee apprised of conclusive action taken against the agency for delay in the completion of the construction work. The Committee noted with regret that the project had not been commissioned even after a lapse of nine years and the Ministry failed to intimate the Committee the precise date by which the project would be commissioned. While expressing deep dissatisfaction over the failure of the Ministry to expedite the completion of the project, the Committee desired that the Ministry address the matter seriously and take all necessary and effective measures to ensure that the project was commissioned at the earliest.

[Para 3.1 in Report No. 2 of 1996]

*Lower Categorization leading to Loss of Rs. 352.30 Lakh:* Doordarshan accepts proposals of TV programmes from outside producers/directors under 'Commissioned Category' and 'Sponsored Category'. Commissioned programmes are funded by Doordarshan whereas the sponsored programmes are financed by the Sponsors/Producers. The programme 'The World This Week' was approved under sponsored category in November 1989 and started from 16 February 1990. The duration of the programme was 45 minutes for non-Parliament days and 30 minutes for Parliament days. The Programme was categorised as 'A'. Taking into consideration the viewership of the programme and the long waiting for spot ads, it was, however, decided in April 1990, to re-categorise the programme as 'A-Special' with effect from 1 June 1990. But the producer did not agree to it though Doordarshan had a right to change the categorization by giving 30 days notice. Doordarshan changed the spot-buy rate to those applicable to 'A-Special' with effect from 1 June 1990 while the categorization of the programmes/sponsorship fee continued as lower category 'A'. As per Doordarshan's rate card, the category of sponsorship fee, free commercial time (FCT) and spot buy-rate should be matching and uniform. By keeping the programme under lower category for telecast fee and FCT Doordarshan had charged lower rate of telecast fee and had allowed 30 seconds extra time as FCT in each episode of 30

minutes which was not available after re-categorisation from 'A' to 'A special'. Keeping the different categories of telecast fee, FCT and spot buy-rate, Doordarshan had suffered a loss of Rs. 127.20 lakh on account of sponsorship fee being the difference of fee between 'A' and 'A-special' categories and Rs. 225.10 lakh on account of 30 seconds extra FCT allowed per episode. This aggregated to a total loss of Rs. 352.30 lakh.

The Public Accounts Committee after deliberating on the Audit Para and taking evidence of the Ministry of Information and Broadcasting submitted their Report containing recommendations on the paragraph in April 1997 followed by Action taken thereon in 43<sup>rd</sup> Report of the PAC 2002-03 in March 2003. The Committee concluded that the producer of the programme was undoubtedly given preferential treatment and, in the process, Doordarshan suffered an estimated loss to the tune of Rs. 4.78 crore. Deploring the sordid state of affairs prevalent in the Ministry /Doordarshan, the Committee, inter alia, recommended that the whole matter regarding the telecast of the programme in Doordarshan should be entrusted to an appropriate Investigative Agency for a thorough inquiry including loss of files pertaining to the programme. The matter was entrusted to the Central Bureau of Investigation (CBI) for investigation. The Committee were informed that during the investigation in preliminary enquiry by CBI, commission of a cognizable offence including criminal conspiracy and resultant loss to Doordarshan was revealed and on the basis of such revelations, a regular criminal case was registered on 9 January 1998 against the accused persons. Giving the latest position of the case under investigation, the Ministry intimated the Committee that the investigation into the case had been completed, and the opinion of the learned Attorney General of India was sought on certain legal issues by CBI. While expressing their concern over the elongated delay in the matter, the Committee desired that the Ministry of I&B should convey the anxiety of the Committee to the CBI as to the urgency of expeditious completion of investigation into the case.

In pursuance of their recommendation, investigation into other programmes relating to 'News Tonight', 'South Asia News Capsule' and 'Today' produced by NDTV and telecast in Doordarshan was also entrusted to the CBI. The Committee desired to be apprised of the action taken by the Government in the matter within three months of receipt of CBI Report.

[Para 3.5 in Report No. 2 of 1996]

*Purchase of Residence for Consulate General of India at Frankfurt:* Ministry of External Affairs (MEA) rules stipulate that the ceiling for residence of Ambassador and Minister level officers would 'be decided on merit' considering the need for economy in Government expenditure. The said instructions also recognize 'that there should be a fair relationship between the norms fixed in India and those applicable abroad'. Consulate General of India (CGI) at Frankfurt proposed to MEA in February 1989 for purchase of a property in Kelkheim at a price of DM 1.6 million (Rs. 113.92 lakh-at this stage CGI did not give details of plinth area etc.). MEA in December 1988, conveyed sanction for DM one million (Rs. 84 lakh) as the economic cost of the property to be purchased. However, after the CGI intimated the MEA in February 1989 that no reduction in the price was possible, the latter approved the purchase at a price of DM 1.6 million. Audit scrutiny of the details of the property revealed that besides a big garden, it contained four bed rooms, kitchen, store room, three bath rooms, dining room, drawing room, laundry room, reception room, guest room, study room, hobby room and garage. In addition, it contained a heated indoor swimming pool with a sauna bath cabin and a separate shower room. The CGI incurred an expenditure of Rs. 6.45 lakh on maintenance of swimming pool in addition to expenditure on heating of the pool and for pumping water into and out of the pool which was not quantifiable. Audit concluded that purchase was not consistent with the need for economy in Government expenditure and far exceeded the representational needs of a grade III officer. It recommended that MEA should fix specific norms for residential accommodation of officers in the grade of Ambassadors and ministers and property at Frankfurt should be disposed off after procuring another property in accordance with the norms applicable.

A reading of the conclusions and recommendations of the PAC which discussed this para and took evidence of the MEA, would reveal the casual approach of the Ministry in deposing before the PAC on this issue. The Ministry in response to the specific query for furnishing Action Taken Note had stated that they agreed with the facts and figures included in audit paragraph. The Ministry also responded in the affirmative with regard to the conclusions drawn by Audit in the paragraph and it held out the assurance with respect to Audit recommendation to dispose of the property and to purchase another property by stating that recommendation has been noted and missions had been instructed to exercise restraint and to avoid expenditure on inessential and expensive appurtenances. To their dismay, the Committee found that during evidence, Foreign Secretary made a

volte-face and disputed the facts as given in the audit paragraph. Subsequently in the revised note from the Ministry they eventually agreed with the facts, figures and conclusions of Audit but the PAC was very unhappy on this attitude of the Ministry and commented on their replies to the Parliament on a matter under scrutiny without exercising proper care. The Committee went on to say that such an attitude of callousness was very unfortunate and totally unacceptable. While the Committee stopped sort of taking any formal action for this incorrect information to Parliament, chose to caution and admonish the MEA against such attitude. It wanted them to show utmost care and prompt attention to Audit observations.

As regards the findings of the paragraph, the PAC agreed with these and it also endorsed audit recommendation that laying of norms for the residence of all diplomatic officials was both desirable and feasible and asked the Ministry to devise clear norms for the residence of all diplomatic officials posted abroad with some degree of built-in flexibility to allow for local variations, if so required.

In their Action Taken Report submitted to the Lok Sabha in December 2004, the Committee brought out that Ministry of External Affairs had not treated the matter regarding laying of norms for the procurement of residence of all diplomatic officials posted abroad with the seriousness that it deserved. The Committee directed the Ministry to take immediate action in the matter and lay down the norms indicating interalia the guidelines/parameters governing the procurement of residence of all diplomatic officials posted abroad and report compliance immediately after the presentation of their report to Parliament. As regards disposal of the property, the Ministry intimated that such an exercise would entail financial loss to the Government. In view of this, the Committee did not press for disposal of property but desired that the Ministry ensure that in future such proposals were strictly evaluated on receipt in the Ministry with a view to discouraging the purchase of properties with avoidable extensive appurtenances, to enforce financial discipline in government expenditure. The Ministry stated that there were 53 residential properties abroad with one or more facilities such as swimming pool, sauna bath, tennis court etc. and expenditure of about Rs. 90 lakh had been incurred during last three years on their repair and maintenance. The Committee while noting that expenditure on maintenance of some of these properties was quite large as compared to others recommended that government should examine the reasons therefore and take appropriate steps to ensure that expenditure on facilities mentioned above was kept to a reasonable limit.

[Para 4.3 in Report No. 2 of 1997]

*Wasteful Expenditure on Rent:* This audit paragraph appeared in Report of the C&AG of India for the year ended 31 March 1997 (No. 2 of 1998). Briefly, the paragraph stated that office of Joint Director General of Foreign Trade (JDGFT) Chennai was located in a rented building occupying 45237 square feet(sq. ft.) of accommodation (which was much more than area required as per norms) hired at Rs. 2.11 lakh per month. The Director General of Foreign Trade (DGFT) asked the JDGFT (in November 1990) to surrender the surplus area with immediate effect after reassessing their requirements of accommodation. The JDGFT in compliance to the above wrote to Assistant Estate Manager (AEM), Chennai in September 1993 i.e. after three years for assessment of accommodation requirement. He was asked to furnish the details in the prescribed proforma which JDGFT office supplied after a further two year period in December 1995. The AEM fixed the requirement at 10500 sq. ft. (in October 1996). The JDGFT did not surrender the excess accommodation (nearly 34737 sq. ft.) even after this reassessment and he surrendered only 11313 sq. ft. and that also one year after this reassessment (in October 1997). Audit worked out total wasteful expenditure on rent for 82 months on excess accommodation from January 1991 to October 1997 as Rs. 1.33 crore. Even after this surrender, the JDGFT was paying Rs. 1.09 lakh per month as rent on excess accommodation.

The PAC which discussed this paragraph gave recommendations in their 18<sup>th</sup> Report dated 22 December 2000. The Committee found glaring irregularities and lapses by the Ministry as well as the office of DGFT and the JDGFT Chennai in this case. The Committee discovered on the basis of testimony of the witnesses that despite clear norms for office accommodation, AEM had assessed the requirement of the accommodation of the office of JDGFT, Chennai as 42490 sq. ft. in 1987 whereas he was entitled to 10,500 sq. ft. as per norms even after providing for all miscellaneous requirements liberally. It was only after matter was pointed out by Audit, that AEM asked JDGFT Chennai to treat their earlier assessment as cancelled and instead, the new assessment of accommodation was pegged at Rs. 10500 sq. ft. in 1997—after a gap of ten years.

The Committee wondered, why DGFT, Delhi and JDGFT, Chennai did not calculate the correct area required on the basis of the norms laid down by Ministry of Urban Development for office accommodation applicable to all the Ministries. The PAC, therefore, came to the conclusion that the DGFT and the JDGFT, Chennai were jointly responsible for hiring an area of about four times more than the required accommodation.

The PAC were perturbed to note that DGFT not only failed to enforce compliance of its own orders (of 1990) but also continued to accord sanction for hiring the accommodation upto 1997. The PAC after holding DGFT and JDGFT, Chennai responsible for hiring excess accommodation recommended constitution of a committee to ascertain and fix the entitlement of the office of JDGFT, Chennai. The PAC was also concerned that the Ministry did not have any concern for economy of space since they were yet to review the actual requirement of office accommodation on all India basis, especially in the metropolitan cities where rental were very heavy. Committee hoped that Ministry of Commerce would adopt an all India approach to avoid infructuous expenditure on payment of rent.

The surprising and some what shocking revelation from the PAC Report was that when asked about the plea of JDGFT, Chennai during evidence of not having received letters of Pay and Accounts Officer dated July 1990 and of AEM dated April 1991 and reminder dated July 1991, the Secretary (Commerce) deposed that 'the Government office system is like that. There is nothing that one could do' and that 'today the system is computerized'. The Committee observed such an attitude was unfortunate and the Committee would not agree with the perception of the Secretary (Commerce) that without computers it was not possible to safely arrange and retrieve vital government papers. It went on to say 'this is nothing but sheer abdication of responsibility'. The PAC were also not happy with Secretary's comment that the DGFT had no role in review of the requirements of the accommodation for any office and that only when some audit para is raised, the DGFT examines the matter after calling for necessary details from the concerned zonal/regional office. The PAC was peeved that not only the DGFT did not take any action on the basis of draft audit para, both he and the Ministry of Commerce did not even reply to the draft audit paragraph even though they were aware of the instructions contained in O.M. of 3 June, 1960 issued at the instance of Public Accounts Committee.

[Para 3.1 in Report No. 2 of 1998]

*Undermining of Parliamentary Financial Control:* As per the provisions of first quota policy starting from 1979, Apparel Export Promotion Council (AEPC), a Section 25 company under the Ministry of Textiles had been assigned the work of allocating export entitlements and necessary certificates for export of readymade garments and knitwears. It was envisaged in the policy that in the event of non fulfillment of quota obligations, earnest money deposit and bank guarantees remitted by the exporters were liable to be forfeited. An

audit scrutiny revealed the decision of the Ministry of Textiles to deposit the forfeited amounts (as penalty for failure to fulfill the export quota of textiles and garments) into public account rather than the Consolidate Fund of India.

Prior to 1989, AEPC was keeping the forfeited amount. The Secretary gave approval in 1989 for crediting the forfeited amount of earnest money deposit/bank guarantees in a deposit account. A Committee constituted by the Secretary released Rs. 35.08 crore out of forfeited amount of 66.44 crore. As per article 266 of the Constitution, the revenue of the government ought to be credited to the Consolidated Fund of India. The audit comment was that the Ministry bypassed the authority of Parliament by spending Rs. 35.08 crore without their approval. Audit further observed that the Ministry did not consult C&AG/Controller General of Accounts for changing the accounting procedures /opening the PD account. Audit commented that the Ministry credited the amount to public account despite having prior knowledge of irregularity of such action. Audit also said that unauthorized release of grants directly from public account denied C&AG's audit over such expenditure. Audit observed that additional funding of Rs. 5.50 crore to National Institute of Fashion Technology (NIFT) had the effect of denial of total picture to the Parliament.

The Public Accounts Committee (2001-02) in their 24<sup>th</sup> Report, 13<sup>th</sup> Lok Sabha examined this paragraph and observed that the Committee were of the considered opinion that 'whatever comes to the government by exercising the sovereign authority of the State, be it from penalty or forfeiture comes within the meaning of the revenue'. They further observed that the 'Ministry of Finance may issue appropriate direction to all the Ministries /Department of the government with a view to ensuring that the revenues earned by exercising sovereign authority of the State is not appropriated by any Department or authority in violation of the accounting procedure laid down by the government which has the effect of escaping Parliamentary control and scrutiny'. The Committee were unhappy that the Ministry of Finance did not show sufficient care and caution in dealing with an issue relating to the crediting of the revenue to the Consolidated Fund of India and also to proper interpretation of General Financial Rules. The Committee recommended that the 'Ministry of Textiles ascertain the actual requirement of funds to fulfill the garment export obligation of the country and take up the matter with the Ministry of Finance to ensure availability of adequate funds so that garment exports do not suffer on account of merger of forfeited funds in the Consolidated Fund of India'.

The importance of this para lies in establishing the principle of parliamentary scrutiny of the expenditure and that nothing can be spent from Consolidated Fund of India without Parliamentary approval. Materiality wise it was not a big para, but it reestablished a very important principle by bringing the aberration to this principle caused by Ministry of Textiles to the notice of PAC, who reiterated the instructions of Parliament's right very clearly.

[Para 17.1 in Report No. 2 of 2000]

*Non-Recovery of Guarantee Fee from Air India and Indian Airlines:* Article 292 of the Constitution empowers the Union Government to give guarantees in respect of loans raised within such limits as may be fixed from time to time by an Act of Parliament. The Government charges guarantee fee on such guarantees at the rates prescribed from time to time which forms part of non-tax revenue of the Government. In June 1993, Ministry of Finance, Department of Economic Affairs, issued instructions that all Government guarantees in respect of external borrowings would be subject to a guarantee fee of 1.2 per cent per annum on the outstanding amount of principal plus interest thereon. Audit commented that Ministry did not recover guarantee fee amounting to Rs. 511 crore for the period from January 1989 to March 2004 from Air India Ltd. and Indian Airlines Ltd.

During evidence, the Public Accounts Committee were informed that PSUs did not accept payment of guarantee fee at 1.2 per cent in all cases outstanding on or after 1989 irrespective of stipulations made in the sanctions at the time of extension of guarantees. The PSUs also expressed inability to pay fees where stipulations for payment of guarantee fee was made at the time of extension of guarantees. It was also stated that one of the loans was refinanced by the Ministry of Finance with the condition that guarantee fee would not be payable in respect of earlier loan being refinanced. In the circumstances, the fees payable became less than that pointed out by Audit. The PAC observed (August 2006) that whatever steps had been initiated were taken by the Ministry of Civil Aviation only after the Public Accounts Committee took up the subject for detailed examination in May 2005. The Committee was informed that Air India had since paid an amount of guarantee fee amounting to Rs. 24.91 crore and the India Airlines had paid Rs. 34.38 crore in installments. The Committee were of the view that the levying of guarantee fee at the flat rate of 1.2 percent per annum on the outstanding amounts in respect of all loans borrowed by the Indian Airlines and the Air India irrespective of stipulations made in

the original sanctions issued by the Ministry of Finance at the time of extension of guarantees was not proper. Since guarantee fee at the normal rates had already been paid by the both PSUs and in view of the difficult financial conditions of these PSUs on account of fierce competition from the private airlines, the Committee felt that it would not perhaps be appropriate on the part of Ministry of Finance to insist on payment of guarantee fee at penal rates.

[Para 2.1 in Report No. 2 of 2005]

#### ANNEX-I

#### TREND IN SUBMISSION OF REPORT NO.1

Sl. No.	Number and nomenclature of report	Date of signature of C&AG	Date of laying in Parliament
1.	1 of 1990 Union Government (Civil)	20 March 1990	15 May 1990
2.	1 of 1991 Union Government (Civil)	11 July 1991	6 August 1991
3.	1 of 1992 Union Government (Civil)	10 April 1992	5 May 1992
4.	1 of 1993 Union Government (Civil)	8 April 1993	27 April 1993
5.	1 of 1994 Union Government (Civil)	11 March 1994	10 May 1994
6.	1 of 1995 Union Government (Civil)	29 March 1995	3 May 1995
7.	1 of 1996 Union Government (Civil)	29 February 1996	17 July 1996
8.	1 of 1997 Union Government (Civil) Accounts of the Union Government	4 April 1994	8 May 1997
9.	1 of 1998 Union Government (Civil) Accounts of the Union Government	8 May 1998	5 June 1998
10.	1 of 1999 Union Government (Civil) Accounts of the Union Government	12 April 1999	29 October 1999
11.	1 of 2000 Union Government (Civil) Accounts of the Union Government	18 April 2000	15 May 2000
12.	1 of 2001 Union Government (Civil) Accounts of the Union Government	28 June 2001	10 August 2001
13.	1 of 2002 Union Government (Civil)	25 February 2002	15 March 2002
14.	1 of 2003 Union Government (Civil) Accounts of the Union Government	21 March 2003	22 April 2003
15.	1 of 2004 Union Government (Civil) Accounts of the Union Government	4 June 2004	13 July 2004
16.	1 of 2005 Union Government (Civil) Accounts of the Union Government	13 April 2005	6 May 2005
17.	1 of 2006 Union Government (Civil) Accounts of the Union Government	10 March 2006	21 March 2006
18.	1 of 2007 Union Government (Civil) Accounts of the Union Government	21 March 2007	14 May 2007
19.	13 of 2007 Union Government (Civil) Accounts of the Union Government for the year 2006-07	30 November 2007	7 Dec. 2007

## SECTION 'B'—AUDIT REPORTS (STATES AND UTs)

## INTRODUCTION

At Headquarters, State Reports work is divided between two wings. Report States headed by an Addl. Dy. C&AG dealing with the Audit Reports of 18 major States (including the UT of Government of Puducherry)—while another wing, also headed by an Addl. Dy. C&AG deals with Reports of remaining 11 States (also called Special Category States) including Commercial Audit Reports of 16 States and Commercial chapter of Composite Audit Report of 13 States.

There are 29 States in the country (excluding Delhi which has a special status as Union Territory with Legislature<sup>15</sup>) and each State has a separate AG. Puducherry (earlier Pondicherry) is a UT with Legislature and AG, Tamil Nadu is responsible for auditing its accounts. Post 1990, six new State AG offices were set up. Three of them viz. Jharkhand, Chattisgarh and Uttarakhand were the result of the formation of three new States on the reorganization of the composite States of Bihar, Madhya Pradesh and Uttar Pradesh respectively. In the North Eastern region, three new AG offices came up during this period as a result of reorganization of existing composite office of Assam, Meghalaya, Arunachal Pradesh and Mizoram at Shillong.

## AUDIT REPORTS

Accountants General of bigger States prepare three separate Audit Reports viz. Civil—dealing with the expenditure audit of civil departments of State Government, commercial—dealing with the audit of State Government Companies and Corporations and of Revenue Receipts — dealing with the audit of State Tax and Non-Tax receipts.

In addition, six State Accountants General now prepare separate Audit Report on Local Bodies for placement in Legislature.

From the year 2002–03, State Audit is conducted in two broad streams viz. Transactions Audit and Performance Audit (like in the Union Government Audit) but Audit Reports are generally prepared in one volume containing the audit results of both Transactions Audit and Performance Audit. There are occasional exceptions, when a stand alone Performance Audit Report is prepared by a State AG.

During the year 1990, 1995, 2000 and 2006, the number of State Audit Reports placed in State Legislatures were as per details below:

## NUMBER OF REPORTS SUBMITTED

Report category	1990	1995	2000	2006
Civil	32	43*	28	26
Receipts	8	17*	16	17
Commercial	17	16*	16	14
Local Bodies	-	-	-	03

\*Approved by C&AG. Information on laying in Legislature not available.

## APPROACH TO AND CONTENTS OF AUDIT REPORT

In early 1990s, the approach to better Audit Reports was spelt out in a circular D.O. dated 16 October 1990<sup>16</sup> with an attached note that basically constitutes a broad guideline for consolidating an effective common approach. The letter made it clear that it neither superseded any useful idea conveyed earlier from Headquarters nor restricted the freedom of field Accountants General to adopt any other helpful effective devices in specific cases.

The note titled 'Quality of State (Civil) Audit Report' began by quoting C&AG's comments that quality of the material processed for State (Civil) Audit Reports needed to be considerably improved. In a significant observation, rather surprising to read now, it said that 'we have a strong tradition of conducting broad based and intensive reviews and investigative audits on the Central side but it is true that there are deficiencies on the State side (which also weakens some of the All India Reviews processed centrally).'

The note very briefly covered the following aspects:

On strategy for reviews, it recommended adequate lead time and further advocated that review should be conducted preferably in two phases. The first phase material which could be on the basis of a test check or otherwise must be reformulated on the strength of an analysis of the data to be used for further exercise (probably it meant 2<sup>nd</sup> phase). It observed that mid-point was a convenient stage for correcting errors in the review when queries of the nature raised normally by Headquarters 'will suggest themselves to the field office if a critical look at the material collected is taken there'. The note also desired that at the mid way stage itself comments of concerned authority at all relevant levels to the issues raised by Audit are obtained. This would give Audit sufficient time to pursue these references and get Government's comments on audit findings. The note, rather eloquently, summed up the advantage of this approach in the following words:

'In the final stage the audit observations should be so self-supporting (and drafted in such graphic terms) that we should be able either to get the Government's total acceptance of the comments, or else let their silence itself constitute eloquent proof'. After suggesting this approach, the note also suggested that in some cases on the basis of ideas emerging from the first phase material, audit could work out a specific questionnaire addressed to all similar units, thus, making the audit coverage quite comprehensive.

For ensuring excellence in quality, it said there was need to reduce the tendency to proliferate the reviews. It recommended four or five State reviews for their Audit Report featuring a cross section of Civil Departments, Public Works Departments and Local Autonomous Bodies. In addition, in Audit Report 1990-91, a review of financial management of the State was to be undertaken.

On selection of topics, it advised that it should be based on projection of required aspects and selection of topics should be based on relevant data collected from a variety of internal and external sources.

For Draft Paras also, it advocated a similar approach and lead time as in the case of reviews. ADAI (MVR)<sup>17</sup> in February 1991 reiterated the points made in the above note viz. reducing the number of reviews, increasing the lead time of reviews and providing adequate time gap between first submission of Draft Paras to Accountant General and their onward transmission to Headquarters Office.

After C&AG Shunglu joined in 1996, the approach to Audit Report paras underwent some significant changes. One was that the paras were to be accountability centered where Audit should not be shy of naming the officials concerned for their lapses, negligence, malpractices, etc. that resulted in the loss of Government money or waste of resources or any other serious irregularity etc. The naming was generally to be by designation of the concerned officer but, in cases of clear fault of any officer convincingly established by Audit, the name of the particular officer then could also be mentioned subject to clearance by ADAI. Instructions contained in C&AG's MSO (Audit) also stipulate that names of departments, organizations and parties concerned with the irregularities, designation of the officials and place of occurrence of the case should be mentioned unless in any case this may not be considered desirable by the Government. These instructions also caution that in audit comments general expressions conveying praise

or blame with reference to the standard of financial administration achieved by Government should be avoided.

Drafting style also changed with emphasis on writing the reports in 'third person active voice'. As regards the contents, the special feature in Transaction Audit of Shunglu era was the new approach of theme based audit of transactions—this is discussed in a separate section below.

In C&AG Kaul's period a significant change has been the separation of Audit Reports into two distinct categories namely Transactions Audit Reports and Performance Audit Reports. While in the case of Union Reports, there is a distinct and separate Report entirely devoted to Performance Audit which would be either a stand alone volume on one subject or may have a number of themes on which Performance Audit was conducted, in the case of State Civil Audit Reports, there are separate chapters for 'Performance Audit' and 'Audit of Transactions' in a single volume. Occasionally, stand alone State audit reports on performance audit are also prepared.

There is increased emphasis on selecting the departments for transaction audit on the basis of risk analysis. The role of statistical sampling has also assumed importance and finally an experiment is currently on to test how effective will be a controlling officer based audit approach covering the entire department instead of the present DDO based approach.

#### DEVELOPMENTS IN CHAPTER-I AND II OF THE STATE CIVIL AUDIT REPORT

Chapter-I of the Audit Report (Civil) of State Government (which is now titled as Finances of the State Government) is devoted to an analysis of the data and information contained in the Finance Accounts of the State Government concerned. This analysis focuses mainly on the trends in the major fiscal aggregates of receipts and expenditure over a time and its linkage with the economic parameters, the quality of expenditure and various aspects of financial management of the State Government. In a way, it can be called C&AG's commentary on macro level financial performance of the State Government. As such, this is a key chapter in the State Audit Report. Chapter-II titled 'Allocative Priorities and Appropriation', on the other hand, deals with appropriation audit conducted by C&AG to ascertain whether expenditure incurred under the various grants is within the authorization given under the Appropriation Act of the State. It also, inter alia, ascertains

whether expenditure incurred is in conformity with the law, relevant rules, regulations and instructions. Audit also does an analysis of the savings and excess in various grants. Together, therefore, these two chapters present C&AG's assessments of the financial performance of the State Governments and its adherence to the authorized appropriations.

These two chapters, have a distinct identity and importance in C&AG's Audit Report (Civil). There have been substantive changes in the presentation of these chapters over the period with which this history is concerned. These developments are worth recalling.

Based on the recommendations of the Review Committee appointed by C&AG Somiah and the discussions in the AG's conference (refer to Section 'A' for details) Chapters-I and II of the State Audit Report were restructured substantially. These changes in State Civil Audit Reports were operationalized from the Audit Report of 1993-94.

#### NEW SECTION ON INDICATORS OF FINANCIAL PERFORMANCE OF STATE GOVERNMENTS

C&AG Shunglu introduced a pioneering reform in Chapters-I and II of the State Audit Report dealing with the finances of the State Government. He added in the Audit Report (starting from the Report for the year ending 31 March 1998) a section to this Chapter titled "Indicators of Financial Performance of the State Government" wholly devoted to an analysis of financial performance of the State Government with reference to certain ratio analysis of key fiscal concepts, thereby indicating broadly the status of financial health of the State Government concerned.

Addition of this Section to Chapter-I was preceded by series of discussions and debates over the desirability of introducing such indicators in the State Audit Report. C&AG Shunglu who was the principal author of this change had made it clear that before this was introduced in the Audit Report, it needed extensive discussion with experts and stakeholders, namely State Government representatives.

The process of consultation started in June 1997 when C&AG convened a one day seminar in Headquarters office to discuss framing of suitable indices for checking financial performance or health of the State Governments. The participants included, apart from the C&AG and his senior officers, Deputy Governor of Reserve Bank Dr. Y.V. Reddy (at present Governor of the Reserve Bank), Dr.

Madhav Godbole, Managing Director of CRISIL a credit rating agency etc. The consensus in the seminar was that it was an appropriate time for the C&AG to carry out such an analysis in respect of financial performance of the State Governments. A question was also raised in this context whether it would be appropriate if the C&AG gave a ranking to the various State Governments in terms of their financial health based on the specified indicators. The C&AG was firmly against this because it would unnecessarily have political overtones; eventually, this was also the consensus of this seminar.

This seminar was followed by a bigger conclave held in NAAA, Shimla in October 1998. The participants included, besides the C&AG and his senior officers, J.L. Bajaj, Consultant, NCAER, E.A.S. Sarma, the then Secretary, Expenditure, Government of India, V.V. Desai, an eminent Economist, R.K. Pattnaik from the Reserve Bank of India and representatives of CRISIL (a credit rating agency) and several State Government Finance Secretaries.

The seminar, amongst other things, recommended that the proposed indicators of financial performance of the State Governments should be prepared by an independent agency on the basis of concrete accounts figures on an annual cycle and these indicators should be few in number, simple and should indicate the underlying assumptions. The proposed health card should be on a trend analysis basis. The preparation of a health card would include certain simple indicators classified under four categories viz sustainability, flexibility, vulnerability and assets and liabilities. The seminar proceedings defined all these concepts and the indicators of financial performance/ health of State Governments were also suggested in the seminar. However, the C&AG was very cautious towards using the expression health card etc. and stated that he would use the criteria discussed in the seminar in the Audit Report of year ending 1997-98 'without using the word that we are trying to evaluate the performance of the State Government.'

The Headquarters circular on the subject dated 31 October 1998 informed the Accountants General of the decision to include in Chapter-I of the Audit Report (Civil) of the State Governments, a separate Section called "Indicators of Financial Performance of the State Governments" for the Audit Report for the year ended 31 March 1998. A detailed note was attached to the letter which explained the parameters and indices that were to be used in determining the financial performance of the State Government. It was indicated in the letter that the write-up for this new Section

would have material mostly, as earlier, from the Finance Accounts. There were, however, certain additional information to be collected for finalizing the write-up, these included:

- ❖ Balance from current revenue;
- ❖ Gross State Domestic Product;
- ❖ Figures for capital borrowings (including off-budget borrowings);

This Section on financial performance of State Governments essentially measured the financial performance of the State by three parameters called Sustainability, Vulnerability and Flexibility in the context of overall economic and financial environment. These terms were defined as below:

- ❖ Sustainability: The degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden on the economy.
- ❖ Flexibility: The degree to which a Government can increase its financial resources to respond to rising commitments, by either expanding its revenue or increasing its debt burden.
- ❖ Vulnerability: The degree to which a Government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international.

These three parameters were linked to a number of financial performance indicators expressed mostly in a ratio analysis context. From the subsequent Audit Reports, the analysis in terms of these parameters was not specifically used.

From the Audit Report for the year ending March 1999, the title of the chapter was changed to 'An overview of the Finances of the State Government' instead of 'Accounts of the State Government'. This title too has since changed to 'Finances of the State Government' w.e.f. year ending March 2003. Clarificatory instructions on the Section 'Indicators of Financial Performance of the State Governments' were issued in October 1999. The important change made was while interpreting primary deficits, Audit should not take the stand that primary deficit *per se was* desirable and high primary deficits led to sustainability. It was also clarified that in the definition of sustainability 'debt burden on the economy' be substituted by 'debt burden on the Government'.

In May 2001, Headquarters issued further instructions relevant to the finalization of Chapters-I and II of the Civil Audit Report with specific reference to Audit Report for the year ended 31 March

2001. Briefly, these said that in case of abnormal reduction in revenue deficit/ fiscal deficit, reasons for such reduction should be carefully examined to see if any unacceptable accounting adjustments were carried out for projecting better financial position. In case of reduction in plan expenditure with reference to the annual plan size originally approved, reasons for reduced expenditure were to be given. Similarly, reasons for low recovery of loans and advances as given by State Governments were to be analyzed and commented upon. Audit should also comment upon the utilization by the State Government of the funds raised by State PSUs by way of loans/ bonds to meet their ways and means requirements.

C&AG Kaul in August 2005, observed regarding Chapter-I of the Civil Audit Report that defining revenue buoyancy only with reference to the overall receipts of State did not bring out a clear picture about 'the buoyancy of the State's own taxes which is more relevant for fiscal analysis than overall buoyancy'. He, therefore, desired that from the Reports for fiscal 2004-05, the table on revenue receipts should also indicate revenue buoyancy with respect to States own taxes besides overall buoyancy. These changes have already taken place.

In its circular issued in September 2006, the Headquarters instructed State Accountants General to prepare Chapter-I of the Audit Report (Civil) for the year 2005-06 in a revised format. The circular enclosed the revised format as also explanatory notes (the guidelines for audit analysis of the fiscal operations of the Government). The revised format was necessitated by certain institutional and fiscal reforms introduced during 2005-06 for enabling fiscal correction in States. These included:

- ❖ Twelfth Finance Commission (TFC) Recommendations,
- ❖ States' Fiscal Responsibility (FR) Acts,
- ❖ Implementation of VAT—Landmark in States tax reforms,
- ❖ GOI/ RBI measures to facilitate reform process in States,
- ❖ State Specific Reforms/ Measures.

The revised format taking into account these developments focused on the following:

- ❖ Analysis of Trends and Pattern of Finances (based on facts/ evidences emerging from Finance Accounts and other documents of State Governments.)
- ❖ Assessment of Trends and Pattern of State finances (keeping in view the norms/ ceilings/ commitments or pronouncements

prescribed/ made in TFC Report, FR Acts and other documents laid before Legislature as required under the Act)

- ❖ Inter-linkages amongst Fiscal Parameters and Fiscal Variables.

However, no structural changes were proposed in the revised format and emphasis was on improving the quality of analysis of trends and pattern of state finances. The new format was to be adopted for bond copies that were scheduled for submission to C&AG after October 2006.

Chapter-I of C&AG's report has attracted attention of the Chief Ministers of the States and the senior functionaries of the Finance Department of the State Government. The merit of this Chapter lies in the dispassionate and in-depth objective analysis with reference to standard benchmarks of the financial soundness of the State and its capability to absorb financial shocks. The chapter also carries a trend analysis over a ten-year period or more in respect of various indices and ratios adopted for determining the financial soundness of the State Government.

#### DELINKING AUDIT REPORT (CIVIL) FROM FINANCE ACCOUNTS AND APPROPRIATION ACCOUNTS PRESENTATION

Up to the year 1997-98 annual accounts of the State Government i.e., Finance Accounts and Appropriation Accounts prepared by the AG (A&E) of the State concerned after audit by the AG (Audit), were submitted to the C&AG for his certification and onward submission to the Governor of the State/ Administrator of the UT as the case may be along with his report thereon for being laid before Legislature. In February 1999, C&AG took a decision that after his certification of Finance Account and Appropriation Accounts, these can be submitted by him to the Governor of the State, etc. without linking it with his Audit Report thereon. The relevant certificate, therefore, was also accordingly slightly revised.

Prior to the de-linking of submission of Annual Accounts from the submission of Audit Report (Civil) in 1999, the problem of timely finalization of Chapters-I and II used to surface practically every year; in the process it delayed the submission of the two Annual Accounts also. As we will notice in Chapter on Accounts, in the initial years of 1990s, due to the delay in the finalization of Finance Accounts and Appropriation Accounts, the finalization of Audit Report was also delayed due to delay in finalizing Chapters-I and II. But after the accounts became timely, around 1994, the culprit

for delay in the submission of Audit Report was the time taken in finalization of Chapters-I and II and in a reverse scenario of the earlier times, this used to delay submission of the two annual accounts also. Hence the decision of 1999 to delink the submission of Finance Accounts and Appropriation Accounts from the simultaneous submission of Audit Report (Civil) thereon. The Headquarters on their part issued several instructions from early 1990s to the field offices about bridging the gap between the finalization of annual accounts and preparation of Chapters-I and II. In this context, apart from others, Headquarters letter of April 1995 deserves a mention which asked the field offices to prepare draft Chapters-I and II alongside checking of accounts by AG on the basis of un-audited accounts which could be suitably revised, if necessary, as soon as audit of accounts was over.

#### THEME BASED TRANSACTION AUDIT

C&AG V.K. Shunglu (March 1996–March 2002) was very much concerned about some areas where audit focus had been low or had been ignored. He, therefore, laid special emphasis on these areas and decided that some of these should be a kind of standing themes to be repeated for audit reports every year. The themes which were in the forefront in his thought and were to be given priority were:

- ❖ Integrated Audit of a Department;
- ❖ Manpower management in one of the State Government Departments;
- ❖ Audit of expenditure on foreign travel by Ministers and senior bureaucrats;
- ❖ Audit of personal ledger accounts;
- ❖ Audit of hiring of vehicles by State Government Departments— one Department was to be picked up every year for this theme; and
- ❖ Audit of Calamity Relief Fund.

Some of the themes mentioned above on which repeat audits were done in successive years would need a brief account.

*Integrated Audit of Departments:* The very first Accountants General's Conference after C&AG Shunglu assumed office held in November 1996 took up this subject and made the following recommendation:

'A few Departments should be selected for annual audit coverage and subjected to an integrated or vertical audit encompassing budgetary process, decision making, effectiveness of various internal

controls, manpower, contracts, inventory, audit of selected DDOs under the Department, etc. After incorporating the Government's reply, the audit report should be finalized and issued separately. Audit reports of selected schemes, programmes, projects, etc. as and when finalized, should also be issued separately.'

This approach was considered one of the better ways of assessing the overall performance of a particular Department that would include its field offices and other subordinate formations to give a total picture of the functioning of the Department and the results achieved by it from its activities, expenditure and investments. The technique of Integrated Auditing was explained at length in a two day workshop on the subject convened by C&AG office in April 1997 and attended by Pr. Accountants General and Accountants General (Audit). In the letter of 13 May 1997, the Headquarters also sent to the AG offices a write up of the methodology and scope of Integrated Audit for their guidance.<sup>18</sup> While this audit was done by a number of State Accountants General including repeat audits, it would be fair to say that conceptual clarity was lacking in many of these audit outputs. In order to clear the confusion, a regional workshop was held every year to take stock of the audit output on the subject and further refinements needed to improve the same which were to be debated and spelt out including circulation of written supplementary guidelines. A review of the output in the 'Integrated Audit of Department' which was being conducted for about three years was discussed in the annual workshop on Civil Audit convened in February 2000. The Headquarters opinion was that even after three years of its introduction, the concept of Integrated Audit had not taken roots and the reviews that were being received in Headquarters were in the shape of disaggregated paragraphs without much analysis of the systems, procedures and the controls. Resultantly, the utility of this exercise remained questionable. It was also emphasized that Integrated Audit should be dealt with at the level of Group Officers and the Accountants General right from the stage of planning to the completion of the audit and the emphasis should be on evaluation of systems and controls. The ADAI (RS) also pointed out that the thrust of the Integrated Audit should centre around evaluation of the performance of the Department with reference to its mandate and at the same time the review should be able to establish linkages between the different tiers of the Department audited that is secretariat, directorate and field units. This should be clearly established and evaluated. Integrated Audit of a specific Department

of State Government became a standing audit theme in the State Audit Reports every year after its induction in Audit Report 1996–97 and it continued till the Audit Report for the year ending March 2002—in fact in some States, Integrated Audit of a Department was continued till the year 2004–05.

*Audit of Foreign Travel Expenditure:* This seemingly innocuous subject was introduced at the behest of C&AG Shunglu and, as subsequent audit findings proved, it was an excellent choice in Transaction Audit. The foreign travel expenditure audit was conducted by the Department across the States more or less on a standing basis for about three years from 1997–98 and the audit output was very revealing. Senior bureaucrats holding highest positions in the Government and Ministers were found to have committed gross irregularities which were going unchecked due to weak internal control systems in State Governments. The emphasis in audit was to plug the system weaknesses. In August 1999, Headquarters issued important instructions on this audit. Some of these are mentioned below:

- (i) It was decided that cent per cent audit of vouchers of foreign travel expenditure would be conducted in Central Audit as well as in field audit every year.
- (ii) The letter emphasized that audit observations, and the facts and figures included in the review must be supported by irrefutable evidence/ key documents. The letter emphasized the sensitiveness of this audit, hence necessity of taking all precautions regarding facts and figures. In fact, to obviate any such eventuality a very unusual system was inducted—the Accountants General were asked to send a copy of their audit findings to the person(s) performing the journey (by name to all officers concerned and Private Secretaries to the Ministers concerned) with the request to give their response within a stipulated time and Group Officer was made personally responsible for the correctness of the findings being reported.
- (iii) The State Government was to be requested for appointing a nodal Department for processing the cases of foreign travel so that all the records were available at one place.
- (iv) A computerized data base was to be created in Audit Offices on the basis of information contained in paid vouchers and debit notes received in A&E Offices from Indian Embassies abroad regarding facilities provided to

visiting officer e.g. accommodation, transport, daily allowance etc. This data base was to be used for audit planning also.

Accountants General were also advised to take up with Chief Secretaries cases of undue delay in the preferring of TA bills or submission of adjustment bills.

In May 2000, the Headquarters asked AG offices regarding the compliance of the above instructions. A detailed check list for audit of foreign travel bills was also prescribed.

*Audit of Manpower Management:* This was yet another hard driven theme for in-depth audit taken up during C&AG Shunglu's period. Carrying out a manpower audit of a selected Department across the States became a standing practice every year. Attempts were also made to source information from an independent database built up from a computerized enumeration of manpower undertaken by the Accountant General's office from the establishment vouchers, though such enumeration was only a limited success in some States. In one State (Karnataka) moreover, relevant files were refused to Audit on the subject on the plea that this audit did not have any financial content. Even though the matter was taken up by Dy. C&AG with the Chief Secretary, it transpired that he was under orders not to part with the relevant files, apparently, to forestall any move of the Audit to unearth possible irregularities in the posting of Station House Officers, which, if commented upon, would be embarrassing for the State Government. The audit authorities also did not pursue the question of non-production of files further because of time constraints in finalization of the review.

*Other Issues:* The results of audit of personal ledger accounts and civil deposits were projected in Chapter-II of the Audit Report which used to deal with Appropriation Audit and control over expenditure. Some other interesting reviews that were included in the Audit Reports after mid-1990 related to procurement and utilization of vehicles in Government Departments (this was also done across all the States). The 1996-97 report brought out reviews on irregularities in land requisition and transfer of lands.

Floor value of draft paragraphs of transaction audit for inclusion in the audit report which was Rs. 10 lakh earlier was raised to Rs. 25 lakh in respect of large States and from Rs. 7.5 lakh to Rs. 15 lakh for smaller States with effect from 2000-01 Audit Report.

A discernible trend in Transaction Audit Reports as revealed by a survey done recently by Headquarters is a steady decline in the

number of audit paras as compared to the earlier times. The decline is reflected from 1996 onwards but is not a continuous declining curve and in between years have a high also. There is thus no pattern as such. Nobody is more concerned about these developments than the C&AG Kaul who issued directions in the matter on more than one occasion. Recently in the file of State Audit wing, he recorded 'Report (States) presents a very depressing picture with a steady decline of transaction/compliance audit from 1996 onwards. I cannot understand the reason for this disastrous situation. Targets for each State must be reworked with reference to targets for 1996 and a note put up to me of the action proposed to be taken to arrest this decline.'

#### PUBLIC WORKS AUDIT

C&AG has a strong tradition of Public Works auditing which is one of the oldest audits existing ever since C&AG's organization came into being.

Public Works audit comprises audit of several Departments that execute public works viz. PWD, PHED, Water Resources Department, Urban Development Department, etc. This audit has also evolved over the years just as auditing as a profession has evolved. With Public-Private partnerships of various kinds in operation, public works audit has ventured into several new audits like audit of Build Operate and Transfer (BOT), Build Operate Lease and Transfer (BOLT) contracts, etc.

Currently, audit of contracts and contract management is an all pervasive audit because the mandate of the C&AG is vast. His source of information and scrutiny of document is solely that which is available in the files and documents of concerned Government Department/Ministry which he is auditing.

There was a time when Public Works (PW) audit was a very strong area of SAI-India. A separate chapter in Audit Report was devoted to results of PW audit, but there were exceptions and a couple of AsG were bringing out a separate Audit Report like AG, Madhya Pradesh (MP) who started a separate volume of Audit Report in 1988. By a decision taken by Headquarters in 2003, this separate volume was discontinued as Public Works Report became a part of Civil Report of MP. This audit demands a degree of technical skill. Public Works audit demands basic understanding of construction engineering and a knowledge of the relevant specifications which are laid down for particular item of work. Over

the last several years, audit output on works audit has somewhat declined. This could be due to, (amongst others) the reason that big works projects in government sector on the scale they used to be earlier have dwindled; additionally in some States, corporations have been created for execution of such projects.

*Organization of Public Works:* The basic executing agency of Public Works Department is the PW Division headed by an Executive Engineer. He has a Financial Advisor called Divisional Accountant. The cadre control of Divisional Accountants in many States is with the State Accountants General concerned. As of 31 May 2007, in 13<sup>19</sup> States, the cadre of Divisional Accountants vested with the Accountants General. Subsequently due to reorganization of AG offices in Bihar, MP, UP and Assam, the divisional accountants cadre in five more States viz. Jharkhand, Chhattisgarh, Uttaranchal, Arunachal Pradesh, Manipur, Tripura were controlled by respective AG offices. Divisional Accounts officers have four tier cadre structure as given below.

Grade	Pay Scale	Percentage of cadre strength
Ordinary Grade Divisional Accountant	Rs. 5500-175-9000	35
Divisional Accounts Officer Grade-II (Gr. 'B'-NG)	Rs. 6500-200-10500	25
Divisional Accounts Officer Grade-I (Gr. 'B'-Gazetted)	Rs. 7450-225-11500	25
Sr. Divisional Accounts Officer	Rs. 7500-250-12000 (w.e.f 01-10-2006)	15

Earlier, the chapter in State Audit Report containing audit findings on Works Audit also featured audit reviews on major projects/schemes. From the year 2004-05, the format of the State Audit Report (Civil) was changed and the Transactions Audit paras pertaining to all Departments of the Government were all clubbed in one chapter of the Report.

#### SELECTION OF TOPICS AND FOCUS AREAS OF STATE AUDIT REPORT (CIVIL)

Topics for All India Reviews were selected by the Headquarters office and intimated to each State AG. These reviews were published separately in the State Audit Reports and relevant material was sent to the AGCR now called DGACR for incorporating in the All India Reviews on the same topics for inclusion in the Central Report.

The themes/subjects that were covered in Audit Reports (Civil) of State Governments during the period of C&AG Somiah reflect the areas of emphasis in audit reporting. Thus, we have subjects chosen from a cross-section of Departments and sectors mostly the plan schemes aiming at the poverty alleviation, increased agriculture yield, employment generation, health care and management, disease control, infrastructure, etc. Many of these featured as All India Reviews in Union Reports too.

C&AG Shunglu continued with the emphasis that had already been given to the environmental issues and, during his tenure, apart from revisiting Ganga Action Plan on which a review was included in the Audit Report of Union Government (Scientific Departments) for the year ended 31 March 2000<sup>20</sup> as also in the Audit Reports of concerned States namely Uttar Pradesh, Bihar, West Bengal, Haryana and Delhi. He also carried out a review on Implementation of Environmental Acts relating to Water Pollution<sup>21</sup>—mostly from a compliance angle. In another Report, the C&AG reviewed perhaps for the first time, Administration of the Prevention of Food Adulteration Act—again from a compliance angle and brought the results in his Audit Report of 2000 in Union as well as in the State Audit Reports for the year ended 31 March 1999.

In September 1998, an internal review was conducted about the practice in the selection of topics for reviews for State Audit Report and it came out that the topics selected by the field offices themselves constituted about 25 per cent of the total. The then Addl. Dy. C&AG suggested that these topics should predominantly be based on the field office suggestions. It was necessary that selection of topics for reviews in the Audit Report of States (except those for All India Reviews and few synoptic topics suggested by the State Reports Wing) should be done by the AG based on a systematic approach. Instructions were also sent on how to build up the best portfolio of schemes, extracted from budget documents, Annual Plans and Five Year Plans etc. From the Headquarters, criteria including materiality, coverage and impact on the life of beneficiary population were suggested for selecting the topics for the reviews.

The above criteria were only illustrative, AG generally was free to consider other factors which were material.

The focus areas for Performance Audit as well as for transaction audit in present C&AG's period are picked up through a rigorous method of selection. The broad areas are already available in Perspective Plan. As detailed in the Chapter on Performance Audit, all the flagship plan programmes are included in the selected themes.

The flagship programmes are not limited to the Government of India categorization of such schemes but extends to about 50 Centrally sponsored and Central schemes. A three year programme has been chalked out for their audit. Based on the risk perception and expenditure analysis, etc. the Headquarters has also identified those Departments which should be assigned a priority in transaction audit.

Generally, a State Audit Report (Civil) would have three kinds of Audit Reviews (until 2003–04). Firstly, the Report would contain three to four All India Reviews which have been selected by Headquarters office; secondly, every year one or two topics for Audit Review would be suggested by the Report (States) Wing of the Headquarters, often to be carried out in all Audit Reports across States and the third would be what the local Accountant General planned to include in the Report. Such topics would range from one to as many as five or six. A look at the Performance Audit Reports of six major States denotes that bigger States like Maharashtra, Tamil Nadu, U.P. and West Bengal had, on an average about 7 Performance Reviews in each year's report and in all these States, the output during the years 1996–97 to 1999–2000 was very high. The average for these three years would be 9 Performance Reviews each year for Maharashtra, 8 for Tamil Nadu and 10 for U.P. and West Bengal.

A review of the position in some States, by way of example, during the present C&AG's time brings out the following picture:

The 2003–04 Audit Report (Civil), in addition to a performance review of the internal control system of a State Government Department, also contained a variety of themes cutting across the Departments. Thus, Andhra Pradesh had eight schemes reviewed in 2003–04, including an IT Audit; but in 2004–05 the number of reviews was cut down to five. Bihar had five schemes each in 2003–04 and 2004–05. Goa had two and three schemes reviewed for 2003–04 and 2004–05 respectively. Haryana had five reviews in 2003–04 on various schemes and three in 2004–05. Jharkhand had six reviews in 2003–04 and three in 2004–05 all of which were all India reviews. Karnataka had a list of six reviews for 2003–04—three each on civil and works and five in 2004–05—three on civil and two on works. Kerala had seven reviews in 2003–04 including one IT audit review and four in 2004–05. Madhya Pradesh had two reviews in 2003–04 on civil and three on works, in 2004–05 it had four reviews on civil and one on works. Maharashtra had four reviews from Mumbai office and four reviews from Nagpur office including an IT review in 2003–04, in 2004–05 Maharashtra had four reviews including an IT review and Nagpur had also four reviews including an IT review. In the case of

Punjab five reviews were printed including two all India reviews in 2003–04 and in 2004–05 three reviews including one all India review. Rajasthan had five reviews including one all India review in 2003–04 and three reviews including an all India review in 2004–05. In Tamil Nadu seven reviews were in 2003–04 including one all India review and five reviews in 2004–05 including one all India review. Uttar Pradesh had also five reviews including two all India reviews in 2003–04 and five reviews in 2004–05 including an all India review. West Bengal had four reviews in 2003–04 including one all India review and six reviews in 2004–05 including one all India review and one IT review. West Bengal (LBA) had two reviews in 2003–04 including one all India review and one in 2004–05.

These reviews were a mix of all India review themes, local State specific schemes and IT reviews (the review on Internal Control which was common to all not included in above list). Most of them covered all India review themes namely Pradhan Mantri Gram Sadak Yojana, Indian System of Medicines and Homeopathy and Implementation of Acts and Rules relating to Consumer Protection. Some interesting uncommon local reviews were a review of Ganjam District in Orissa and audit of Baitul District in Madhya Pradesh, a review of National Highways and on internal control system of Police Department by AG Punjab. Integrated Audit of a Department continued to be done in States like Rajasthan for both 2003–04 and 2004–05. Modernization of police force and other subjects relating to police Department were also a popular subject of study; so also Integrated Child Development Services Scheme.

What should be the ideal number of Performance Reviews to be included in the Audit Report of a State to make it robust and interesting? Views on this question have varied from period to period depending on the opinions held by the concerned Dy. C&AG/ Addl. Dy. C&AG who generally shape the content and the format of the Report. It is also dependent on whether the Report is to be presented in one volume in the Budget Session or there is a choice to present the Performance Reviews over staggered sessions of Legislature. Since omnibus reviews are presented in a single volume, generally in or around a Budget Session, this would act as a limitation for a large number of topics to be covered. However, Performance Audit Reports can now be presented throughout the year. A State AG has the choice to prepare standalone Reports which could be presented in other than Budget Sessions, though this has rarely happened on the State side, unlike in the case of Union Audit Reports. A stand alone report on

'Floods in Maharashtra' was approved in 2006 and presented in April 2007. In 2007, five stand alone Reports (two from Maharashtra one each from Jharkhand, Uttar Pradesh and Orissa) will be submitted.

A big development in State Reports is the increasing output of IT Audit Reviews. From just two IT Audit Reviews in 2001-02, this number has shot up to 13 in case of general category States.

#### PROMOTING GOOD PRACTICES IN REPORTING

V.N. Kaul, the present C&AG brought with him a lot of fresh ideas and was mostly guided by his keenness to integrate Indian Auditing Systems as best as possible with internationally accepted best practices. Some of the major decisions concerning audit reports which the C&AG, Kaul took were the following:

Soon after his joining, he decided to overhaul the Performance Audit systems and procedures and towards that end, brought out a fresh set of Performance Auditing Guidelines that substantially changed some of the features. The C&AG also decided that all the audit reports would be produced in two distinct streams, namely, Performance Audit and Compliance Audit or Transaction Audit. As a result, the format of audit report has undergone important changes as discussed supra. This pattern is followed for all audit reports i.e. Civil, Defence, Railways, etc.

Further, the format for State Civil Reports has been modified to contain five standard chapters including one chapter on Performance Reviews (Chapter-III). Chapters-I and II, as before, deal with issues relating to the finances of the State Government and Allocative Priorities and Appropriation respectively. In Chapter-IV, all transaction audit paras are presented Department-wise in various categories based on nature of audit observations, e.g. fraud, misappropriation and losses infructuous/wasteful expenditure, excess payment, avoidable extra expenditure, undue benefit to contractors, idle investment, diversion of funds, while Chapter-V is dedicated to audit on the efficiency of internal control mechanism in a Department of the Government, as mentioned below.

In September 2003, C&AG Kaul directed that a review of internal control system of one Department will be a mandatory part for every State Audit Report and that a template for this audit be prepared by a team (the template is likely to be released soon). Letters of September 1 and 3, 2003 of Headquarters gave extensive instructions on how to conduct this audit in terms of Manual of Standing Orders,

2002 as part of systems audit which provides general principles for such an evaluation. Headquarters emphasized that the audit scrutiny should focus on 'effectiveness of the system in enforcing adherence to various control measures envisaged in the Rules and Regulations, Codes, Manuals, etc.' Since then, generally Chapter-V of the audit report is devoted to a review of internal control in one of the State Government Departments.

For measuring the effectiveness of audit report, C&AG has prescribed performance matrix through which the evaluation of audit report's contribution in terms of money value is carried out.

In November 2004, C&AG carried out an analysis of the quality of Audit Reports both under performance audit and regularity audit and highlighted the weaknesses noticed in the performance audit reviews during the previous two years. C&AG also gave some suggestions to improve the quality of reviews. He pointed out that reviews were more of an aggregation of DPs and collection of minor violations instead of depicting an overall view on an issue. Reviews focused more on regularity and at best on economy, but there was only a fleeting reference to efficiency and effectiveness of programmes/ schemes. Documentation review was adopted for gathering evidence instead of physical inspection of the site and beneficiary survey, etc. There were either no recommendations or only weak recommendations. The recommendations should have been discussed in the exit conference. Audit findings were not entirely germane to the review topic. Mostly statistics was included without leading to major audit findings.

The need for clear guidelines for audit findings and money value matrix was emphasized. Responsibility for various items of work was to be delineated and check list needed to be prepared based on Performance Auditing guidelines.

#### C&AG'S INSTRUCTIONS RELATING TO STATE AUDIT REPORTS

In April 2006, Headquarters issued a circular from Report States side to all State Accountants General conveying certain important instructions of C&AG regarding processing the material for the Audit Report.

- (i) Transactions over 5 years old should not be included in the Audit Report (Transactions). Exceptional cases would include cases where question of principles were involved.

- (ii) Audit Report should not make any reference to any document which is of a secret/ confidential nature, and reference to notings and Notes for the Cabinet or Cabinet Committees should be avoided.
- (iii) It should be ensured that the material did not contain things which were already in the notice of the executive on its own or through internal audit, etc.
- (iv) Paras of misappropriation and fraud should be printed in bold font. It was also required that these paras should be systematically monitored and a reference to these paras should be made in the annual letter which C&AG writes to the Chief Ministers after signing the Audit Report.
- (v) It was desired that fiscal situation of the State should be analysed carefully on the basis of analysis of accounts in Chapter-I of the Audit Report.

#### APPRIISING PLANNING COMMISSION ABOUT PERFORMANCE OF STATES ON PLAN SPENDING

A very important development in the area of Audit Report in 1990s was the comprehensive analysis done of the States performance vis-à-vis their five year plan allocations. In a study of the VIII Five Year Plan data done across fourteen major States of the country in 1997-98, C&AG Shunglu came to the conclusion that approved and revised State plans were far too ambitious, the overall capacity of the States to spend the development grants was not upto the mark and, worse, atleast some of the States were not only unable to spend the original plan allocation but were also going in for much more costly market borrowings to raise the resources which in any case were never used and were kept in RBI account fetching no interest or nominal interest. The C&AG took the unusual step of personally reporting these findings to the Deputy Chairman of the Planning Commission in September 1998. C&AG also pointed out considerable diversion of funds from Centrally Sponsored Schemes. States' contribution to the Centrally Sponsored Schemes had been negligible. Some years later, a similar study was carried out by the present C&AG V.N. Kaul, concerning Ninth Plan (1997-2002) which indicated that fiscal and planning anomalies noticed earlier had become more pronounced during the Ninth Plan. In his letter dated 21 October 2002 to Deputy Chairman Planning Commission, C&AG pointed out that nearly 60 per cent of the total plan expenditure continued to be for the purpose of maintaining the existing level of services and as such very little was spent by the States for extension of social and economic services

beyond existing levels. He stated that with continuing fiscal deterioration in the States' finances and the persistence of a negative Balance from their Current Revenues (BCR), it had become necessary that Planning Commission accorded higher weightage to the States' contribution to financing of their plans while deciding their plan size.

#### RESPONSE OF STATE GOVERNMENTS TO AUDIT REPORT

The question of executive responsiveness to Audit reports has always been a potent issue in Government—Audit relationship. Despite several instructions issued by the Government stressing speedy and timely response to Audit paragraphs in the Audit Report and also to Inspection Report (IR) paragraphs, the ground reality was that the executive response was abysmally poor. The C&AG appointed a High Powered Committee in 1992 headed by S.L. Shakhder, formerly Chief Election Commissioner and Secretary General of Lok Sabha, to go into this entire issue and give recommendations. The Shakhder Committee visited many States and met senior officers of these States as well as PAC members and, after interaction with a large number of senior officers of the Audit Department submitted its report in March 1993 with about 50 recommendations. The recommendations broadly fell into four categories viz., those on which action rested with the Government; those on which action rested with the Legislature (PAC); those on which action rested exclusively with Audit Department and finally, there were a number of recommendations whose implementation depended upon a system agreed to by Government and Audit. The Headquarters identified, out of these, five major recommendations which were forwarded to State Governments and State PACs for their acceptance and implementation. C&AG also established a procedure for monitoring the acceptance and implementation of these recommendations by the Government/PAC concerned. The five recommendations were the following:

- (i) Adoption of the Central Procedure for dealing with Audit Reports by the Government; this prescribes suo-moto submission, within the period of three months of Explanatory Notes on audit paras/ reviews featured in the Audit Reports, and the Action Taken or action proposed to be taken. Taking oral evidence would be in selected cases only;

- (ii) A time limit of six months for Government's Action Taken Notes on the recommendations of the PAC/ COPU which will be vetted by the AG;
- (iii) Review of limits prescribed by the PAC for regularizing excess or savings vis-à-vis budget provisions, for comments in the Appropriation Accounts;
- (iv) Printing of Audit Reports within a period of two months of their approval by C&AG;
- (v) Establishment of an appropriate mechanism in the Government to monitor government response to Audit and to PAC/ COPU.

C&AG has been consistently monitoring the implementation of the recommendations through the Accountants General concerned who in turn, were pursuing the matter with State Governments and Chairman of the PAC concerned. Most of the recommendations were accepted by State Governments except for a few.<sup>22</sup> In regard to the adoption of the central procedure for discussion of Audit Reports, all the State PACs have accepted the recommendations except Kerala, Jammu & Kashmir, Orissa, Sikkim, Uttar Pradesh and Bihar. Among the State Governments only Bihar and Nagaland did not respond to this recommendation. Similarly, in regard to prescribing a time limit of six months for the Government to furnish ATN, all States except Bihar have agreed to do so. Regarding the recommendation for revision of monetary limit, all the Public Accounts Committees except nine have agreed; and regarding the timely printing of audit reports, all the State Governments are in agreement, though the exact modality to implement the recommendations was yet to be firmed up by many States.

Despite such impressive picture as regards acceptance of the Shakhder Committee's recommendations by concerned parties viz. State Governments and the PAC, the position with regard to discussion of reports and action taken in response to recommendations of PAC, had deteriorated.<sup>23</sup> This, of course, does not take away the merit of the recommendations of the Committee but only points to a need for more vigorous follow-up of accepted recommendations by State Governments.

The statement depicting the status of the State-wise position of acceptance of the Committee's recommendations by the Government/PAC is at Annex to this section.

#### INTERFACE BETWEEN THE ACCOUNTANT GENERAL AND THE STATE ADMINISTRATION FOR DISCUSSION OF AUDIT FINDINGS BEFORE INCLUSION IN THE AUDIT REPORTS

The draft paragraphs and draft reviews (Performance Audits) are forwarded demi-officially to the Secretary concerned with the request to intimate the views of the Government within a stipulated period of six weeks. As Government response to the draft reviews and paragraphs was not being received in time and in many cases, not received at all, the present C&AG, in May 2006, suggested to the Chief Ministers of all States in a DO letter to devise an institutional arrangement wherein the Chief Secretary and the Administrative Secretaries would meet the AG to discuss the issues raised in the Draft Audit Reports so that the views/ comments of the Government could be effectively included in the Reports. Most of the State Governments welcomed the proposal and instructed the Chief Secretaries/ Administrative Secretaries to take necessary action in this regard. DG (Audit) from Headquarters also sent a communication to Principal Accountant General/ Accountant General in March 2005 asking for operationalizing the instructions of the C&AG.

Responses received from the field offices point to some improvement in the responsiveness of the Governments to the draft audit reviews and the audit paras. The degree of improvement varies from State to State. Also, the discussions with the executive have resulted in the output being free from any controversy as regards facts; in fact, in most cases, these discussions have yielded more 'acceptable' audit comments/ conclusions on Reviews/ Paras. The progress is not even in all States in the matter of responsiveness. Some States have set up formal mechanism on the lines suggested by C&AG while some others have played a 'lip service' only with no material difference in responsiveness. By and large, however, it would be fair to conclude that improvements have taken place and most Accountants General have termed the new system of discussion resulting in 'increased audit effectiveness'.

#### AUDIT REPORT BROCHURE

In February 1997, Headquarters office issued instructions to the State Accountants General to prepare a Brochure of the Audit Reports

(Civil, Commercial and Revenue Receipts) that would contain the summary of findings in the Audit Reports in a user-friendly language. The Brochure was to be widely circulated among MLAs, MLCs, Ministers and Senior Executive Functionaries of the State (HOD level). As regards handing over of the copy of the brochure to Governor/ Speaker of the Legislature and Chairmen of PAC/ COPU, it was stated in the instructions issued on 3 February 1998 that 'it would be nice if the Brochure could be handed over personally by AG'. It was also to be mailed to the media and academic and research institutions. The Brochure was to be circulated '*after the Audit Reports have been laid in the legislature*'.

Accordingly, all State Accountants General are bringing out such brochures.

#### TRANSLATION AND PRINTING OF STATE CIVIL AUDIT REPORTS IN REGIONAL LANGUAGES

The Audit Report is prepared in English. For the Hindi speaking States, Hindi version of the Report is also sent to the Governor along with the English version.

The C&AG decided in 2000-01 that the Audit Reports (Civil) on the accounts of the State Government must have a regional language version, which would be placed in the State Legislature to facilitate wider dissemination and for easy comprehension of the audit view point. Instructions to this effect were issued to all the Accountants General in August 2000. The practice was introduced in select States initially. The regional languages version of the Audit Report was not required to be signed by the AG or countersigned by the C&AG. Only a certificate that 'it is a truthful translation of an English version' was to be given. However, from the audit reports for the year ended 31 March 2001 and onwards, it was decided that regional language versions of the Reports will be signed by the AG and countersigned by the C&AG. While the signature of the AG and countersignature of the C&AG will be in English, a proviso in the regional language version was to be added below the existing preface as 'in case of doubt in the translated version, the English version should be treated as authentic'. Presently the CA&AG's Audit Reports Commercial and Revenue also are submitted in regional languages.

The practice of placing the regional version of C&AG's Audit Report (Civil) was already being followed in Gujarat and Maharashtra for many years. While in the case of audit reports of these two States and for other States who were to submit regional

language version from the year 2000, the translation of the audit report into regional language was initially done by the State Government concerned; but this practice was changed from the year 2001 when it was decided to have the reports translated in-house, except in case of Jammu & Kashmir where an Urdu translation is done by the State Government and submitted directly to the Vidhan Sabha. The English version and Hindi version/the regional language version are to be sent together by the C&AG to the Governor.

The decision to bring out State Civil Audit Reports in regional languages has helped wider media coverage of the audit findings in the local language press and wider dissemination thereof.

#### PRINTING OF AUDIT REPORTS

Printing of State Audit Reports has often posed problems. Printing of the Audit Reports is the responsibility of the State Government. The Shakti Committee recommended printing of the Report within two months. Though the recommendation was accepted by most of the States, there had been considerable delay in printing of the Audit Reports. In November 1998, the Headquarters emphasized to the field offices that they should not take more than 10 days after the receipt of the approved 'bond copy' to hand it over to the printing press and the printed copies should be ready for countersignature of C&AG within 30 days of that. As against this, it was found in a review done in August 1999 that there was substantial delay in printing of audit reports in most of the States—in some cases the gap between the date of dispatch of bond copy from Headquarters and date of receipt of printed copy was between 60 and 90 days. The Headquarters issued a number of instructions to minimize the delay that included formatting of the Audit Report for printing purposes, timely translation of Audit Report material in Headquarters or into regional languages, effective liaison by the Group Officers with the press authorities and personal monitoring by the AG.

The position of printing of Audit Reports as reflected in the note of Secretary to C&AG dated 29 August 2005 gave a very dismal picture and the note conveyed C&AG's feeling about urgent need to review the existing printing arrangements for Audit Reports on the States side. A letter issued in October 2005 by the Headquarters office pointed out C&AG's concern over the existing arrangements for printing of State Audit Reports. It particularly emphasized about the necessity of expeditious translation of Audit Reports into regional

languages. The data presented in the note indicated that out of the 62 reports from State Report side of various wings i.e. Civil, Commercial, SRA etc for the year 2003–04, in the case of 45 reports, the time between the approval of bond copy by C&AG and signature on the printed report was in excess of three months. C&AG mentioned that such delays in printing of Audit Reports impacted the effectiveness of the audit process.

In order to adhere to the time schedule for submission of Reports to the State Legislature, the C&AG authorized the field offices in July 2005 and October 2005, the option of undertaking printing from private press. In case the time required for printing the Audit Reports through Government press would entail delay, proposals for printing them through private press were to be sent to the Headquarters for sanction.

## ANNEX TO SECTION 'B'

Summarized position of five identified areas of recommendation of  
HPC by PACs/Governments  
STATUS-December 1999

Adoption of Central procedure /suo moto action by government/ selective approach in discussion	Prescribing a time limit of 6 months for Government's ATN on PAC/ COPU recommendations/ ATN to be vetted by AG.	Revision of monetary limit for the purpose of comments in the Appropriation Accounts.	Printing of Audit Reports in two months	Establishment of appropriate mechanism in Government to monitor Government's response to Audit and to PAC/COPU
1	2	3	4	5
To be accepted by Government and PAC	To be accepted by Government and PAC	To be accepted by PAC	To be accepted by Government	To be accepted by Government.
(i) Accepted by both Government and PAC 19 States. (Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Haryana, HP, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Pondicherry, Punjab, Rajasthan, Tamil Nadu, Tripura, West Bengal)	(i) Accepted by both Government and PAC 19 States (Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Haryana, HP, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Pondicherry, Punjab, Rajasthan, Tamil Nadu, Tripura, West Bengal)	(i) Revised in 17 States (Andhra Pradesh, Goa, Gujarat, Haryana, HP, Kerala, MP, Maharashtra, Manipur, Nagaland, Pondicherry, Punjab, Rajasthan, Tamil Nadu, Tripura, West Bengal, Mizoram)	(i) Accepted by Government in 22 States (Andhra Pradesh, Arunachal Pradesh, Bihar, Goa, Gujarat, Haryana, HP, Karnataka, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Pondicherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, West Bengal)	(i) Accepted by Government in 25 States (Andhra Pradesh, Arunachal Pradesh, Assam, Goa, Gujarat, Haryana, HP, J&K, Karnataka, Kerala, MP, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Pondicherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, U.P., Tripura, West Bengal)
(ii) Accepted by Government only 5 States (Kerala, J&K, Orissa, Sikkim, UP)	(ii) Accepted by Government only 5 States (Kerala, J&K, Orissa, Sikkim and U.P.)	(ii) not yet revised in 8 States (Assam, Arunachal Pradesh, Bihar, J&K, Karnataka, Meghalaya, Orissa, U.P)	(ii) not yet accepted by Government of 4 States (Assam, J&K, Kerala, Uttar Pradesh)	(ii) not accepted by Government in 1 State Bihar

1	2	3	4	5
(iii) Accepted by PAC only 1 State(Nagaland- Partially)	(iii) Accepted by PAC only 2 StatesBihar and Nagaland(Partly)			
(iv) Not yet accepted by both Government / PAC-1 State (Bihar)				

## SECTION 'C'

COMPTROLLER AND AUDITOR GENERAL AND THE  
PUBLIC ACCOUNTS COMMITTEE AND COMMITTEE ON  
PUBLIC UNDERTAKINGS

Audit Reports that are placed in the legislature stand suo-moto transmitted to the Public Accounts Committee (PAC) of the House. C&AG's Reports on Commercial Audit dealing with the state enterprises are transmitted to Committee on Public Undertakings (COPU). These two Committees have the mandate of scrutinizing and examining these reports, take evidence of Government officers and make recommendations to the Government. Commenting on the *raison d'etre* for such an examination of C&AG's Reports by Committee of the House, A.K. Chanda, the second C&AG of independent India, in his book '*Indian Administration*' says 'the provision was made for the examination of the Report by a Committee of the House, because Parliament could hardly spare the time for the necessary scrutiny in detail'. It was also a technical examination which could best be undertaken in the Committee. A debate in the House may also destroy non-party character of the examination and distort it from proper perspective<sup>24</sup>.

The first PAC was appointed in 1861 in Great Britain. Most of the commonwealth countries which follow Parliamentary form of Government have modelled their PAC on the same pattern as in the UK. In India, the PAC was constituted in 1921 following the Montague-Chelmsford Reforms of 1919. Prior to Independence, the character of the PAC was different from what it is now. At that time it was a partly elected and partly nominated body with Finance Minister as its Chairman. Today, the Committee is a body of elected representative of both houses, who are nominated by the Speaker/Dy. Chairman, Rajya Sabha and even though in the initial years, the Finance Minister continued to be the Chairman, after the Constitution, this practice was abolished and only a non-official MP is appointed by the Speaker as Chairman. By convention, the Chairman of Central PAC are members of the opposition party, with rare exceptions (e.g Nagaland).

## RELATION BETWEEN C&amp;AG AND PAC

The C&AG (or his senior most officer) attends the meetings of these Committees by invitation where the C&AG's task is to brief the Committee on the relevant paragraphs of the report which the Committee wants to discuss and take evidence from the Ministry's

officers. To appreciate the issue of relationship between C&AG and PAC, it is necessary to dwell on the respective roles and functions of these two institutions and their inter-relationship.

C&AG has been created as an independent constitutional authority under the Constitution. He is, therefore, neither an officer of Parliament, unlike his US and UK counterparts nor is he an executive authority. His relationship, therefore, with PAC is that of a 'guide, philosopher and friend' as has often been referred to by the eminent authorities on constitutional and administrative law. He is described as an 'important adjunct of the Committee'<sup>25</sup> by the noted scholars M.L. Kaul and S.L. Shakhder in their famous Commentary on 'Practice and Procedure of Parliament'. He, therefore, assists the Committee as the author of those Reports and in that process, has been given the right by the Committee to brief them on the Report. C&AG can also seek clarifications on factual matters from the official witnesses. In practice, the PAC relies considerably on the C&AG or his officers who assist the Committee in many ways:

- ❖ Firstly, in the very beginning of the term of the Committee, when it meets to select the important paragraphs for indepth examination and evidence, the Committee is assisted by a representative of C&AG besides, of course, the PAC Secretariat. In fact, a written note is submitted to the PAC indicating C&AG's suggestions of the paragraphs, which the Committee may consider for discussion.
- ❖ Secondly, on the selected paras, the C&AG furnishes to the Committee a Memorandum of Important Points (MIP) on each para selected for evidence.
- ❖ Thirdly, during evidence, as already pointed out, the C&AG or his representative (generally DAI or ADAI concerned) is always present by the side of the Chairman to assist him in whatever manner the Chairman and the Members desire. Before the formal meeting, generally a briefing is given by the Audit to the Chairman and Members about the audit para to be discussed and evidence taken. C&AG may also occasionally seek clarifications from the official witnesses or make submissions to elucidate any point.
- ❖ Finally, C&AG is also involved in the vetting of the draft report of the PAC and at a later stage, in the vetting of the Action Taken Reports of the Departments.

The foregoing brings out the close relationship between the C&AG and the PAC. Though M.L. Kaul and Shakhder have remarked that C&AG is an 'adjunct' to the Committee, this does not mean that he is in some way a subordinate authority to the PAC and will not act independently in his dealings with the PAC. The relationship between the C&AG and the PAC in India have been very cordial, close and one of mutual respect. But on a few occasions 'irritants' did develop on one count or the other. One area where such irritants did develop was about C&AG's right to intervene in the evidence of official witnesses before PAC. Conventionally C&AG (or Accountant General in State) has freedom to intervene for seeking more clarity or bringing out facts of the case as per audit scrutiny of records. This is done rarely, though. There have been some occasions in the past when members of the PAC asked the C&AG to show them original papers of relevant notings, etc. for perusal; such demands, as A.K. Chanda, has remarked in his book were always resisted by the C&AG as 'an encroachment on his functions'. Over the period now this principle has been formally established. In fact, in 2002, the Government of India informed C&AG office that Government is entitled to claim privilege from production of Cabinet Notes and other connected records before Parliamentary Committee in the public interest and requested him that these documents 'may not be produced before the PAC/ COPU by Audit'. C&AG issued a clarificatory letter to heads of all the field offices and to officers at Headquarters, in June 2002 for the guidance of audit offices that:

- (a) in cases where a Ministry or Department of the Government of India proposes to withhold any document relating to any matter included in a draft para proposed to be included in the Audit Report from any of the Parliamentary Committees, the Ministry/ Department concerned will bring this fact to the notice of the ADAI/ DAI demi-officially at the time of furnishing comments to the draft para.
- (b) The requests of the Ministry/ Department will be considered by the concerned ADAI/ DAI at Headquarters while finalizing the Audit Reports and while dealing with the follow up action during the deliberations of the matter by PAC/ COPU. In case, the Parliamentary Committees request submission by Audit of copies of these supporting documents in respect of which privilege is proposed to be claimed, Audit will inform the Committee concerned of the Government's intention to claim privilege from production of the said documents and that

Government may, therefore, be approached for the production of the documents in question without the intervention of Audit.

There have also been some rare occasions when, the PAC required AG to furnish information to them on the internal working system of the C&AG's organization which they wanted to discuss. It is pertinent to quote the case of Bihar PAC in this context. On July 21, 2000, Bihar Vidhan Parishad, in spite of the opposition's resistance, resolved to constitute a Joint Committee of members of both the houses viz. Vidhan Sabha and Vidhan Parishad to probe the role and responsibilities of the Accountant General in the Animal Husbandry Scam on which a Report had already been presented by the C&AG to Bihar Assembly. When this news appeared in the newspapers, the then C&AG summoned the Accountant General of Bihar to New Delhi to discuss the matter. The C&AG after discussing the matter with the Accountant General, Bihar and with his senior officers in the Headquarters decided to write to the Law Secretary to seek his opinion in the matter.

The opinion of the Attorney General was sought by C&AG on the issues framed by him, for the reason that the matter involved inter-se relationship between a Constitutional authority and the State Assembly and had, in a way, wider implications. The issue in a nutshell was whether the State Legislature could look into supposed negligence in due discharge of his functions under the Constitution and an Act of Parliament. The second issue was that in case summons were issued by the House Committee to the AG directing him to appear before the Committee, whether the Accountant General would be bound to comply with the summons.

The third issue was if summoned, what was the administrative/legal remedy available to the Accountant General?

The C&AG also pointed out that Rules of Procedure and Conduct of Business in the Bihar Vidhan Sabha prohibit discussion on the Reports of the C&AG until the report of the Committee on Public Accounts on such reports had been presented to the Assembly. The factual position was that no such Report of the PAC on the Audit Report (on Animal Husbandry Department) had been presented. In the circumstances, whether it was correct for another Committee of the House to discuss the matter which is included in the Report of C&AG and was yet to be discussed by the PAC.

The Law Ministry gave its prima-facie views which in summary were: PAC alone was legally competent to examine the matter of excess expenditure; Joint Committee cannot issue summons to

C&AG or its subordinates because C&AG is an independent Constitutional authority and is not directly answerable to the House or his officers, therefore, C&AG or his officers are not bound to comply with the summons and appear before the Joint Committee. Question No.3 was treated as premature and with reference to query 4, the legal opinion was that no discussion on the Report of the C&AG shall take place in the Assembly, until the Report of the Committee of Public Accounts on such reports have been presented to the Assembly.

Evidently, in the light of legal opinion by the constitutional experts, the Bihar Legislature never proceeded with the matter further and the proposed probe was never undertaken. However, on 23 September 2000, the Accountant General got a notice from the PAC for a meeting on 3 October 2000. The notice was also marked to the C&AG of India and also to the Pr. Accountant General, Ranchi. When this letter came, the AG contacted Headquarters who examined the notice and found that the Committee was to discuss issues which were of the nature of internal working of the C&AG's organization. Clearly, this was not tenable and, therefore, a suitable draft reply in Headquarters was drafted and sent to the AG for sending to the PAC Secretariat.

The meeting of Accountant General, however, did take place with the Chairman PAC where the PAC Chairman asked the AG some general questions as to how they conduct the audit of various units, etc. The AG explained briefly the system of audit checks which are employed and at the end of the meeting nothing came out of it eventually. Yet, it was unfortunate that C&AG and his organization were subjected to such treatment.

Another question often asked is: Can the C&AG intervene during the evidence of officers before PAC? The intervention of the C&AG is done rarely but if it does become necessary for the C&AG to speak in the meeting for the purpose of eliciting a clarificatory point or to supplement the facts as recorded in the audit paragraphs, it is always open to him to do so, of course with the permission of Chair. It is best to quote AK Chanda again on this which he has written from his personal experience with the PAC in late 1950s.

'When the Committee is in Session to examine witnesses, the Auditor-General intervenes to clarify points and to elicit information material to the Committee's work. He intervenes, if any witness tries to cloud the issue by raising irrelevant points or to sidetrack the main line of the inquiry. He also intervenes if the examination tends

to go off at a tangent or if any member puts an unfair question imputing bad faith to a witness.'

In fact, Chanda was of the view that 'witness protection' is also a role of C&AG. Both in UK and in India, the C&AG is often called 'the acting hand' of the Committee and 'its guide, philosopher and friend'.

There have been cases, though very rare, when the PAC i.e. a Member of the PAC has shown some reservation about the C&AG's right to ask questions from the witnesses on the plea that it is the prerogative of the Members of the Committee to ask questions from the witnesses. This issue surfaced on 9 January 2007 when during oral evidence of the representative of the Department of Ministry of External Affairs on Report No. 17 of 2005—Union Government (Civil) for the year ended March 31, 2004 relating to Property Management, the C&AG with the permission of the Chairman, PAC asked the witness to clarify certain points he had made. When a member of the Committee, however, took exception to this on the plea already stated above, the Chairman immediately referred to the relevant Rules of Procedure as also the commentary on Practice and Procedure of Parliament by M.N. Kaul and S.L. Shakhder and upheld the right of C&AG to intervene and ask questions from the witnesses.

Literature regarding the functioning of PAC in the previous periods dating back to the time of A.K. Chanda reveals that he was asking questions from the witnesses frequently to clear the position much more. While recalling intimate and stimulating association with Public Accounts Committee A.K. Chanda, in his article on 'Public Accounts Committee—an admirable institution'<sup>26</sup> stated "The convention established by my predecessors of intervening in the examination of witnesses to clarify points and to elicit information material to the Committee's work was faithfully observed during my term of office. I intervened if any witness tried to cloud the issues by raising irrelevant points or to sidetrack the main line of inquiry. I also intervened when the examination tended to go off at a tangent, or if any member put an unfair question imputing bad faith to an official witness. Though, one or two members jibbed at this, the Committee as a whole welcomed this intervention. It would not do any good, if the Committee ceased to regard the Auditor-General as elsewhere as 'the acting hand of the Committee' and its 'friend, guide and philosopher' and objected to such interventions also".

On this issue, every C&AG has his own views. V.K. Shunglu, for example, is not a votary for C&AG's intervention in PAC

meetings during the evidence of witnesses. He has the option to put his questions through his chit to the Chairman who can do the questioning, and, of course it is his (C&AG) prerogative during briefing of the PAC, to suggest any question he would like the PAC to ask the witnesses.

C&AG Kaul has a very clear view of his role in the PAC which is to assist the PAC in the best manner possible. C&AG Kaul, always had the support of PAC although occasionally, (as pointed out above) he had brushes with individual members. But the PAC as a whole has been very considerate to C&AG and of course to his Reports. Individual members have also been very complementary and have welcomed, apart from the Audit Reports, the initiatives taken by C&AG for example the new Performance Audit system set up by him.

It is to be remembered that C&AG's intervention is made only with the sole purpose of facilitating a better understanding of the facts of the case by the members of the Committee. It happens sometimes that the answers given by the witnesses are so elusive that there is no clarity about the position or the status, and may lead to different conclusions. In such an event, the experience and the personality of C&AG comes in handy to the help of the members of the Committee.

#### THE EFFECTIVENESS OF AUDIT AS REFLECTED THROUGH PAC REPORTS

Audit Reports of the C&AG are eventually the property of Parliament or the State Legislatures where PAC or COPU, as the case may be, deliberate on them, take evidence from the concerned Departmental witness and submit their reports with recommendations to the Government for their action. These committees play a pivotal role in the effectiveness of Audit Report findings. The PAC recommendations are not mandatory; but as far as possible the Governments do not reject their recommendations easily. The analysis as detailed in Annex I will bring out that normally in 60 per cent cases the PAC recommendations are accepted in the first instance itself by the Central Government. It has been generally observed in almost all the States that Action Taken Notes on the reports of the PAC presented to the State Legislature are not regularly submitted by the State Government Departments to the Assembly Secretariat.

Nevertheless, one can safely say that the PAC has a great influence on the executive and, therefore, it enhances the effectiveness of audit enormously through its recommendations. However, at another level, we find a different kind of picture. Here the problem is mostly internal to the PAC/ COPU and the problem is more endemic to State PACs. In a number of States, the PAC discussions are behind schedule for years. A brief survey of arrears of discussion of Audit Reports in PAC/ COPU as detailed in Annex-II (Civil), III (Receipt) and IV (Commercial) reveal that this delay in discussions range from two to twenty two years (maximum is in the State of UP in case of Civil Audit Report—three to twenty two years, in the case of UP Receipt Audit Report, and one to twenty one years in case of Meghalaya as of September 2006). The discussions are more or less current only in a few States such as MP, Puducherry, etc. The Shakhder Committee which went into the issue of response of State Governments to the Audit Report of the C&AG gave its recommendations way back in March 1993 which were mostly accepted by most of the State Governments and the concerned Public Accounts Committees. In the seminar<sup>27</sup> held in July 2005 on Legislature and Audit interface, it was revealed that 12 years after Shakhder Committee Report 'the position with regard to discussion of reports and action taken in response to recommendations had deteriorated, though the recommendations remain valid till date'. It only endorses the view that the recommendations of the Committee are required to be pursued and implemented vigorously. As far as Central PAC is concerned, the position is better for a different reason. The Central PAC has a system of selecting a small sample of paras for discussion from the current Audit Report for taking evidence and a large number of other paras which are not discussed qualify for submitting action taken notes thereon. If the PAC is unable to carry out detailed examination of the selected paras, these are treated as 'not selected' paras in subsequent year and are dealt with in the usual fashion i.e., submission of ATNs only by the concerned Ministry/ Department<sup>28</sup> In this manner practically all the audit paragraphs of the C&AG Reports (Central Reports) get a response and PAC is, therefore, in a position to give their report and recommendations more or less in time. In case of Union Reports, however, Ministries/ Departments are required to submit ATNs duly vetted by Audit in respect of all paragraphs included in Audit Reports within 4 months of presentation of Reports to Parliament. In the case of COPU, however, the status of discussions of paras of

C&AG Reports is rather poor. The position detailed below in the table will indicate the state of affairs:

#### STATUS OF COPU DISCUSSION OF AUDIT REPORTS

Year of Report	No. of Paras	Paras Selected for Discussion	Actually Discussed
1995-96	14 reports	6 reports	3 reports
1996-97	8 reports	8 reports	3 reports
1997-98	162	9	4
1998-99	281	7	4
1999-00	221	6	—
2000-01	646	6	1
2001-02	646	9	1
2002-03	626	13	2
2003-04	654	12	2
2004-05	587	—	2

The real solution to the ever increasing pendency lies in PACs taking up every year the paragraphs of the current Report, for detailed examination while asking Government to submit ATNs on the other paragraphs not discussed. The discussion will then be current and PAC recommendations have more relevance for contemporary action.

#### SEMINAR ON 'LEGISLATURE AND AUDIT INTERFACE FOR ENFORCING AND STRENGTHENING ACCOUNTABILITY MECHANISM'

A seminar (the first of its kind convened by C&AG) on 'Legislature and Audit Interface for Enforcing and Strengthening Accountability Mechanism' was held in iCISA in July 2005. In this Seminar, besides Honourable Speaker of the Lok Sabha Shri Somnath Chatterjee who inaugurated the seminar, Chairman, Central Public Accounts Committee and Chairman, Committee on Public Undertaking participated along with Chairpersons of Legislative Assemblies. It was the first time that a gathering of this kind where Chairpersons of Legislative Assemblies and Audit shared a common platform.

The objective of the Seminar, as set out by C&AG V. N Kaul, was to initiate a dialogue to address issues of accountability in the context of rapid changes facing public audit. He focused on three major challenges faced by the Parliamentary Committees and the Executives, namely:

- ❖ Pendency of audit paras and finding an effective solution to the disposal of audit objections.
- ❖ The need to evolve a framework for enforcing accountability and defining the role of public audit in the era of new public management and public-private partnership etc.
- ❖ The need for respecting the institutional nature of Reports.

The following twelve key consensus points emerged in the Seminar:

1. The overload of both the PAC and the COPU was the result of increase in the C&AG's Audit reports/reviews since 1950. The Speaker asked the participants to consider the constitution of a separate Committee for reviewing the Receipt Audit Reports of the C&AG for their quick and timely disposal.
2. Proper maintenance of accounts of PRIs and ULBs should be ensured and their audit handed over to the C&AG. Legislative Committees should be constituted in the States to deal with the report of the C&AG on PRIs/ULBs.
3. Attempts to keep the regulatory bodies out of C&AG jurisdiction and increasing inclination to dilute or even exclude the C&AG's auditory jurisdiction over audit of public sector undertakings were unwelcome moves and needed to be addressed.
4. Companies Act be amended to bring in companies, where government holding is less than 51% but where Government investments are substantial under the purview of C&AG's audit.
5. The need for strong internal audit in government was recognized.
6. There should be timely debate on C&AG's Reports on Appropriation Accounts for enforcing accountability.
7. Chairmen of PACs and COPUs should be empowered to take action without waiting for the replies of the executives in case of delay in response by the executives.
8. Suitable amendments should be brought about in the rules of procedure of legislatures to tackle the problem of overload due to non-tabling of Audit Reports.
9. Present procedure for examination of the Audit Reports by the PAC should be reviewed to fix responsibility on the executives.

10. All audit paras should be settled within 3 years to ensure accountability. A proper institutional mechanism should be brought about to ensure this.
11. It was also suggested that a guide should be developed with the help of C&AG as an induction material for newly appointed members of PAC/COPU.
12. The seminar also recommended that more seminars of this nature should be held preferably in different States or regions and the Chairman PAC/ COPU to take initiative in this.

Copy of the Consensus Report was forwarded to the Chairmen of the State PACs and COPUs. Copy of the Report was also sent to all field PAsG/ AsG (Audit) and with the request to take initiative to hold meeting with the Chairmen PAC/ COPU and to send the feedback on the consensus report.

In pursuance of recommendations for holding such seminars on regional basis seminars were held in Arunachal Pradesh, Gujarat, Bihar, West Bengal, Rajasthan and Tripura.

#### ANNEX I TO SECTION 'C'

Sl. No.	PAC Report	No. of Recommendations	No. of recommendations accepted by Govt.	No. of recommendations which the Committee do not desire to pursue in view of reply	No. of recommendations reiterated
1.	1 <sup>st</sup> Report Fourteenth – Lok Sabha	17	10	6	1
2.	42 <sup>nd</sup> Report – Thirteenth Lok Sabha	9	6	—	3
3.	43 <sup>rd</sup> Report – Thirteenth Lok Sabha	20	12	1	7
4.	44 <sup>th</sup> Report – Thirteenth Lok Sabha	8	5	—	3
5.	47 <sup>th</sup> Report – Thirteenth Lok Sabha	13	10	2	1
6.	60 <sup>th</sup> Report – Thirteenth Lok Sabha	17	16	1	—
7.	94 <sup>th</sup> Report – Tenth Lok Sabha	26	11	3	11
8.	26 <sup>th</sup> Report – Fourteenth Lok Sabha	44	27	12	5

## ANNEX-II TO SECTION 'C'

Pendency in discussion of Audit Reports by the PACs of the States (Civil Reports)  
as on 30 September 2006

Sl. No.	Name of the State	Year from which pending	Position of total paras including reviews pending for discussion
1.	Andhra Pradesh	1996-97	183
2.	Arunachal Pradesh	1987-88 (except 1989-90,1990-91, 1991-92,1993-94 & 1996-97)	65
3.	Assam	1983-84 (except 1996-97)	580
4.	Bihar	1984-85	421
5.	Chhattisgarh	1998-99 (except 1998-99 & 2000-01)	39
6.	Goa	2000-01	57
7.	Gujarat	1993-94	425
8.	Haryana	2000-01	171
9.	Himachal Pradesh	2001-02	88
10.	Jammu & Kashmir	1990-91	430
11.	Jharkhand	2000-01	73
12.	Karnataka	1992-93	281
13.	Kerala	1995-96 (except 1996-97)	125
14.	Madhya Pradesh(Civil)	2003-04	15
15.	Madhya Pradesh(Works)	2002-03	39
16.	Maharashtra	1998-99 (except 1999-2000)	275
17.	Manipur	2000-01	52
18.	Meghalaya	1984-85	335
19.	Mizoram	1996-97 (except 1997-98)	93
20.	Nagaland	1996-97 (except 2000-01)	156
21.	Orissa	1990-91 (except 1992-93)	547
22.	Pondicherry	2002-03	44
23.	Punjab	1992-93 (except 1994-95)	137
24.	Rajasthan	2000-01	43
25.	Sikkim	2001-02	41
26.	Tamil Nadu	1997-98	250
27.	Tripura	1988-89 (except 1991-92 & 1997-98)	193
28.	Uttar Pradesh	1983-84 (except 1997-98)	1001
29.	Uttaranchal	2000-01	108
30.	West Bengal	1992-93	302

## ANNEX-III TO SECTION 'C'

Pendency in discussion of Audit Reports by the PACs of the States  
(Receipt Audit Reports) as on 30 September 2006

Sl. No.	Name of the State	Year from which pending	Position of total paras including reviews pending for discussion
1.	Assam	1988-89 onwards	33
2.	Andhra Pradesh	1996-97 onwards	370
3.	Bihar	1990-91 onwards	693
4.	Chhattisgarh	1998-99 onwards	69
5.	Delhi	2004-05 onwards	61
6.	Gujarat	1994-95 onwards	532
7.	Haryana	2000-01 onwards	145
8.	Himachal Pradesh	1999-00 onwards	197
9.	Jharkhand	1990-91 onwards	685
10.	Karnataka	2002-03 onwards	101
11.	Kerala	1994-95 onwards	151
12.	Madhya Pradesh.	2002-03 onwards	18
13.	Maharashtra	1999-00 onwards	169
14.	Orissa	1989-90 onwards	370
15.	Punjab	1989-90 onwards	76
16.	Rajasthan	2001-02 onwards	80
17.	Tamil Nadu	1997-98 onwards	123
18.	Uttar Pradesh	1984-85 onwards	616
19.	West Bengal	1992-93 onwards	73

## ANNEX-IV TO SECTION 'C'

Pendency in discussion of Audit Reports by the PACs of the States (Commercial Reports) as on 30 September 2006

Sl. No.	Name of the State	Year from which pending	Position of total paras including reviews pending for discussion
1.	Andhra Pradesh	1992-93	120
2.	Assam	1989-90	120
3.	Bihar	1981-82	289
4.	Gujarat	2002-03	70
5.	Haryana	2002-03	47
6.	Karnataka	2000-01	46
7.	Kerala	1999-2000	68
8.	Madhya Pradesh	2002-03	35
9.	Maharashtra	2001-02	70
10.	Orissa	1993-94	160
11.	Punjab	1997-98	94
12.	Rajasthan	1998-99	177
13.	Tamil Nadu	1995-96	198
14.	Uttar Pradesh	1991-92	363
15.	West Bengal	2000-01	37
16.	Arunachal Pradesh	1987-88	33
17.	Chhattisgarh	2001-02	18
18.	Delhi	2004-05	12
19.	Goa	1998-99	11
20.	Himachal Pradesh	1999-2000	72
21.	Jammu & Kashmir	1990-91	35
22.	Jharkhand	1993-94	24
23.	Manipur	1995-96	28
24.	Meghalaya	1980-81	88
25.	Mizoram	1989-90	33
26.	Nagaland	2004-05	2
27.	Pondicherry	2003-04	1
28.	Sikkim	2004-05	3
29.	Tripura	1997-98	2
30.	Uttaranchal	1999-2000	27
	Grand Total		2383

## NOTES: CHAPTER-5

<sup>1</sup> This Chapter deals with C&AG's Audit Reports (Civil); however, wherever the context demands, reference to developments common to Audit Reports of other streams are also included.

<sup>2</sup> Statement made by the Comptroller and Auditor General of India at the Meeting of the Public Accounts Committee held on the 22 May, 1951 re: the procedure followed for the preparation and submission of Audit Reports to Parliament.

<sup>3</sup> C&AG Report for the year ended March 1994, Union Government (Scientific Departments)

<sup>4</sup> Paragraph 7.5 of Audit Report for the year ended March 1992, Union Government (Civil) 1 of 1993

<sup>5</sup> C&AG's Report Union Government-Civil No. 1 of 1993 Paragraph 7.1

<sup>6</sup> The main architect of this Report was AK Mitra, the then ADAI, as per the incumbent DGACR B.M. Oza.

<sup>7</sup> Report of the C&AG for the year ended March 1992-No. 14 of 1993

<sup>8</sup> Detailed accounts of Audit Review is in Chapter-15

<sup>9</sup> Food Security & Nutritional Supports Brochure of December 2000

<sup>10</sup> Food Security & Nutritional Support (December 2000). A short paper brought out by C&AG of India containing major findings of the four performance audits reported in Audit Report No. 3 of 2000.

<sup>11</sup> D.O. No. 56-C&AG/2004/RS dated 30 June, 2004 to Shri P. Chidambaram, Finance Minister.

<sup>12</sup> Member of Parliament Local Area Development Scheme

<sup>13</sup> The Committee was headed by Shri Dharam Vir.

<sup>14</sup> Niranjana Pant

<sup>15</sup> The Audit Report on the Accounts of Delhi is processed in the Report Central Wing under ADAI (Report Central)

<sup>16</sup> D.O. letter dated 16 October, 1990 from M.V. Ramakrishnan, ADAI (Report States) to all State Accountants General.

<sup>17</sup> M.V. Ramakrishnan

<sup>18</sup> The detailed methodology running into several pages was drafted by Shri P.K. Mukhopadhyay then AG (Audit)-II, Bihar.

<sup>19</sup> Bihar & Jharkhand, Gujarat, Haryana, Himachal Pradesh, MP & Chhattisgarh, Maharashtra, Manipur, Arunachal Pradesh & Tripura, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh & Uttarakhand, West Bengal

<sup>20</sup> Report of the C&AG of India for the year ended March 1999 – Ganga Action Plan, Union Government (Scientific Departments) No.5A of 2000.

<sup>21</sup> Report of the Comptroller and Auditor General of India for the year ended March 2000 Union Government (Civil) Performance Appraisals No. 3B of 2001

<sup>22</sup> Status of acceptance of the five major recommendations from the three new States (Chhattisgarh, Jharkhand and Uttarakhand) is still awaited from the respective Government/PAC.

<sup>23</sup> This represents the position in 2005, as brought out by P.K. Mukhopadhyay in his Paper on "Pending Audit Reports and Shakti Committee Report" presented in the Seminar on "Legislature and Audit Interface" held in July 2005.

<sup>24</sup> A.K. Chanda, Indian Administration, Page 170-171.

<sup>25</sup> Shri Shakti was Secretary General, Lok Sabha and subsequently Chief Election Commissioner. He is also the author of famous treatise on "Parliamentary Procedure and Systems"

<sup>26</sup> A.K. Chanda's article "Public Accounts Committee-An Admirable Institution" in Golden Jubilee Souvenir 1921-1971 Public Accounts Committee (Parliament of India)

<sup>27</sup> Seminar "Legislature and Audit Interface for Enforcing and Strengthening Accountability Mechanism" held at iCISA on 22 July, 2005 presentation by P.K. Mukhopadhyay, DG, NAAA, Shimla on "Pending Audit Reports & Shakhder Committee Report" .

<sup>28</sup> Government of India Ministry of Finance Department of Expenditure, Monitoring Cell O.M No. 1/105/95-MC(Pt) dated 6 September 1995 addressed to Financial Advisors/ all the ministries /Departments/ PAC.

## LIST OF KEY EVENTS—SECTION 'A'

November 1996/ April 1997	It was decided to bring out a Brochure containing gist of all Central Audit Reports.
December 1996	Decision to bring out a separate volume of Audit Report on Appropriation and Finance Account (Civil).
31 March 1997	Instructions regarding drafting, mortality, reporting style, drafting of overviews, etc. issued.
25 January 1999	Uniform format of Audit Report prescribed.
25 June 2001	C&AG allocated duties of Principal Director and Adviser (Reports—Central and States).
2003	Style guide issued. This was revised in 2005.
29 August 2003	Cabinet Secretary informed C&AG about inclusion of findings in C&AG's Reports in the Annual Reports of Ministries/ Departments.
May 2007	ADAI (RC) took up the differences between the figures of fiscal deficit computed from the data in Finance Account and as per Budget at a Glance with Secretary to Government of India Ministry of Finance Department of Expenditure.
19 May 2006	Threshold money value of DPs for Transaction Audit reports fixed at Rs. 20 lakh (Rs. 10 lakh for Delhi Report).

## DOCUMENTS

## 1

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

I have noticed in the Hindustan Times (Dak Edition) of the 13th May, 1951 that there was a debate in Parliament on Saturday, the 12th May, on the question of my visit abroad, my audit reports and whether those reports were available, and so on and so forth. There was further a specific question whether the Comptroller and Auditor General after presenting the Audit Report to Government had subsequently edited it, that is, deleted certain portions or qualified his Statements in some respects or added something to it for presentation to Parliament.

\*\*\*\*\*

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

As to the process of preparing the Audit Reports, all the materials are collected by the Audit Officer concerned. The Draft Paras contain allegations of things that have happened or have been discovered in the course of the Audit. It is only right and fair to the Audit Department as well as to the administration

that the facts Stated therein should be verified. These Drafts are not Audit Reports under Article 151 of the Constitution at this stage. These drafts are sent to the Departments for their comments on the facts Stated therein. If they say that they do not accept, the facts, arguments ensue between the Audit, on the one hand, and the administration on the other. If they say that the facts stated are not correct, we ask them what the correct facts are. Then, they say that the facts are such and such. Evidence has to be produced by the administration in support of their Statements being correct. If adequate evidence is produced to justify a correction in the Draft Paras, they have to be amended because the Audit Report must be a faithful Statement of facts. It is prepared without fear or favour without any affection or ill-will. \*\*\*\*Therefore, we give every opportunity to the authorities concerned to contradict our Statement of facts and produce the requisite evidence in support of their case. After having done all this, the report is finalised. Until this stage is completed, the Paras are only drafts or provisional Statements without any authority.

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

when a final verdict has been reached on any particular matter and it is considered by me necessary to incorporate it in the Report submitted to Parliament that it is included. Correspondence cannot be treated as reports. Likewise, Draft Reports which are sent to the various authorities for vetting the facts are also obviously not reports under the Constitution. They become reports only after they are finalised in the light of the fully ascertained facts and are finally approved by me for submission to the President and the Parliament. It is most unfair to suggest that either the Government suppresses any of my reports, which they cannot and which I will not permit them to do if I am asked to suppress any such report, there will be trouble; I shall report that to you if I am true to the Constitution. Once a formal report has been made under Article 151(1), it has to be submitted to Parliament and if any amendment is made by me subsequently, that amendment will also have to be treated in the same formal manner. Normally, no such occasion has arisen except in the case of routine amendments of any inaccuracies in figures. Some figures might have been printed wrongly.

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

(Authority: Annexure II of Appendix L to Public Accounts Committee's  
First Report 1951-52)

Sub: Allotment of number to Audit Reports of Comptroller and Auditor General of India for the year ended 31 March 1996—Union Government

It has been decided to bring out a separate volume of Audit Report on Appropriation and Finance Account (Civil) with a brief overview of others such as Defence, Posts and Telecommunications and Railways. It has also been decided to bring out Audit Report on Indirect Taxes in two volumes; one for Customs and another for Central Excise.

In the light of the above, serial numbers for Audit Report(s) of 1997—Union Government will be as indicated overleaf.

Sd/-  
(A.K. Thakur)  
Pr. Director (RC)

#### CENTRAL AUDIT REPORTS—1997

Union Government (Appropriation and Finance Account)	1 of 1997
Union Government (Civil) Volume 1	2 of 1997
Union Government (Civil) Volume 2	3 of 1997
Union Government (Other Autonomous Bodies)	4 of 1997
Union Government (Scientific Departments)	5 of 1997
Union Government (Posts & Telecommunications)	6 of 1997
Union Government—Defence (Army and Ordnance Factories)	7 of 1997
Union Government—Defence (Air Force and Navy)	8 of 1997
Union Government ( Railways)	9 of 1997
Union Government—Indirect Taxes (Customs)	10 of 1997
Union Government—Indirect Taxes (Central Excise)	11 of 1997
Union Government (Direct Taxes)	12 of 1997

Copy of Pr. Director (RC) letter No. 243/Rep(C)/19-97 dated 04 April 1997

Sub.: Brochure on important audit findings of Central Audit Reports

Sir,

One of recommendations of the conference of Accountants General held in November 1996, as approved by C&AG, was to bring out a brochure containing the gist of all Central Audit Reports in about 40 pages. Now that C&AG has

approved the Audit Reports, we have to take action to prepare the brochure urgently.

#### Size of the brochure

The brochure is to be brought out in A-4 size. The text of the brochure shall be in font 'Times New Roman', size: 12, with headings/ title in font size 13 (bold) and line spacing 1.2. You are requested to send the Draft material relating to Audit Report No.9 (Railways) within four pages by the target date fixed for sending the draft material along with 3½ floppy.

#### Contents

The material should consist of:

- (i) Brief introduction to the Report and coverage—number of appraisals with names of schemes/ projects and transaction audit paragraphs.
- (ii) Size of the canvass covered in the Audit Report (ministries/ Departments, budget/ expenditure revenue, etc.)
- (iii) Salient features of audit findings of the performance reviews/ appraisals.
- (iv) Highlights of relatively more important Paragraphs.
- (v) Response of the Government to Draft Paragraphs and Draft Reviews sent to them.
- (vi) Money value of audit observations included in the Reports under:
  - (a) Embezzlement/ mis-appropriation, loss, waste, misuse, diversion of funds, infructuous expenditure etc.
  - (b) Poor/ insufficient/ value for money.
  - (c) Idle investment
  - (d) Short assessment/ levy/ collection
  - (e) others

#### Targets dates

Receipt of Draft material	10 April 1997
Processing of the material	15 April 1997
Approval of C&AG	21 April 1997
Printing	30 April 1997

#### Graphs/ Charts etc.

You are requested to use coloured graphs/ charts within the text to improve the presentation even where such graphs, etc. have not been used in the original report.

Yours faithfully,  
Sd/-  
(A.K. Thakur)  
Pr. Director (RC)

Copy of Pr. Director (RC) D.O. No. Rep(C)/38-97 dated 31 March 1997

A.K. Thakur  
Pr. Director (RC)

While extending my sincere thanks for your cooperation in finalization of Audit Report for 1995-96, I solicit your indulgence in planning the entire drill of preparation; processing and finalization of the Audit Report for 1996-97. The planning has to aim at achieving the following goals:

- (i) C&AG has desired that we should advance the finalization of the Audit Reports with a view to presenting all of them during the budget session of February-March. This would mean that the last bond copy should be finally approved by C&AG by the end of January 1998 (for the Reports of 1996-97).
- (ii) Since Reports (Central) Section of this office has to process eight volumes of the Report, unless the finalization of different sections of the Reports and pre-bond/ bond copies of the Reports are staggered, it will be impossible to achieve the targets without compromising the quality in terms of accuracy/ correctness, logic, focus and precision. Besides, bunching also causes avoidable personal stress on all of us who are responsible for finalization of the Audit Reports. Therefore, bunching of any form has to be avoided. To accomplish the objective of presenting the Audit Reports in February as per the orders of the C&AG, the dates set for each stage as under have to be followed without exception.

1 <sup>st</sup> Journey (Draft Paragraphs)		30 June 1997 in batches of 5 every week commencing from <b>now</b>						
1 <sup>st</sup> Journey (Draft Reviews without KDs) for discussion with ADAI/ PD		31 July 1997						
All India Reviews (Centrally Sponsored Schemes)		31 August 1997						
	Defence A&OF	P&T AF&N	S.D		Civil Vol.1	Vol.2	Vol.3	NCT Delhi
Pre-bond	30 Nov 97	30 Nov 97	15 Dec 97	15 Dec 97	15 Jan 98	15 Dec 97	31 Dec 97	15 Nov 97
Bond	15 Dec 97	15 Dec 97	05 Jan 98	31 Dec 97	31 Jan 98	31 Dec 97	15 Jan 98	05 Dec 97

- (iii) Due to late receipt and bunching of materials for the Audit Report for 1995-96, many issues viz. replies to observations of ADAI, revision of the Draft Paragraphs/ Reviews were not settled even at the stage of pre-bond copies and in some cases even until the stage of bond copies. The tight schedule for the ensuring Report will

necessitate that any issues which are not settled until the scheduled date of pre-bond copies, will not be included in the Audit Report. We would expect the second journey DPs within three weeks of dispatch of ADAI's observations on the first journey. It would be our endeavour to complete the processing of Draft Paragraphs and approve them finally by September 1997, so that adequate time is available for examination of Reviews.

### *Drafting*

2. During the last two years, complete revision/ re-writing of Draft Paragraphs/ Reviews was necessitated in many cases from some offices. The system and organizational set-up in the headquarters office is not designed for this. As such, it puts tremendous strain on us, besides delay in finalization of the Audit Reports. With your cooperation, we should be able to avoid such situation for the next and subsequent Audit Reports.

### *Mortality of DPs*

3. We receive large number of Draft Paragraphs and some times Draft Reviews, which are not found fit enough to be included in the Audit Report either due to incomplete/ insufficient scrutiny/ evidence or on account of considerations of materiality and relevance (timeliness). I am sure, you would kindly agree that while mortality of the Draft Paragraphs cannot be avoided altogether, it is desirable to keep it to the minimum, since materials which do not find place in the Audit Report due to any shortcomings in them, generate all round redundant work of typing, processing, photocopying and correspondence. We should be content with lower number of rather good Draft Paragraphs/ Reviews. I will request your kind cooperation to see that weak Draft Paragraphs/ Reviews are stopped at your end itself. As a rule, any DP having money value of less than Rs.10 lakh (Rs.3 lakh for NCT of Delhi) other than cases of misappropriation and embezzlement and transactions which pertain to a period prior to 1993-94 will not be considered for inclusion in the Audit Report(s) of 1998.

For the sake of record I indicate below the number of DPs/ Reviews sent by your office and actual number of Draft Paragraphs / Reviews which appeared in the Audit Report.

Drafts Received in Hqrs. Office		Number which finally appeared in the Audit Report	
Draft Paragraphs	Draft Reviews	Draft Paragraphs	Drafts Reviews

### *Reporting style*

4. C&AG has desired that our observations need to be more focused and should bring out the specific failure of the individual officer/ functionary leading to loss, fraud, embezzlement, waste, impropriety, inefficiency,

poor value for money etc. unambiguously. In the light of this, the following points will have to be kept in view:

- (i) The drafting should be “accountability centered” rather than indirect. Instead of CPWD, the Department etc., we should use “executive Engineer, CPWD, AAA Division”, “Chief Engineer, CPWD, NZ, Delhi”, Director General, Doordarshan”, etc. While generally names of officers are not indicated, in cases of clear fault of any officer convincingly established by Audit, particularly when the misconduct results in benefit to himself the name of the particular officer(s) may also be mentioned which will be cleared by ADAI at his discretion depending upon the seriousness of the observation and sufficiency of evidence. In the KDs, the names of the officers included in the Draft Paragraphs/ Reviews should invariably be indicated so that there is an option to indicate their names at any stage.
  - (ii) Accountability/ Responsibility—centered reporting would also mean that, as a rule, we use ‘*third person, active voice*’ in all Draft Paragraphs/ Reviews viz. ‘Executive Engineer, CPWD, AA Division did not exercise the following controls’ or ‘Director General, Doordarshan unauthorisedly granted excess FCT’ etc. This, no doubt, enjoins upon Audit a much more thorough examination of documents and in-depth analysis.
  - (iii) To be fair to the executive, this style of reporting would also warrant that we make special effort to issue such accountability—centered audit observation by name to the person concerned or his successor (where the particular persons who took the decision or failed to take any action resulting in, the audit observation, is transferred out) soliciting his/ his successors specific response/ reply to the audit observations.
5. While it is not possible to define the exact reporting style, the standards contained in our Auditing Standards provide an excellent guidance, with the addition of accountability—centered style with top boxed gist and left hand side gist for each para. The Audit Report No.6 of 1997 may be taken as model for style and format including the date format. Needless to mention, any improvement over this is always welcome. Should you have any suggestions kindly share them with us, so that these are forwarded to other offices also.

*Boxed top gist and left hand margin gist*

6. Your endorsement of the idea to include the gist of the paragraphs at the top in a box and left hand side marginal gist of each sub-paragraph in longer DPs and Reviews is indeed encouraging. Last year, we could include left marginal gist only in the Post and Telecom Report. From this year, you may kindly include them uniformly right from the first draft stage. In addition to increasing readability, it also provides an in-built quality assurance, since it will not be possible to write a good gist

unless the Paragraph or the sub-paragraph contains material of substance. The paragraph gist at the top should be drafted as complete sentence and should not be more than four lines in size. The margin gist should also, as far as possible, be complete sentences and yet should be as brief as possible (within four five lines of the margin).

### *Constructive Reporting*

7. Last year, it was decided that we should include well thought out recommendation in the Draft Paragraph/ Reviews. Not many DPs, however, contained recommendation. In many cases, Audit observations without recommendation lack conviction and does not conform to the Standard of constructive audit. The recommendation where desirable no doubt, should be forwarded to the head of the office/ unit or the controlling office and his acceptance/ comments should be obtained. Normally, there should be no occasion for the Departmental officers not to agree to a constructive suggestion. Yet, where in rare cases, the Departmental officers are unable to accept the recommendation of Audit and we still feel that the recommendation can/ should be acceptable to the Department, the Department's view should be included before stressing why we are of the opinion that the suggestion needs consideration, notwithstanding the reservations expressed by the executive. No doubt, the observation containing the recommendation and the specific reply of the executive/ management must be included as evidence (KD).

### *Format of reporting*

8. The format of Audit Report will be as under:

Word Processing software	Word 6 or Winword 6
Font	Times New Roman (uniformly for all sections)

#### **Font Size**

Text of the Report	12
Top gist* (boxed)	13 (bold)
Side gist (let of each para)	10 (bold)

*\*No side gist in every small paragraphs will be necessary, since the boxed top gist of the Draft Paragraph itself should be adequate*

Highlights	12 (bold)
Title of the Paragraphs	14
Overview	12
Title of the paras in the overview	13
Index	12
Prefatory remarks	12

**Spacing**

Line spacing (text – throughout, except the margin gist)	1.3
Line spacing (margin gist)	1.2
Separation/ space between the title of a DP and boxed gist and between boxed gist and the text	1 space
Separation/ space at the end of each paragraph before the title of the next paragraph	2/ 3
Line spacing above and below each sub-paragraph in views etc. where the sub-paragraph is given a sub-paragraph title	1

---

Presently we are not including graphs/ charts in the Draft Paragraph/ Reviews. It will be a good practice to include graphs/ charts in the format for first and second journeys' Draft Paragraph/ Reviews in as many cases as possible to improve their visual presentation.

9. However, this format will be used in the pre-bond, bond and printed copies only. For individual Draft Paragraphs/ Reviews for their first and second journeys, while the font size and characteristics will remain the same as indicated in the preceding paragraph, these must be sent in double space and 1/3<sup>rd</sup> margin (excluding the right hand 0.5 inch margin) in which the left hand margin will be left clear and the KDs will be marked within the body of the text. In the past, there were many cases, where the Draft Paragraphs/Reviews were not sent in clear half margin, making it difficult for us to write ADAI's observations /modifications. In order to ensure that all of us follow the format for the draft uniformly, any draft which is sent in any different format will have to be sent back to the respective offices.

*Information in ATN Format*

10. With a view to avoiding redundant /superficial ATNs on the Paragraphs and Reviews, compelling the ministries to identify the deficiencies and shortcomings and furnish specific remedial action(s), last year we were able to convince the PAC to prescribe a new format of the Action Taken Note. Since mostly the officers who finalize the Paragraphs and Reviews are transferred out or a different set of officers vet the ATNs, it was prescribed by ADAI that every Draft Paragraphs and Draft Review should carry a separate sheet containing all Audit findings in the format prescribed by Public Accounts Committee (circulated vide this office UO No. 856-861 dated 05 October 1995). This, on one hand would ensure that identification of the deficiencies/shortcomings included in the Paragraphs is not left to the interpretation of the ministries but we point out the Audit observations knowingly or unknowingly not included by them in their ATNs, on the other, would provide an in-built quality assurance mechanism in processing of DPs/Reviews. Unfortunately, in most cases, either this instruction to enclose the Audit findings in the new ATN format with the DPs was ignored by many officers or were

not clearly understood in as much as against “failure of the system or individual “ a simple “yes” was indicated rather than specifically indicating the failures/ shortcomings. It is reiterated that DPs/ Reviews must accompany a separate sheet(s) identifying the failures/ shortcomings (serially numbered as 1,2,3 etc., where applicable) distinctly under each sub section outlined in the format.

#### *First Draft of Reviews*

11. As usual the first Draft of the Reviews would be discussed by the ADAI/ PD with the DGA/PDA (other than Reviews sent by PDA(C ) Bombay and Calcutta and PDA (OF)). KDs for the first Draft of reviews to be discussed with ADAI/PD (RC) need not be enclosed. The purpose of discussion of the first Draft is to ensure that Draft Reviews are forwarded to the ministries in the shape in which these are likely to be approved by the ADAI and we ask for their response to the focused audit observations found sustainable and substantive by the ADAI. If, however, in cases where the discussion is delayed for some reason, you may please issue them to the ministries for their replies so that mandatory six weeks time for reply is available to them.

#### *Reviews to be drafted in a thematic style*

12. ADAI has observed that in many cases while we write long Drafts of the Reviews, some of them contain sporadic audit observations which do not lead to an overall assessment of the scheme/project as a whole. Similarly, the audit observations on different components/ items of the schemes /project also do not lead to a conclusion about administration/ implementation of that particular component. It is reiterated that the Reviews must be thematic and modular to enable a reader form an opinion about design, execution, achievement of stated objectives and value for money realized from the scheme/project. The size of the overall population, the sample selected in audit and relationship of the sample to the total population to extend the conclusions derived from the sample to the entire scheme/ project with reasonable degree of confidence should be clearly indicated /defined. All Reviews should have an annexure containing the details of the sample selected for testing. Similarly, the highlights should not be a mere reproduction of sporadic observations included in the text of the review, but should provide an overall conclusion/impression based on the sample check indicated in the Review. If a comprehensive review does not contain an evidence—backed impression/judgment on the design, implementation, extent of achievement of Stated objectives and value for money, it may not be considered fit to be included in the Audit Report. Separate volume for each Review. 13. In the Audit Report (Civil) of 1997, comments on accounts have been included in No. 1, all transaction audit paragraphs and local reviews/ mini reviews have been included in No. 2 and five Reviews on Centrally Sponsored Schemes have been included in no. 3,

with the idea of ultimately presenting the Reviews on major subjects in separate volume as 3A, 3B, 3C etc. This would mean that the Reviews will have to be really comprehensive and thorough to deserve presentation as stand alone. As and when we are able to achieve this, the annuity of their presentation in the budget session itself may also be abandoned in favour of a well defined target of their presentation during any session of the Parliament throughout the year.

### *Top Sheet*

14. Draft Paragraphs/Reviews sent to this office should carry a top sheet in the following format:
  1. Subject /Title of the DP
  2. Money Value
  3. Name of the Ministry
  4. Name of the Department
  5. Report in which proposed to be included
- 5A. Date on which forwarded to the Secretary of the Ministry
6. total no of KDs enclosed with the DP
7. Check list of enclosures (each to be indicated with a tick mark)
  - (i) KDs
  - (ii) Calculation sheet(s)
  - (iii) Audit conclusions in ATN format
  - (iv) chronology of events
  - (v) Draft overview
8. Additional LDs ( serially numbered after the last KD sent with the first journey)
9. Date (s) of reminders for reply of the Ministry
10. Date of receipt of reply from the Ministry.

### *Forwarding to the Ministry and their reply*

15. Except in cases where the first Draft of the Review is not sent to the Ministry and in special circumstances obtaining in respect of Departments of Atomic Energy and Space, all DPs and Draft Reviews may be sent to this office through endorsement of the forwarding letter to the Ministry. It will be possible to incorporate replies received only up to 15 days before the target date for pre-bond copies. Except in cases where the reply throws up an error of judgment, fact or understanding in drawing up audit conclusions, all replies received after this date will have to be ignored to enable us to follow the time schedule. Since we are putting special emphasis on ensuring that the ministries send replies to all Draft Paragraphs/Reviews and the status of their response is indicated in the Prefatory Remarks itself, it would be incumbent upon us to monitor issue of Drafts to the ministries and receipt of replies carefully. Offices, which are contributing the DPs and Reviews printed by some other office may please send a status (summary as well as para-wise detail) of the reply

to the approved DPs/Reviews as on the crucial date/month decided with reference to the target date of the pre—bond copy of the coordinating office through fax to enable that office to include the position in the Prefatory Remarks.

#### *Draft overview*

16. Writing of the overview after the finalization of the Report consumes lot of time and contributes to delay. It will, therefore, be desirable to get the Draft Overview approved during the second journey of the Paragraphs /Reviews. While there can be no straight-jacket for drafting of overviews, it should be direct, brief yet self contained and above all should be interesting to a reader. Besides, it should not be a repetition of the top boxed gist of the DPs. Technical jargons, decimals and too much of figures make the overview complex and clumsy. The overview contained in the Audit Reports No. 6 of 1997 (P&T) and No. 2 of 1997 (Civil) may serve as example. Improvements upon this is always welcome. Those offices which contribute the material for the Audit Reports printed by some other office (DGACR for Civil Reports and DGADS for Army and Ordnance Factory Report) may send the floppy of the approved Draft overview also along with the approved DP/Review in addition to the hard copy to obviate the need for entering them all over again.

#### *Discussion with Ministry*

17. In cases of all Reviews and important Draft Paragraphs we should specifically request a discussion with the Secretary of the Ministry or with an officer not below the rank of a Joint Secretary and in fact insist on one. In all cases where the officers of the Ministry discuss with us within the time as we can afford to wait, a record of discussion may be drawn and a copy forwarded officially to the Secretary or the officer attending the meeting with a copy to the Secretary of the Ministry. DPs and more particularly Draft Reviews which are discussed formally with the Ministry will be given preference in approval by the ADAI.

#### *Forwarding of the final copy of the Audit Report to the Ministries*

18. Instances have come to notice where the copies of the Audit Reports were not forwarded immediately to the Ministries after these were laid on the table of the House. In some cases we have received requests for copies of Audit Report after the newspapers carried the stories from Audit Reports upon their being laid on the table of the House. While the ministries had not received copies. It would be a good practice to be in readiness to send copies to the Secretaries of all concerned ministries/ Departments and their FAs, on the same day when the Audit Reports are placed on the table of the House.

5

Copy of Principal Director (RC) UO. No./11-Rep (C)/Money Value /8-2005 dated 19 May 2006 addressed to Field offices dealing with Central Reports and AG (Audit), Delhi

Sub: Money threshold of the DPs for inclusion in the Audit Reports of 2007 and onwards

The threshold money value of the DPs for inclusion in the Transaction Audit Reports of 2007 (2006-07) and onwards has been fixed as Rs. 20 lakh (Rs. 10 lakh for Delhi Report) other than cases of fraud and misappropriation detected by Audit where DPs with lower money value will also be considered.

Sd/-  
(P. Sesh Kumar)  
Pr. Director (RC)

6

Copy of B. K. Chattopadhyay ADAI (RC) D.O. No. 343/61-Rep(c) /Vol. II/ 2006 dated 3 May 2007 addressed to Dr. Sanjiv Misra, Secretary to the Government of India, Ministry of Finance, Department of Expenditure, North Block, New Delhi

Dear Dr. Misra,

While analyzing the trends on key fiscal parameters, we have observed that figures of revenue and fiscal deficits as depicted in the Budget at a glance differ from those derived from the Annual Financial Statements (AFS) placed before Parliament. For instance, as per receipt and expenditure figures (actual) appearing in Annual Financial Statements, the revenue and fiscal deficits for the year 2005-06 worked out to be Rs. 109,697 crore and Rs. 164,927 crore respectively. The deficit figures derived from the audited Finance Account of the Union Government agree with the Annual Financial Statements. However, Budget at a Glance report the deficits at Rs. 92,299 crore and Rs. 146,435 crore respectively. Such differences were also noticed in previous years and the matter was taken up demi-officially with the Joint Secretary (Budget) on 8 June 2006 (copy enclosed). The Government response on the matter is awaited.

Our analysis shows that the difference between the figures of deficits as reported in Budget at a Glance and those derived based on AFS arise mainly due to inclusion/exclusion of some transactions on revenue and expenditure side such as securities issued to Oil companies, RBI, IMF, IDBI etc. and redemption of securities issued to NSSF. A reconciliation Statement for the last five years prepared by us is suggested and enclosed for your information. As FRBM Act 2003 emphasizes need for greater transparency in fiscal operations of the Central Government, I shall be grateful if the rationale behind according different treatment to these transactions in Budget at a Glance and the Annual Financial Statement and Finance Account of the Union is clarified

by the Government and necessary disclosures made in the Budget at a Glance to ensure better fiscal transparency as required in the Act.

We have also observed that the figure of Subsidy (actuals) reported in the Expenditure Budget Vol. I (Annexure 3.1) for a particular has been changed in the subsequent year. For example, in the Budget of 2006–07, the actual expenditure on Food subsidy for the year 2004–05 was reported as Rs. 23,280 crore which has been subsequently revised to Rs. 25,798 crore in the Budget of 2007–08. Similar variations in actuals of Food and Petroleum subsidies are noticed for the year 2003–04 in the Expenditure Budget. The figures of expenditure once declared actual should not normally be changed in subsequent years. This anomalous situation arises due to non adoption of certified Finance Account figures in the Budget of the relevant years though such figures of actual expenditure are available with the CGA and concerned ministries much before the presentation of the Budget. You may kindly investigate and issue necessary instructions as deemed fit for consistent reporting of subsidy figures in the Budget documents of the Government.

With Regards

Yours sincerely  
Sd/-  
(B.K. Chattopadhyay)  
ADAI (RC)

## LIST OF KEY EVENTS-SECTION 'B'

4 August 1988	Functional Wings in Headquarters and all AG (Audit) etc were informed by Director (Reports) that a copy each of Finance and Appropriation Accounts should be sent along with Audit Report for transmission to Secretary to Governor of State since Accounts are to be submitted alongwith Reports.
16 October 1990	A paper approved by C&AG on the qualitative aspects of State Civil Audit Reports was circulated to field offices.
13 May 1997	Report State Wing issued a write up on the methodology and scope of Integrated Audit.
September 1998	Instructions on planning and selection of topics of State Audit Report (Civil) issued.
4 September 1999	C&AG wrote a DO to Deputy Chairman Planning Commission bringing out results of review of State Plan Expenditure of 14 major States.
31 October 1998	It was decided to include a section on "Indicators of the Financial performance of the State Governments" in Audit Report (Civil). Parameters and indices to be used in financial performance were identified.
February 1999	Headquarters issued a circular delinking the presentation of Finance Account/Appropriation Accounts from Civil Audit Report from 1997-98 and modifying the existing certificate in printed Accounts.
30 August 1999	Report State Wing issued instructions regarding audit of expenditure on foreign travel being conducted since 1997-98.
9 August 2000	It was decided to prepare a regional language version of State Audit Reports to facilitate wider dissemination and easy comprehension.
21 October 2002	C&AG's D.O. to Deputy Chairman Planning Commission conveying results of an analysis of resource flows from Government of India to States and their plan expenditure during the IX Five Years Plan suggesting, interalia that Planning Commission accords higher weightage to States' contribution to financing of their plan while deciding their plan size.
1 September 2003	Headquarters issued instructions regarding review of internal control mechanism and internal Audit

	arrangement of Government Departments for inclusion in Audit Report (Civil).
May 2004	C&AG suggested to Chief Ministers of States that an institutional arrangement should be put in place wherein Chief Secretary and concerned administrative Secretaries discuss the major issues raised in the Audit Reports with Pr. AsG/AsG before inclusion in Audit Reports.
4 October 2005	To ensure timely printing of Audit Reports, it was decided that arrangement for getting the printing done from private press if felt necessary, may be made in advance.
7 April 2006	Instructions of the C&AG on some issues involving questions of principle related to Audit Reports.
19 September 2006	Revised format/template of Chapter I and 'Explanatory Notes' were prescribed.

No. 61-C&AG/1998 dated : 04.09.1998 from CAG V.K. Shunglu to Jaswant Singh, Deputy Chairman Planning Commission

Dear Deputy Chairman,

Enclosed with this letter is a Statement of Resource Flows from GOI to the States and State Plan Expenditure plus Expenditure on CS&CSS for 14 major States during the VIIIth Plan period. It is possible to draw the following conclusions from Audit reports on State Finances and this Statement.

- (i) Approved State Plans and Revised States Plans were far too ambitious. In the event, the actual expenditures were well below the revised plans.
- (ii) State contribution to resources for financing the State Plans in most cases was modest/negligible. The plans were largely financed by Central Assistance, Market borrowings plus resources transferred for Central Sector Schemes and Centrally Sponsored Schemes.
- (iii) Some States financed more than 100% expenditure from Government of India funds and diverted substantial amounts to Non- Plan Expenditure. One State built a cash balance (held as Treasury bills) of Rs. 1100 crores at the end of the Plan period, producing the rather piquant situation of Government of India borrowing funds from RBI, giving it to the State, which in turn provided funds to RBI to invest Government of India Treasury bills.
- (iv) There has been considerable diversion of funds from Centrally Sponsored Schemes and Central Sector Schemes. States' contribution to Centrally Sponsored Schemes has been negligible.
- (v) The size of the Plan was beyond the States' capacity to implement. Our reports contain enough material on systematic transfer of funds from the Consolidated Fund to the Public Account because expenditure rates were much slower than transfer of resources.
- (vi) These transfers have occurred in the main with regard to Social Sector. There is enough evidence in the State Reports of transfer of funds to Public Account, Savings and, in many cases, diversion of funds to other sectors. In other words, outlays on Social Sector were beyond the implementation capacity of the State Governments.
- (vii) Given the difficult situation of Union finances, the large fiscal deficit and the considerable inflationary pressures it is moot whether the present policy of generous transfers to the States should continue.
- (viii) Public Investment no longer has the ability to remain the engine of growth. Pay Commission obligation is virtually the last straw.
- (ix) As the country moves towards the next Plan and the Commission undertakes exercises to prepare the Plan some of these issues would require consideration before adopting the age old approach of the bigger the better.

A copy of this letter is being sent to Finance Minister.

## Rs. IN CRORE

Name of State	GOI Assistance for			State Plan		Actual Expenditure on		
	State Plan	CSS+CS	Total	Approved	Revised	State Plan	CSS+CS	Total
Andhra Pradesh	8,431	3,074	11,505	11,789	10,757			14,240
Bihar	6,765	2,522	9,089	11,569	5,377	4,683	2,310	6,993
Gujarat	3,505	2,172	5,677	12,240	12,004			9,938
Haryana	1,665	761	2,426	5,460	5,257			4,385
Karnataka	3,729	2,516	6,245	16,150	14,540			13,303
Kerala	3,674	1,216	4,890	6,926	6,792			6,347
Madhya Pradesh	5,407	3,647	9,054	13,594	11,505			13,715
Maharashtra	7,730	2,801	10,531	25,555	25,431			24,172
Orissa	4,885	1,673	6,558			6,403	1,726	8,129
Punjab	3,832	790	4,622	7,732	6,123	4,100	842	4,942
Rajasthan	5,379	2,965	8,344	12,064	12,074	8,820	3,509	12,329
Tamil Nadu	6,578	2,021	8,599	13,521	13,537			11,648
Uttar Pradesh	15,629	6,509	22,138	25,026	27,140			18,759
West Bengal	5,818	4,475	10,293	8,428	8,815			8,645

1. Statement has been prepared from Audited Finance Account of State Governments.
2. It reflects State Plan Expenditure contained in State Accounts.
3. In certain States expenditure on State Plan and Central Schemes is not separately reflected.
4. Government of India Assistance is the sum total of Central Assistance and Market Borrowings.
5. Approved and Revised State Plan figures are from the Planning Commission.

No. 1077 Rep (S)/143-98

Dated: 17.09.1998

To

All Pr. Accountants General (Audit)  
All Accountants General (Audit)  
(As per mailing list)

Sub: Planning and selection of topics of State Audit Report (Civil) 1998-99.

Sir/Madam,

While reviewing the existing practice in the selection of topics of reviews for the Audit Reports (Civil) for the States recently it was noticed that the topics selected by the field offices constitute about 25 percent of the total number of reviews etc. in the Audit Report. It has been felt that this is not a very desirable trend and needs to be reversed. Essentially, these topics should predominantly be based on the field offices suggestions. For this purpose it is necessary that selection of topics for Reviews in the Audit Report except the All India Reviews and a few synoptic reviews proposed by the Report States Wing is done by the State Accountant General based on some systemic approach.

To achieve the objective set out above, planning and selection methodology for the Reviews has to be toned up and elaborate steps taken by the field offices for a meticulous examination of the activities of the government both in the non plan and in the plan (including Centrally Sponsored Scheme and Central Plan) areas.

The best results can only be achieved if the Accountant General has a fairly good idea of the total expenditure trends of State Government and the progress on major plan schemes. It is presumed that some exercise is already being done. If not, it should be immediately taken up and on that basis, the topics for inclusion in the Audit Report 1998-99 may be suggested with detailed justification for selection of each topic of review and long draft paras.

While the field offices will have their own priorities in recommending the topics, the following overall criteria should always be kept in mind in selecting topics for the Reviews etc.

*(a) Criteria of materiality*

A thorough study of the Annual Budget documents and wherever applicable, annual administrative reports of the Departments and the annual plans for the departments of Government would help to ascertain the sectoral allocation of funds and those schemes where substantial funding have gone. Based on these sectoral allocation and the priorities of funding within each sector, Accountant General should be in a position to identify schemes/ projects/

activities of high priority and heavy expenditure and accordingly pick up the areas/topics for detailed audit study comments in the Audit Report.

*(b) Criteria of coverage*

Once the priority sectors and the schemes are identified for audit, Accountant General would also employ the criteria of coverage and identify such schemes, which cover expenditure over large number of districts. Such schemes may be accorded precedence in the matter of selection for the Audit Report. At the detailed planning stage, Accountant General should devise a suitable sample so as to give a balanced and unbiased picture of the achievements or failures of the schemes.

*(c) Criteria of impact on the life of people*

Schemes that have been framed to make a perceptible impact in the improvement of living standards of large segments of population should be a natural choices of audit review. In other words, schemes with beneficiary orientation, should as far as possible be given higher precedence.

The above criteria are only illustrative and Accountant General will be free to consider any other factors, material to the selection of topics. However, the idea is that the selection is basically done on the basis of the above noted criteria or/and any other criteria as may be found relevant for the selection and not on any adhoc manner or in a huff.

*4. Time schedule*

Adequate lead-time is a must for any worthwhile audit review. Therefore, the selection of topics should be completed by end of September and sent to us soon thereafter (preferably by the first week of October). The pilot study of the reviews should be completed by end of October and guidelines should be sent to us by mid November, at the latest. Soon thereafter, the audit teams should be sent out for field work on reviews and in next 4 months i.e., upto February end the entire field work should be completed and draft reviews should be sent to Headquarters by mid or end March. While conducting the reviews, the figures of accounts for 1997-98, which should be ready by October 1998, should also be considered.

5. Actual field work of the review should not wait for Headquarters reaction to the review guidelines. If there is any point to be considered additionally, it will be communicated to the Accountant General as quickly as possible from Headquarters.

Kindly send your proposal accordingly on terms of time schedule as per Para 4 above. Kindly acknowledge the receipt of this letter.

Yours faithfully,  
Sd/-

(P.K. Mukhopadhyay)  
Pr. Director (RS)

No. 1153 Rep (S)/15-98

Dated: 31.10.1998

To

All Accountants General  
(Except the North Eastern States,  
Himachal Pradesh, Jammu & Kashmir and Goa)

Sub: Indicators of Financial performance of the State Governments.

Sir/Madam,

It has been decided to include in the Chapter I of the Audit Reports (Civil) of the State Governments for the year ending 31<sup>st</sup> March 1998, a separate Section namely "Indicators of the financial performance of the State Governments". The enclosed note on this subject would indicate as to what would be the parameters and indices that are to be used in determining the financial health/performance of the State Government.

In finalizing your write up for this new section, most of the material will be available in Finance Accounts and is also being used in the existing Chapter -I write up. A few cases, where additional information will require to be collected by you are indicated below:

- (1) Balance of Current Revenue: Under this section, plan assistance grants should mean the assistance recorded under Minor head 02. Sub-heads 10-Block grants and 104-Grants under proviso to Article 275(1) of the Constitution under the Major Head 1601-Grants-in-aid from the Central Government.
- (2) State Domestic Product SDP: This figure should be obtained from the Government as is presently being done.
- (3) Capital borrowings would mean the loans included under the Major Head 6003-Internal Debt of the Government, and the figures under Major head 6004 Loans and advances from the Central Government excluding the Non-Plan Loans (Minor Head 01) and ways and means advance (Minor Head 06).
- (4) Guarantees: While the figures relating to guarantee given by the Government are already included in the Chapter-I, details relating to the letters of comforts given by the Government are to be collected from the Heads of Departments and the Finance Department.

Besides, the above a separate section on the 8<sup>th</sup> plan performance will be included in Chapter-III for which we are issuing a separate guideline.

Yours faithfully,

Sd/-

(P.K Mukhopadhyay)

Pr. Director (RS)

## 10

K.N. Khandelwal  
ADAI

No. 60-AC.I/SP. 11/96-98  
Dated 19.02.1999

Dear Shri

You are aware that presently the Finance and the Appropriation Accounts are presented to the State Legislature alongwith the Civil Audit Report(s). This has perhaps been because of delay in the compilation of accounts in the Accountant General office. With your efforts we have been able to close annual accounts for 1997-98 timely and as of today the Finance Account and the Appropriation Accounts for 1997-98 are already printed and are available for signatures of the Comptroller and Auditor General of India.

The presentation of the Finance Accounts and Appropriation Accounts at the earliest to the State Legislature without waiting for finalization of the Audit Report had been engaging attention of this office for some time. It has now been decided to delink the presentation of the Finance Accounts/ Appropriation Accounts to the Legislature from the Civil Audit Report from 1997-98. After the Comptroller and Auditor General of India signs the accounts, these can be sent.

With the transmission of accounts the Governor could be requested to arrange presentation of these accounts on convening of the Legislature in case it is not in session. A press note indicating that the Comptroller and Auditor General of India has transmitted the accounts to the Governor for presentation to the Legislature will be issued by the Accountant General (Audit). The form of the Press note is being circulated separately.

In the revised arrangement, the existing certificate of the Comptroller and Auditor General of India in the Finance Accounts and the Appropriation Accounts needed corresponding change. Accordingly the certificates have been slightly modified. A copy each of the modified certificate is sent herewith.

The existing certificate in the printed accounts for 1997-98 shall be replaced by the modified certificate before these are transmitted for presentation after C&AG's signatures. This shall have to be done on top priority with the help of a binder from the press so that these are available for immediate presentation. Where the bound copies have already been sent to Headquarters for signature of Comptroller and Auditor General, these may be collected back and the existing certificate replaced by the modified certificate before these are got signed by the Comptroller and Auditor General of India.

Hindi version will follow.

\*\*\*\*\*

The Appropriation Accounts have been prepared and examined under my direction in accordance with the requirements of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. On the basis of the information and explanations that my officers required and

have obtained, I certify that these accounts are correct, subject to the observations in my Report(s) on the accounts of the Government of .....being presented separately for the year ended 31 March.....

SD/-  
(V.K SHUNGLU)  
Comptroller & Auditor General of India  
New Delhi,

**11**

General Circular No. 5 of 99  
No. 845/Rep (S)/FT/7-97 dated 30.08.1999 addressed to All Pr. AG (Audit),  
AG (Audit) and PDA (Central), Mumbai

Subject: Audit of expenditure on Foreign Travel

Ref: This office letter No. 1135-Rep (S)/7-97 dated 26.10.1998

Sir/Madam,

As you are aware, audit of expenditure on Foreign Travels was conducted in the offices of Accountants General and a review on the subject was included in the Civil Audit Reports of 1997-98. It has since been decided that cent percent audit of vouchers of foreign travel expenditure will be conducted in Central audit as well as in field audit from now on every year. We have issued several instructions on the subject from time to time as detailed in the margin. Following further points are brought to your notice for strict compliance while auditing the expenditure on foreign travels of the Ministries and officials of the State Government.

- (ii) The audit observations and the facts/figures included in the review should be supported by irrefutable evidence/KD. Information/replies furnished by the Department in respect of individual officers/ Ministries etc. should be verified in audit before their inclusion in the Review. In this sensitive audit, we cannot afford even one percent misreporting even it is backed by Departmental documents. To obviate any such eventuality, you may send a copy of the audit findings to the persons(s) performing the journey (by name to all officers concerned and private secretaries to the Ministries concerned) with the request to give their response within stipulated time. You may state there as usual that if no reply is received within 4 weeks, facts would be taken as confirmed.
- (iii) It is reiterated that the correctness of the facts reported should be given utmost importance and the officers responsible for reporting the facts as well as the supervising officers including Group Officer should be personally responsible for the correctness of the findings being reported.
- (iv) TA advance and adjustment bills, acquittances, paid vouchers, debit advice from embassies etc. should be checked with reference to tour programmes to ensure that the Minister etc. have actually

- undertaken the foreign travel and that there was no last minute cancellation.
- (v) You may also request the Government to appoint a nodal Department for processing the cases of foreign travel so that all the records are available in one place. Simultaneously, you should take immediate action to build up a computerized data base of foreign travel in your office on the basis of the information contained in the paid vouchers and debit notes received in the A&E office from Indian Embassies abroad regarding facilities provided e.g. accommodation, transport, DA etc. Centralized information regarding clearance of cases by Ministry of External Affairs and copy of all sanctions issued by the State Government for Government officers and also for part time officials/Directors of State PSUs should be obtained. The information in the data base should be carefully processed and used not only to supplement the findings in the field audit and also for planning the audit of expenditure on foreign travel.
- (vi) In some States the TA bills for foreign travel were not preferred and further there were considerable delays in the submission of adjustment TA bills. You should take up the matter with the Chief Secretary for issue of necessary instructions for submission of TA bills in the prescribed format and within a specified periods as the only authorized mode of adjustment.
- (vii) The field parties dealing with foreign travel audit should be supplied with a complete compilation of up to date orders issued by Government of India and State Government regarding foreign travels. This compilation prepared in the field office should be up dated every year. A check list of the important checks to be conducted in such audit should also be prepared on top priority for guidance of the auditors. The check list should include *interalia* a list of obligations of officer/Ministers drawing composite DA rates. A copy of the check list prepared by your office may please be sent to Headquarters for record.
2. Besides the above points you are requested to take such other measures as deemed necessary to ensure comprehensive audit of expenditure on foreign travel and accuracy of the audit points being reported. An institutional arrangement may be evolved in consultation with the State Government to obtain as far as possible, the response of the State Government before inclusion of the comments in the Audit Report.

Kindly acknowledge the receipt.

Yours faithfully,  
Sd/-  
(P.K. Mukhopadhyay)  
Pr. Director (RS)

12

No. 1079-Rep (S)/3-98

Date: August 09, 2000

Subject: Preparation of State Civil Audit Report in regional languages.

Sir/Madam,

It has been decided that from this year's Audit Report a regional language version of the Civil Reports would be prepared for placing in the State Legislature to facilitate wider dissemination of the Audit Report findings and for the benefit of easy comprehension of the audit view point. It is to be kept in mind that the regional version shall not be signed by A.G or countersigned by C&AG and only a certificate that it is a truthful translation of English version may be given. To implement this decision the following action may be please taken:

- (1) The Secretary of the Legislative Department should be contacted to obtain their view in placing unsigned regional language version in the Audit Report in the Assembly. While taking up the matter with the Secretary, it may be pointed out that this practice is being followed in Gujarat and Maharashtra for many years. The Finance Secretary may also be kept informed appropriately in this regard.
- (2) The Report should be translated in-house by A.G and in case in the initial year there is any difficulty in getting the translation done in-house, the Directorate of local languages or any similar organization of the State Government may be requested to do the translation. For this purpose, the help of the Finance Department may also be appropriately taken, wherever necessary. The details of such arrangements available may be intimated to us for further advice in case, in-house translation in first year is not possible.
- (3) The time required for translation and printing of the local language version may be assessed to find out the time gap that may be involved in making available the regional language version to the Legislature for placing on the Assembly. In case the government agencies are not able to provide timely help, you may examine the option for going to private translators. The cost implication of translation by outside agency may also be assessed and informed.

You may send your reply in regard to the above matters by 3<sup>rd</sup> week of August positively duly indicating the action proposed to be taken by you to implement this decision.

Yours faithfully,

Sd/-

P.K. Mukhopadhyay, Principal Director (RS)

## 13

No. 90-C&AG/2002 dated: 21.10. 2002 from Vijayendra N. Kaul Comptroller & Auditor General of India to K.C. Pant Deputy Chairman, Planning Commission

Dear Deputy Chairman,

I have carried out an analysis of resource flows from Government of India to the States and their plan expenditure during the Ninth Five-Year Plan to enable us to comment before the finalization of plan outlays for the Tenth Plan (2002–07). You may recollect that my predecessor had written to you on September 4, 1998 in this matter after analysis of expenditure during the Eighth Five Year Plan (1992–97). An analysis of accounts at that time had revealed that approved and revised State plans were far too ambitious; States' contribution to resources for financing their plans were modest; there was considerable diversion of funds and the size of plan was largely beyond a State's capacity to implement.

Now that the exercise for the finalization of plan outlays for the Tenth Plan (2002–07) is nearing completion, I felt it may be desirable to look at the resource flows, originally approved and revised State plan outlays, assistance from Government of India for State plans and the States' contribution to their plan expenditure during the Ninth Plan (1997–2002). Enclosed with this letter is a Statement for General and Special category States, which inter-alia indicates that fiscal and planning anomalies noticed earlier during the Eighth Plan period have become more pronounced after the Ninth Plan. Specifically, it is found that:

- (1) Approved State plans continued to be overly ambitious and had to be scaled down at later stages. The ratio of revised plan outlays to the originally approved plan outlays has declined further from 94% during the Eighth Plan (1992–97) to 89% during the Ninth Plan (1997–2002). Actual expenditure has also declined from 94% of the revised outlays during 1992–97 to 92% during 1997–2002. These are in nominal terms and inflation adjusted figures for revised outlays and expenditures would be even lower, thus leaving planners open to the charge of being unrealistic.
- (2) State's contribution to the resources for financing of their plans have continued to remain modest. Nearly three fourths of the plan expenditure was financed by central assistance (plan grants and loans), market borrowings and resources transferred for Central Sector and Centrally Sponsored Schemes. In case of Special Category States, central assistance exceeded their plan expenditure. It is time to re-examine if central assistance is acting as a perverse incentive.
- (3) Audit Reports on State Finances have also revealed that nearly 60% of the total plan expenditure continued to be for the purpose of maintaining the existing level of services and as such very little was spent by the States' for extension of social and economic services beyond existing levels.

- (4) The diversion of funds from Centrally Sponsored and Central Sector Schemes has become a widely prevalent practice in States with no effective action being taken to curb such malpractice. Centrally Sponsored Schemes end up being almost fully funded by assistance from Government of India.
- (5) With continuing fiscal deterioration in the States' finances and the persistence of a negative Balance from their Current Revenues (BCR), it has become necessary that Planning Commission accords higher weightage to the State's contribution to financing of their plans while deciding their plan size.

I will be grateful if these findings receive your attention and the attention of the Planning Commission. A copy of this letter is being sent to the Finance Minister for his information.

14

No. 329 Rep (S)/83-2004

Dated: 05.04.2004

To

All Principal Accountants General (Audit)

All Accountants General (Audit)

Sub: Interface between the Accountants General (Audit) and the State Administration for discussion of draft reviews and important draft paras

Sir/Madam,

C&AG had desired to write to the Chief Ministers of the States for constituting a mechanism for an interface between the Principal Accountants General/Accountants General and the State Administration for discussion of the draft review reports and important audit paragraphs before finalization. A copy of the draft letter is also enclosed. For this purpose, please intimate us the number of Paragraphs and Reviews included in the Audit Report (Civil) 2002-03, and number of paras and reviews on which replies were received from the State Governments. As the matter is urgent, the information may be sent to us by fax and by email (aaors4@C&AG.delhi.nic.in) within 06 April 2004 positively.

Encl: as above

Yours faithfully,

Sd/-

(R B Sinha)

Principal Director (RS)

15

No. 1082- Rep (S)/186-2005  
Dated: 04.10.2005

To  
All Principal Accountants General (Civil Audit)  
All Accountant General (Civil Audit)

Sub: Printing of State Audit Report

Sir/Madam,

The need for expediting the printing of the Audit Reports had been emphasized in HQrs circular letters no. 701-Rep (S)/186-2005 dated 16 June 2005 and no. 822-Rep (S)/186-2005 dated 11 July 2005. Necessary steps to be taken for translation and printing of Audit Reports by the field offices right from forwarding the Bond Copy of the Audit Report to the HQrs were also suggested.

C&AG has expressed concern over the existing arrangements for printing of the State Reports and desired that the matter should be reviewed and necessary steps taken to ensure timely printing of the Reports so that the same are placed in the State Legislatures well in time. Arrangements for getting the printing work done from private press in case this is felt necessary may be made well in advance.

It is, therefore, reiterated that all out efforts may please be made at your end so that the printing of the Reports is completed and printed documents are sent to the HQrs within six weeks from the date of approval of the Bond Copy of the CAG.

As regards the translation works of the Audit Reports, instructions issued in Headquarters circular letter dated 16.6.2005 pertaining to simultaneous translations should be strictly adhered to.

A weekly report with regard to progress towards translations and printing may also please be invariably sent to HQrs office.

This issues with the approval of ADAI (RS).

Yours faithfully,  
Sd/-  
(Dhiren Mathur)  
Director (RS)

To  
The Principal Accountants General (Audit)  
The Accountants General (Audit)  
(with ADAI-RS)

Sub:Instructions of the C&AG on the issues related to Audit Reports

Sir/Madam,

To discuss certain important issues related to improvement of the quality of Audit Reports, a meeting was recently held by the C&AG on March 20, 2006 with ADAI (RS). Based on the review of the cycle of Audit Reports for the year ended March 31,2005, the C&AG desired that particular attention should be given to the following points while processing the material for the next years' Audit Reports.

*Audit Reports*

1. Old cases should not be included in the Reports. As a general rule, transactions over five years old should not be included in Transaction Audit Reports. However, where an old Para is included the reasons for doing so may be sent along with such Para(s) for submission to the C&AG. Exceptions can, however, be only in respect of cases that could not have come to the notice of Audit earlier and question of principle are involved. Cases of lack of response to constructive suggestions of audit aimed at remedying deficiencies in control systems may be commented upon, if the continuance of the unsatisfactory features is attendant with risk of fraud or loss to the Government.
2. Care should be exercised to ensure that obvious errors in the Audit Reports are not repeated next year.
3. It may be ensured that Audit Reports do not make any reference to any document, which is of a secret/confidential nature. In particular no reference should be made to noting and notes for the Cabinet or its Committees.
4. Care should be exercised to ensure that audit does not take credit where the matter has already come to the notice of the Executive on its own or through internal audit, etc. and on which action is being taken or proposed. Such Para should not be issued for inclusion in the Audit Reports.
5. Highlights appearing in Performance Reviews should list out major audit findings and not be a mere Statement of facts, as has been noticed in a few cases.
6. Money value attributed to the Paras should not be inflated.
7. With a view to highlight Paras relating to fraud/misappropriation, such Paras should be printed in bold from next cycle of Audit Reports. A

system of monitoring of Paras relating to fraud/corruption should be put in place and a brief mention should be made in the annual post audit letters to the Chief Ministers. Material for such letters should be submitted along with CDs for uploading on C&AG website when the printed copies of the Audit Reports are sent for countersigned of the C&AG.

*Chapter I*

8. Fiscal situation should be analysed carefully on the basis of accounts.
9. It has been observed that in many cases figures relating to expenditure are obtained from the State Government. Proper course should be to rely on the figures available with the A&E office.

*Transaction Audit*

10. Targets set for draft paras should be achieved and in case of shortfall the Pr. AsG/AsG should explain the reasons. The above instructions may kindly be noted for compliance and these would come into effect from submissions of Batch material for Civil Audit Report-2005–2006.

Receipt of this letter may please be acknowledged.

Yours faithfully,  
Sd/-  
(Dhiren Mathur)  
Director (RS)

C&AG

My Dear Chief Minister,

As per the present practice, draft audit paragraphs and performance reviews proposed to be included in the Audit Report are forwarded to the Secretaries of the concerned administrative Departments/heads of Departments through demi-official letters drawing their attention to the audit findings and requesting them to send their response within 6 weeks. In many cases I find that comments of the Government are not received within the stipulated time. For instance, in the State Audit Reports for the year ended 31<sup>st</sup> March 2003, comments/observations of the State Government were received in respect of .....out of .....audit paragraphs and .....out of .....performance reviews only. However, I have advised my Principal Accountant General/Accountant General to get in touch with your Chief Secretary/concerned administrative Secretaries personally for their observations/compliance which has helped the matter. These clarifications or remedial actions have gone a long way in serving the public interest.

I however, find that there are number of issues that still figure in the Audit Reports, which could have been avoided if the Government had taken due care to clarify the issues raised therein time. I, therefore, suggest that an institutional arrangement should be put in place wherein the Chief Secretary and the concerned administrative Secretaries can meet when the draft Audit Report is ready and discuss the issues raised in the Audit Reports with the Principal Accountant General/Accountants General and his officers so that the views/comments of the Government could be effectively included and a more rounded view taken in the Audit Reports.

The time and agenda for these meetings could be finalized mutually between my Principal Accountant General and your Chief Secretary. I would be grateful, if you could kindly confirm the institutionalization of the arrangement suggested.

Yours sincerely,  
C&AG

## LIST OF KEY EVENTS-SECTION 'C'

- |                  |  |
|------------------|--|
| 6 September 1995 | Ministry of Finance, Department of Expenditure-Monitoring cell issued instructions that paras selected but not discussed by PAC would be treated as not selected paragraphs and qualify for ATN during subsequent years. |
| 6 June 2001      | Ministry of Law, Justice and Company Affairs gave opinion on the issues referred to them regarding Animal Husbandry Scam.  |
| 18 June 2002     | DG Audit issued instructions regarding making cabinet notes and other confidential records as key documents and their production before Parliamentary Committees.  |

No. 1/105/95-NC (Pt)

6 September, 1995

Ministry of Finance  
Department of Expenditure  
Monitoring Cell

Sub : Action taken on the recommendations contained in the Hundred and Fifth Report (Tenth Lok Sabha) of the Public Accounts Committee on Paragraph 11.3 of the Report of C&AG for the year ended 31 March, 1994 (No. 1 of 1995), Union Government (Civil) relating to 'Follow up on Audit Reports'

The Public Accounts Committee in its 105<sup>th</sup> Report (10<sup>th</sup> Lok Sabha) on the above subject has expressed their dissatisfaction over the state of affairs in various Ministries/ Departments in regard to the submission of ATNs both in respect of PAC Reports/C&AG's Reports to the Lok Sabha Secretariat/Monitoring Cell. The necessary extracts on which action is required to be taken by the Ministries/Departments are enclosed for early submission of ATNs.

The Committee have pointed out that they select about 30-35 paras every years for detailed examination but all the paras cannot be examined by them. Consequently, in subsequent years these paras assume the position of non-selected paragraphs and qualify for reporting of remedial/corrective action, as per the existing directions of the Committee. The Committee desires that ATNs on such un-examined paragraphs should also be furnished to the Monitoring Cell. The action may be taken accordingly.

The Committee also desires that ATNs in respect of PAC Reports as well as C&AG's Reports should be furnished in the format as per Annexure I and II to this O.M.

An uptodate list of pending audit paras alongwith the ATNs may be furnished to the Monitoring Cell by 31 October, 1995 positively in order to enable the Monitoring Cell to compile and forward the same to the Lok Sabha Secretariat within the specified time limit.

Sd/-

(H.N. NAYER)

Joint Controller General of Accounts

The Financial Advisers of all the Ministries/ Departments

Copy forwarded for information and necessary action to all the Ministries/ Departments of Government of India.

Copy also forwarded to Shri P. Sreedharan, Under Secretary (PAC), Lok Sabha secretariat, Parliament House Annexe, New Delhi-1 with the request to forward five printed copies of the Report.

Sd/-

(H.N. NAYER)

Joint Controller General of Accounts

## 19

Copy of Smt. A. Basu Director General (Audit) Letter in respect of procedure / 209-99 (KW) dated 18 June, 2002 addressed to Functional wings in Headquarters and field offices.

Sub: Making Cabinet Notes and other confidential records as key documents to Audit Paras and their production before Parliamentary Committees.

Sir/Madam,

A reference is invited to the provisions contained in Section 18 of the C&AG's (DPC) Act, 1971 according to which the Comptroller & Auditor General is entitled to have access to all relevant documents and information which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend. By virtue of these provisions, documents which are classified as 'secret' or 'top secret' including Cabinet notes, are examined in Audit and are utilized as key documents for the audit observations that are included in the Audit Reports. Once included, these documents come under the scrutiny of Parliamentary Committees, such as the Public Accounts Committee and the Committee on Public Undertakings when the Audit Paras are selected for examination by them.

Recently, the Government of India have informed this office that the Government is entitled to claim privilege from production of Cabinet notes and other connected records before Parliamentary Committees in the public interest, and have requested that these documents may not be produced before the PAC/COPU by Audit.

The matter has been considered and it has been decided as follows:-

- (a) In cases where a Ministry or Department of the Government of India proposes to withhold any document relating to any matter included in a draft para proposed to be included in the Audit Report from any of the Parliamentary Committees, the Ministry/ Department concerned will bring this fact to the notice of the ADAI/ DAI demi-officially at the time of furnishing comments to the draft para.
- (b) The requests of the Ministry/ Department will be considered by the concerned ADAI/ DAI at Headquarters while finalizing the Audit Reports and while dealing with the follow up action during the deliberations of the matter by PAC/ COPU. In case, the Parliamentary Committees request submission by Audit, of copies of these supporting documents in respect of which privilege is proposed to be claimed, Audit will inform the Committee concerned of the Government's intention to claim privilege from production of the said documents and that Government may, therefore, be approached for the production of the documents in question without the intervention of Audit.

These instructions may be followed in respect of Audit Reports finalized in future.

Yours faithfully,  
Sd/-(A.BASU)  
Director General (Audit)

EXTRACTS FROM CHAPTER VIII OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE'S FOURTH REPORT (THIRD LOK SABHA) AS REPRODUCED IN HISTORY OF INDIAN AUDIT AND ACCOUNTS DEPARTMENT BY SHRI. M.S. RAMAYYAR

The Committee understands that a healthy convention has been built up in our country for making available to the Comptroller and Auditor General all documents and records relating to any financial transaction of the Government. This enables him to properly discharge his constitutional functions. Effective and useful audit may not always be possible by a mere examination of the accounts and subsidiary documents such as vouchers submitted to audit. It is only as a result of the examination of all relevant documents leading to a particular transaction including the sanction that it is possible to arrive at a final audit view in the matter. It is also an accepted convention for the Auditor General in U.K. to call for any document relating to transactions to which his duties in respect of Audit extend. The position in this regard has been very clearly Stated by Durell in his "The Principles and Practices of the System of Control over Parliamentary Grants" in the following words:"

He (the Comptroller and Auditor General) alone is competent to say what information is necessary for the discharge of his statutory functions, and if required for audit purposes it cannot be withheld...He is bound to afford to Parliament the fullest and best information in his power with regard to expenditure; but Parliament would not require to be furnished with information which it would not be in the public interests to make public. In the exercise of this, as in that of many others of his functions, the decision must be left to his discretion."

In USA, the Budget and Accounting Act specifically provides for the production of all records which the Comptroller General requires for the purpose of audit. On a complaint made by the Comptroller and Auditor General in UK in 1917 the Treasury agreed with the Public Accounts Committee in sharing the hope that the documents necessary to enable the Comptroller and Auditor General to Audit Navy Accounts would in future be supplied to him with the least possible delay. The Committee understands that even in the worst days of the Second World War, no restrictions were placed on the Comptroller and Auditor General in U.K. and USA in the matter of calling for such papers and files as they considered necessary.

## GLOSSARY OF ABBREVIATIONS

ATN	ActionTaken Note
AYUSH	AyurvedaYoga and Naturopathy, Unani, Siddha and Homeopathy
CGA	Controller General of Accounts
COPU	Committee on Public Undertakings
CPCB	Central Pollution Control Board
DDO	Drawing and Disbursing Officer
DP	Draft Paragraph
FR	Fiscal Responsibility
GDP	Gross Domestic Product
GIC	General Insurance Company
HOD	Head of Department
IR	Inspection Report
KD	Key Document
LBA	Local Bodies Audit
LIC	Life Insurance Corporation
MIP	Memorandum of Important Points
MLA	Member of Legislative Assembly
MLC	Member of Legislative Council
MODVAT	Modified Value Added Tax
NCAER	National Council of Applied Economic Research
NE	North East
P&T	Post & Telecommunications
PW	Public Works
PWD	Public Works Department
PHED	Public Health Engineering Department
RBI	Reserve Bank of India
SGSY	Swarn Jayanti Gram Swarajgar Yojna
SHO	Station House Officer
SRA	State Receipt Audit
TA	Travelling Allowance
TFC	Twelfth Finance Commission
UK	United Kingdom
USA	United State of America
VAT	Value Added Tax.